5 Distribution System

The multi-layered Japanese distribution system is complex and costly, one that handicaps newcomers, Japanese and foreigners alike. However, it is not mysterious and certainly not impenetrable.

Although the following description pertains to the distribution system for the food industry, it is representative of the Japanese distribution system in general.

The food retail distribution system is characterized by a large number of wholesale establishments, comparable in number to all of the United States, which has twice the population and a vastly larger geographical area. Japan's wholesale industry is also noted for its duality, with mammoth trading companies such as Sumitomo, Mitsui and Mitsubishi at the top.

Typically three-quarters of Japan's wholesale establishments employ fewer than 10 workers and have an annual sales share of only one-sixth the total. The vast majority of wholesale establishments in Japan turn over less than $1 million and fewer than 3 000 wholesale establishments employ more than 100 people. The inevitable result of multiple layers is a system in which most products change hands at least two or three times before reaching the retail outlet, this ultimately means higher prices for consumers.

The size of Japan's retail establishments, congestion in urban centres, limited storage space in most Japanese homes, the cultural desire to shop daily, and the demand for personalized service all place a heavy burden on Japan's distribution infrastructure. The preceding statistics highlight the general structure, but the individual distribution channels, product flows, margins, rebates, and buyer-seller relations can differ markedly from product to product and from sector to sector, and also possess a different personality depending on historical circumstances. For the Canadian company, knowledge of these distribution idiosyncracies may spell the difference between success and failure.

It is a common misconception to view the wholesaler as a delivery person only, a shipper who moves goods from point A to point B. In fact, a wholesaler is better thought of as a trading house, buying and selling on behalf of many manufacturers. The wholesaler may handle a range of competing products, balancing domestic and imported, high- and low-quality items. In fact, exclusive tie-ups with a single manufacturer are quite rare.

A key to the system is the multi-functional role of the wholesaler. Depending on the size of the operation, the wholesaler might be responsible for booking the order, packaging, delivery, financing, sales promotion, and publicity on behalf of both the manufacturer and retailer. Frequently, wholesalers may provide next-day service and repackage in smaller more attractive ways to meet retailers' requests. Often the wholesaler works with sales representatives from the manufacturer to promote the product to the retailer. In contrast to other countries, Japanese wholesalers have a much higher burden of risk due to their financial and inventory functions. Even so, those in the middle are constantly under pressure to justify their role and margins. The result is intense pressure on wholesalers to add value to their services. Recently, this has taken the form of immediate delivery in small lots to retailers who use their wholesalers as off-site inventory centres, and a more market-oriented service in the form of an information link between the retailer and the manufacturer. As a result, wholesalers have been forced to go on-line to provide immediate delivery in an effort to reduce inventory and dead stock and improve retailer responsiveness to the consumer.

Major changes are under way in the distribution sector in the Kansai. Discount stores located in rural areas offer big markdowns on brand name products, mail-order and TV marketing, while direct import stores are open to membership only. The rate of change is likely to accelerate, but detailed knowledge of the system remains crucial. It is critical, therefore, for the Canadian exporter to identify distribution channels and quantity product flows not only at the sector level, but for each of the client's competitors. Only then can the manufacturer plot the best distribution strategy from an informed position of strength.