

J Japan's Distribution System for Imports

By Yoshizo Ikeda

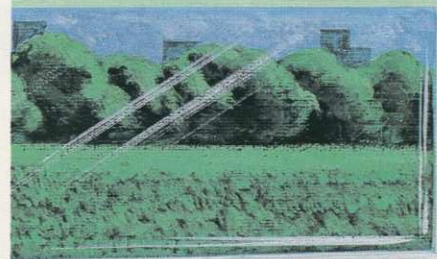
*Chairman of the Manufactured Imports
Promotion Committee*

Cabinet ministers concerned with economic affairs decided on May 28th of last year to have the Manufactured Imports Promotion Committee of the Trade Council re-examine Japan's distribution system and study ways to improve it.

In accordance with this decision, I have studied the Japanese distribution system together with the members of this government advisory organ. We are now drawing up a report on the results of the study and on the committee's findings. In anticipation of this, I would like to offer my own personal views on how to promote the import of manufactured goods.

Before going into specific detail, I would like to touch upon two points of fundamental importance to this issue. The first concerns the commitment on the part of the Japanese government and people to opening up

domestic markets to foreign products. Recently, I have heard many Japanese businessmen grumbling about undue criticism of the "non-tariff trade barriers inherent in Japan's distribution system," or "unfair Japanese business practices." In fact, it is not rare to find Western executives condemning as unfair or discriminatory our business practices simply because they are "different." I am always ready to fend off such unreasonable charges, which smack of ethnocentrism, and I will do so in this article. However, it would be a grave mistake for us to become overly absorbed, to the exclusion of other important considerations, in defending ourselves amidst the controversy raging around the issue of Japanese distribution channels; rather, we must take a more positive stance on improving trade relations with our foreign partners.



The Need for Commitment

Our economy constitutes 10% of the world's GNP, a ratio that is still growing. In order to maintain a global economic system based on the principles of free trade, we must share the fruits of this growing market with our foreign counterparts just as they do with us. In this respect, I welcomed Prime Minister Nakasone's appeal made on January 13th urging the Japanese public to help foreign businessmen in their efforts to sell effectively in the Japanese market. And I was pleased to learn of the Japan Foreign Trade Council's initiative in establishing an Import Promotion Committee empowered to investigate and dismantle any residual trade barriers and search out new products likely to sell well in Japan. I trust our persistent efforts based on a firm commitment to fair play will bring about fruitful results.

The second point I wish to mention relates to the other side of this coin: the commitment on the part of foreign manufacturers and exporters to a determined sales effort in Japan. My general observation is that the more experience a foreign businessman has in Japan the more likely he is to complain about the lack of support from his own home office rather than Japanese market conditions. An extensive study conducted by McKinsey and Co. under the sponsorship of the Trade Study Group, a joint discussion group comprised of American and Japanese businessmen, confirms this point, if I may quote the report: "many local managers of foreign subsidiaries in Japan regard home office misconceptions as the single largest barrier to success." The home office, the study concludes, is typically most concerned with the growth of sales and profits while profit criteria reflect ROA and ROI values that are about double those of Japanese companies (see page 27).

Japanese Consumer Attitudes Toward Imported Goods

Businessmen and government officials of Western countries often claim that the Japanese people favor domestic products over foreign, an attitude which is a major reason behind the inaccessibility of the Japanese market.

In May 1982, Hiroko Kofuji, a member of the Manufactured Imports Promotion Committee, surveyed the attitudes of Japanese consumers toward imported goods. About 70% of the consumers responding said they did not discriminate between domestic and imported goods when making purchases (Fig. A on p. 22).

Fig. 1. Attitude of Japanese Firms toward Imported Goods



Table 1 Exporters' Efforts Needed

Asked in the survey what kind of efforts foreign exporters must make in order to sell imported goods more efficiently in the Japanese market, the most numerous answers given by Japanese businessmen were in the following order: (1) strengthening of price competitiveness, (2) improvement of quality, (3) shortening of delivery time, observance of delivery dates, etc., (4) improvement of after-sales service, and (5) development of unique merchandise.

Strengthening of price competitiveness	57.6%
Improvement of quality	50.4%
Shortening of delivery time, observance of delivery dates, etc.	46.1%
Improvement of after-sales service	41.2%
Development of unique merchandise and products suited to the Japanese market	26.0%
Improvement of supply system consistent with demand-supply situation	19.0%
Improvement of communication, including the use of the Japanese language	16.0%
Improvement of PR	4.8%
Others	5.2%

(The total exceeds 100% because plural answers are permitted.)

Imported goods, ranging from foodstuffs to clothing and utensils are used extensively in the Japanese home.

