The Japanese Distribution System

Class 7
"Our objective is to make sure that Carrefour leads in pricing and wins market share everywhere we have chosen to do business."

Jose Luis Duran, Chairman of Management Board, Carrefour in 2005

"Let's be honest, Japan was a short, expensive adventure for us."

Jose Luis Duran, CEO, Carrefour in 2005.
This Lecture

• Wholesale structure and practice
• Retail structure and process
• Major changes since the early 1990s
During the feudal era of Japan, the country was divided into many small regions that were self-contained.

Manufacturers had to develop proper distribution systems for each territory, even after the feudal system was abandoned.

Japan at that time was divided into more than 500 regions, geographical difficulties also supported this trend.
The small manufacturers heavily relied on the financing, distribution and storage capabilities of wholesalers for survival, especially to market their products in other regions.
Historical Development

- Japanese consumers could choose from an unlimited number of shops with an extremely high service level
- In 1989 half of the more than 1.6 million retail shops were food shops (Batzer and Laumer 1989:50)
- Large purchases of stock are not common practice in Japan
Wholesalers in Japan

• Wholesalers give priority to customer service
• They also deliver even the smallest quantities to retailers upon request, accept unsold goods without complaints, grant special discount to long-time clients and offer them credit for up to five months
• Small retailers depend heavily on them and are supported in activities like bookkeeping and customer service
Distribution in the 80s

• For non-durable goods similar retail prices were maintained, retailers who changed their prices were not regarded trustworthy and could not build up strong relationships with wholesalers.
• Almost no multi-brand shops (each distributor is strongly related to only one wholesaler).
• Small retailers were strongly protected by the Japanese government (e.g. shop space for department stores was limited by law).
Wholesalers and their Practices

- In Japan wholesalers have more influence than in any other country
- They also bear a substantial selling risk, because they usually take unsold goods back
- Wholesalers also participate in a complicated and non-transparent system of rebates and have formed a complicated and interdependent multilayered systems of wholesaler relationships of their own (each product passes through a distribution chain of two to five layers of wholesalers)
Traditional and Alternative Forms of Distribution

The channels for soap

Case 1
Manufacturer
↓
Large wholesaler
↓
Retailer

Case 2
Manufacturer
↓
Large wholesaler A
↓
Smaller wholesaler B
↓
Retailer

Case 3
Manufacturer
↓
Large wholesaler A
↓
Smaller wholesaler B
↓
Very small wholesaler C
↓
Retailer

Source: Czinkota and Woronoff 1991: 96

Product flow
Payment flow
## Functional Allocation of Responsibilities/Tasks within Channels of Distribution

<table>
<thead>
<tr>
<th>Manufacturer</th>
<th>Intermediary</th>
<th>Retail</th>
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<td>Production</td>
<td>Order taking</td>
<td>Selling</td>
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<td>Promotion</td>
<td>Inventory maintenance</td>
<td>Organizing consumers</td>
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<td>National sales promotion</td>
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<td>Financing</td>
<td>Financing</td>
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Distribution of Cosmetics in Japan
Retail Structure and Process

- Japan has the highest number of stores per capita and per area (7.9 stores per 1000 people, 6.8 in the US)
- Department stores are a very important retail force (shop-in-shop system)
- During the 80s the convenience store model began its success in Japan
- Large Japanese manufacturers usually possess large numbers of their own retail outlets (e.g. confections, fabrics and home electronic appliances)
Major Changes since the 1990s

• The number of small retailers decreased dramatically
• Bigger wholesalers became more powerful and smaller wholesalers started to lose business
• The wholesaling business is starting to get more involved in importing
• Cash and carry wholesalers, which are increasing in number, are not inclined to accept returns from retailers nor do they develop personal relationships
Distribution in Japan

• Japanese Distribution Models

1. Consumers
   Retail
   Wholesaler
   Manufacturer
   Japanese Producer (general)

2. Consumers
   Retail
   Wholesaler
   Manufacturer
   • Kao
   • Beiersdorf-Kao

3. Consumers
   Retail
   Wholesaler
   Manufacturer
   Procter & Gamble

Source: Roland Berger analysis
Changing Forms of Distribution

- Traditional route:
  - Manufacturer
  - Sogo Shosha (trading company)
  - Large wholesaler
  - Medium-sized wholesaler
  - Small wholesaler
  - Retailer

- New route:
  - Chain or large store import department
  - Cash and carry wholesaler
  - Discounters

Goods ➔ Payment (usually on 90-120 day credit terms)

Source: Stone 1992: 24
Pricing in Japan

• Comparison between Europe, US and Japan

[Diagram showing price comparisons for various products across Europe, Japan, and the USA, with price differences highlighted.]

Import Distribution Alternatives

• A number of non-Japanese importers have opened subsidiaries in the Japanese market
• *sogo shosha*s are still very prominent, but not always a very profitable partner, especially for foreign importers
• More foreign companies are directly targeting Japanese retailers with their products
• Cost of imports range from 35 to 40 per cent of product prices
Changes in Import Management

Conventional Route

Producer
Import Agent
Processing + Packing Plant
Primary Wholesaler
Intermediary Wholesaler
Small Wholesaler
Retailer

Retail Price: 170 yen/300g package

Restructured Route

Producer
Importing Company
Processing and Packing Plant
Depots
Distribution Wholesalers
Distribution Centers
Retailer

Retail Price: 128 yen/300 g package

Savings: 25%

Czinkota/Ronkainen,
Global Marketing, p.507
In the late 1990s, some Japanese companies revolutionized business models by handling every process from product development to product sales and excluding all middlemen (Ohmae 2003)

– Uniqlo
– Zoff
– 100 Yen Stores