

The Japanese Distribution System (Part 1)

By Sadahiko Nakamura

Goods flow through the Japanese distribution system in one of two general patterns, as shown in Fig. 1. For consumer goods, the manufacturer or importer relies on wholesalers to deliver products not only to small and medium-sized retailers, but also to large retailers, such as department stores and superstores. For capital goods as well, deliveries are generally made through an intermediate wholesaler.

At least in the industrially advanced nations, the mechanism of distribution—accepting products from the manufacturer or importer and conveying them on to the consumer or user—is comprised of wholesalers and retailers. Within a Western-style distribution system, wholesalers are often superfluous, playing little or no active role in transactions. In Japan, things are different—wholesalers occupy a very important position and play a key role in many transactions. Indeed, the system could not function without them.

To people used to Western-style distribution systems, the Japanese system may appear to be inordinately complicated and hard to handle. This perception forms the basis for criticism to the effect that the “complexity and inefficiency” of the Japanese distribution system act as a non-tariff barrier to market access by foreign companies and products. Yet, in comparison with its Western counterparts, is the Japanese distribution system really all that complex and inefficient? The answer is no.

In wooing a new love, you should not put too much faith in what other people have to say about the object of your affection. Think for yourself. Look, listen, learn—then go in and present yourself.

The same approach works for business, too. Any attempt to access the Japanese market must be based on a correct understanding of the Japanese distribution system. In this and the following installment, we will take a closer look at this system and how it works.

In comparison with distribution sys-

tems in other countries, the Japanese distribution system is characterized by the following.

1. Great number of wholesalers and retailers

Japan is home to 475,000 wholesale dealers and 1,590,000 retail outlets (Table 1). This works out to 38 wholesalers and 128 retailers for every 10,000 people—far and away the highest per-capita density in the world.

2. Important role played by wholesalers

The most conspicuous feature of the Japanese distribution system is the great number of wholesalers, a natural result of the great number of retailers. The services provided by wholesalers are indispensable in linking together manufacturers (and importers) and retailers. This is true not only for consumer goods, but for capital goods as well.

Below we examine the reasons why the existence of wholesalers is beneficial to parties on both sides.

(1) Retailers prefer to deal with wholesalers.

In Japan, there is one retail store for every 78 people; in the United States, one for every 163 people. This means that the natural market for each outlet in Japan is less than half that in the United States. In addition, Japanese stores tend to be small (average: 64 square meters in 1988) and have low annual turnover (average: ¥82 million in 1988). As a result, Japanese shopkeepers like to keep their inventories low—and the frequent small-lot deliveries made by wholesalers make this possible. Manufacturers and importers, in contrast, tend to accept only relatively large orders.

(2) Manufacturers (importers) prefer to deal with wholesalers.

A manufacturer or importer will gladly pay a 5% to 15% wholesaler margin if it means avoiding the time and expense associated with frequent low-volume deliveries to numerous retailers. In addition to such small-lot delivery, the wholesaler performs many other valuable services, including sales promotion and bill collection. This also helps to reduce risk.

In Japan, a manufacturer or importer will almost always go through wholesalers. The basic pattern in the West, how-

Fig. 1 Flows of Goods in Japan

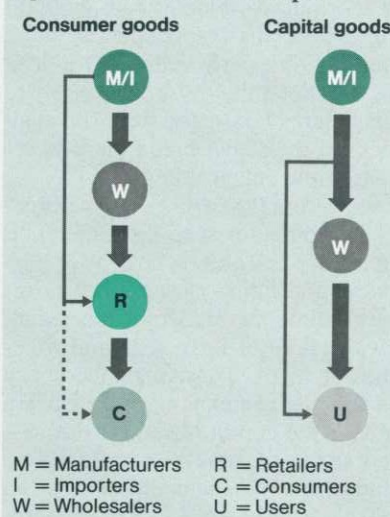
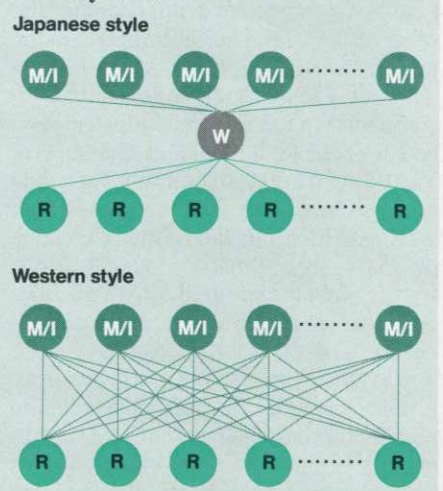


Fig. 2 Comparison of Distribution Systems



ever, is for the manufacturer or importer to bypass the wholesaler and sell directly to the retailer (Fig. 2).