We conducted a similar survey in December of last year targeted on employees of *sogo shosha* (general trading firms), manufacturers using imported goods, and retailers dealing in imported goods. This survey found that about two-thirds of the respondents either made no distinction between imported and domestic goods or actually preferred imported goods. Only about one quarter of all respondents said they definitely preferred domestic products (Fig. 1) citing as reasons the reliability of Japanese products with respect to after-sales service, prompt delivery and so forth (Table 1).

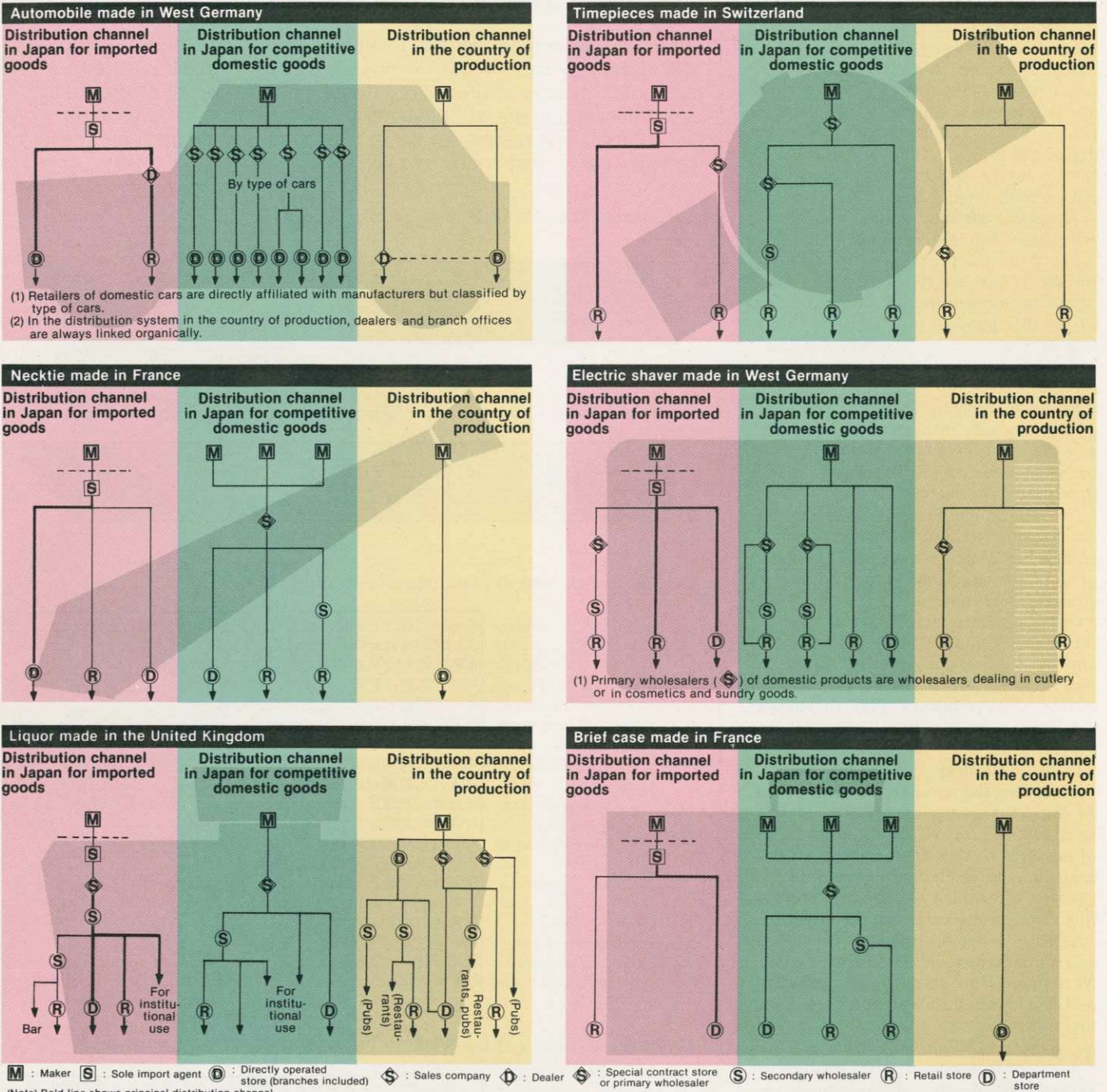
Japanese consumers and enterprises do not intentionally discriminate against imported goods. I would like to advise foreign businessmen to rid themselves of the misguided perception that the Japanese are excessively attached to domestic products. To free oneself from such a negative preconception is the first step toward a successful marketing effort.

Distribution Channels

Are Japanese distribution channels too long and complicated? The answer, of course, varies depending on the specific product; however, generally speaking, I can in all honesty reply that for capital and intermediary goods the answer is "no." In almost all cases, the distribution route for capital goods, such as machinery, and intermediate goods such as chemicals, runs directly between the importer or domestic manufacturer and the end user. Even in the few cases in which distributors are used there is rarely more than one involved.

