Because of the multi layers in the Japanese distribution system, the cost to the consumer is greater as each wholesaler takes a margin for handling the product. And, indeed, Canadian business people are surprised how different the import price of a product is compared to the price paid by the end user. In Japan, the margin structure depends on a variety of factors including the size and frequency of the shipment, current sales situation and the buyer-seller relationship. The margin normally increases as the product gets closer to the end user. In food retail, for example, the primary wholesaler might receive a five to eight per cent margin on domestic products and a four to seven per cent margin on imported products. The secondary wholesaler, however, receives a larger 10 to 17 per cent mark-up on the domestically produced product as opposed to a smaller four to eight per cent mark-up on the imported product. The retailer receives the highest margin in the chain.

Many manufacturers offer wholesalers rebates for meeting sales goals. For wholesalers looking at declining margins and increasing competition, the rebate is a powerful tie to the manufacturer. Clyde Prestowitz in his book *Trading Places* pinpoints one of the major differences between Japan and the United States when he writes that the U.S. has a system of buying that operates on the basis of best offer rather than on the relationship of buyer to seller. In Japan, the concept of best offer often includes a strong element of the buyer-seller relationship.

For the Japanese, there is usually no advantage to importing products because of the risks and costs involved. Unless, however, the price of the import is significantly lower than that of the domestically produced product or a similar product currently imported. To be successful in the market, Canadian products must possess attributes that readily differentiate them from those of the competition. However, Japanese companies may make exceptions to this rule when seeking a steady and secure source of supply or developing new supply routes for the future. There is a tendency, therefore, to avoid trendy items that are not expected to be around for very long.

Undoubtedly, the Japanese distribution system deserves its notorious reputation as a real barrier to trade. But judging from the success of Canadian companies that have done their homework, it is obviously not impenetrable. The Consulate General can recommend the appropriate industry contacts who will assist Canadian companies to obtain information regarding the distribution channels, product flows, margin structures and trade perceptions for virtually any product sector in the Kansai.

6 Investment Opportunities

The Kansai is fertile ground for investment promotion activities, including finding new equity and joint venture partners, and the Consulate General can suggest potential candidates. Through the various news media, investment survey missions to Canada and other promotion activities, Kansai-based companies have become increasingly aware that Canada is open for business and that, through the Canada-U.S. Free Trade Agreement, Canada is an attractive location for investment.

However, the Kansai image of Canada — one of Rocky Mountains and Niagara Falls — may be excellent for tourism, but does not always lend itself to attracting manufacturing investment. Further, international competition for Japanese investment is intense. The general investment promotion seminar as a vehicle for attracting investment has been overdone. Since many countries promote the same attractive characteristics — access to large markets, cheap energy, and good supply of qualified labour — it has become difficult to differentiate between products. To be effective, Canadian exporters must present a good business plan and be technology-oriented. The Consulate General can advise on appropriate methods of presentation and business plan preparation to meet the requirements of local investors.