The idea behind the Western style of distribution is that by "eliminating the middleman" and dealing directly with retailers, the manufacturer or importer can increase business efficiency, increase its own margin, and increase the margin of its retailers. There may be other benefits as well—direct sales, deliveries and regular contact with retailers allow a company to keep in touch with its market. This may work in the West—the problems occur when a foreign company tries to graft this system onto the Japanese market. Many foreign companies try to do just that—and just as many companies fail miserably.

The main reason for such flops is that the company has failed to understand and appreciate the Japanese distribution system. That is, the Japanese distribution system is not some barrier erected to keep foreign goods out; rather, as a highly rational response to conditions in Japan, it is a system offering great benefits to those who take the time to learn how to use it. Yet many foreign companies, forever attached to the Western style of distribution, do not even bother. This shows in their sales strategies, doomed to failure from the very beginning.

By understanding the system and actively utilizing its merits, you too will find it much easier to access the Japan market. There is nothing irrational or inefficient about it at all. Three of the most important benefits are outlined below.

1. Efficient and low-cost delivery

Wholesalers usually deal with many manufacturers and importers. Because of

this, all a manufacturer or importer has to do to distribute its products is make a few shipments to its wholesalers. This is in marked contrast with the frequent direct shipments required in a Western distribution system.

The Japanese style of distribution represents a highly sophisticated division of labor. That is, because distribution costs are dispersed among many manufacturers and importers, the burden on each is reduced and, in terms of society as a whole, total costs are less than they would be under a Western-style distribution system.

2. Rationalized division of labor

In a Western distribution system, the manufacturer or importer must itself administer sales and shipping for what may be a great number of retailers scattered all over the country. Likewise, each retailer must deal with numerous manufacturers and importers to keep its shelves fully stocked.

In the Japanese distribution system, in contrast, the manufacturer or importer need only deal with a few wholesalers to get its products marketed and delivered to a vast number of retailers throughout Japan. Shopkeepers also have an easier time of it, since they only have to place orders with one or two (in exceptional cases, three or four) wholesalers. What's more, each wholesaler will send a salesman around two or three times a week to recommend products and take orders. That's service. For some products, the salesman will drop by every day.

The Japanese distribution system allows companies to concentrate on what they do best. For a manufacturer, this means product development, manufac-



Street filled with wholesalers in Bakuro-cho, Tokyo. The large number of wholesalers in Japan makes for a highly specialized distribution system.

turing, and quality control. For an importer, it means digging up promising products and negotiating with overseas manufacturers. For a retailer, it means promoting storefront sales and directly serving the consumer. In this way, products in Japan are distributed through a very rational and highly developed system of specialization that, precisely because of the existence of numerous wholesalers, allows manufacturers, importers and retailers to devote their full attention to their respective core businesses.

3. Close agreement with Japanese consumption patterns

No one will argue with the statement that economic activity should center on the user or consumer. This is true in any country for any market. Whether a manufacturer, importer, wholesaler or retailer, any company that does not adjust its business behavior to conform to consumer behavior will, sooner or later, lose the confidence of the market and disappear. History has taught this lesson time and time again.

The Japanese market has some distinctive characteristics (see "Attractions of the Japanese Market" by the same author, Oct./Nov. 1992 issue); the Japanese distribution system is, as you would expect, very well matched with these characteristics. The system is there, in place, waiting for you to use it to your advantage. ■

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Table 1 Comparison of Retail and Wholesale Businesses

	Japan (1991)	U.S. (1982)	Britain (1982)	France (1982)	Former West Germany (1985)
Number of retail outlets (1,000)	1,590	1,509	343	472	407
Number of wholesale dealers (1,000)	475	376	95	78	119
Number of retail outlets per 10,000 people	128	65	61	87	67
Number of wholesale dealers per 10,000 people	38	16	17	14	19