With respect to consumer goods, we compared in our survey the Japanese and foreign systems for 24 items, including watches, ties, automobiles and handbags. The results showed that in most cases the distribution system is more complicated in Japan than elsewhere (Fig. 2). This diversity and the sheer number of distribution channels for consumer goods are one of the distinctive characteristics of Japan's distribution system, which

Fig. 2 Comparison of Distribution Channels for Imported Goods and Domestic Goods



evolved naturally during the country's long and isolated history.

Undoubtedly it presents a unique challenge to foreign exporters. I must hastily add, however, that a comparison of the Japanese distribution channels for comparable domestic and imported products revealed that in almost no case is the route more complex for imports. In fact, in many cases imported goods follow much simpler routes. The challenge lies as much with domestic producers as with foreign exporters.

The problem then arises that it is easy for Japanese businessmen to enter a foreign market because of the relatively

simple distribution systems in other countries, whereas foreign exporters really have to work hard to enter the Japanese market with its more complex system.

Many complaints from other countries on the "unfairness" of Japanese practices may stem from this fact. I don't think it is just to label "unfair" this uniqueness of Japan's distribution system itself, nor is it possible to revamp this historical legacy overnight. However, this is clearly an area where Japanese businessmen can and should accommodate foreigners' needs through good counseling and more direct business involvement. Moreover, it is encouraging to note a significant change tak-

ing place in Japanese consumer markets.

Large scale retailers, many of whom have already established chain stores across the nation and are desperately in need of better quality and lower cost merchandise, seem to be one of the promising channels easily accessible to foreign producers.

Sole Import Agents and Parallel Imports

A parallel import system exists in Japan for such consumer goods as automobiles and whisky. Foreign exporters and sole

import agents have repeatedly complained that this parallel import system hurts them by eroding the price structure of imported goods and damaging their image. What conditions make the parallel import system tenable in Japan? They are: (1) the absence of a legal ban on parallel imports (2) the large price discrepancy between Japan and the producer country and/or a third country, which makes possible a considerable retail margin.

Regarding the first reason, parallel imports have been legal in Japan since 1972. Apart from the problem of interpreting the Tariffs Law and the Trademark Law, I personally believe that the authorization of parallel imports was an appropriate step in that it is consonant with the principle of free competition. In other words, the introduction of parallel imports was effective in bringing down the prices of imported goods through the mechanism of competition and in expanding imports to Japan. Moreover, it was greatly in the interest of consumers.

To cite just one example, Japanese can now obtain one and one-half bottles of high grade Scotch whisky for the same price they used to pay for one bottle. Of course, there remains the problem of parallel importers getting a free ride on the strong brand image which exporters and/or sole import agents build up through their own expense and strenuous efforts. Yet, we must not forget that under this system advantages accrue to the exporters as well, namely an expanded volume of business.

Regarding the second reason, the prices of imported goods set by sole import agents (most probably on the instructions of the foreign exporters) are too high. For example, one watch importer whose business was affected by the parallel importation of the brand for which he was agent, decided to lower his prices. This resulted in a sharp decrease in the volume of parallel imports. This case suggests exporters and sole import agents should re-examine their pricing system, if they really want to avoid the parallel import system.

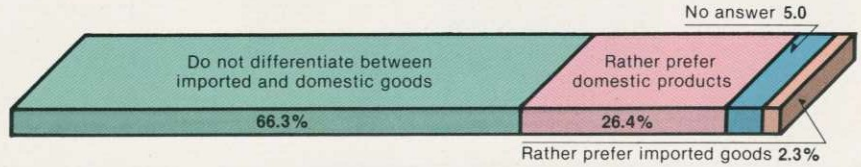
I will leave a more detailed analysis of Japanese distribution systems to the forthcoming report by the Manufactured Imports Promotion Committee. Here I would like to conclude with a personal observation.

Although the Japanese market is very competitive and difficult for those trying to break in, it promises substantial rewards to anyone who aggressively challenges and successfully overcomes the intricacies associated with penetrating any foreign market. This may sound trite, but it is a firm belief of mine which I have seen reconfirmed time and time again during my life-long business experience; I sincerely hope this belief is shared by my Western business counterparts. ●

Imports in Japanese Consumer Life

The following findings are the results of a survey conducted in April 1982 mostly by face-to-face interview based on a questionnaire distributed directly to officials of Consumer Life Centers throughout Japan and volunteers of Consumer Life Consultants, as well as to Consumer Life Advisers. A total of 603 persons participated in the interview (some responded by mail).

A. Consumers' Attitude



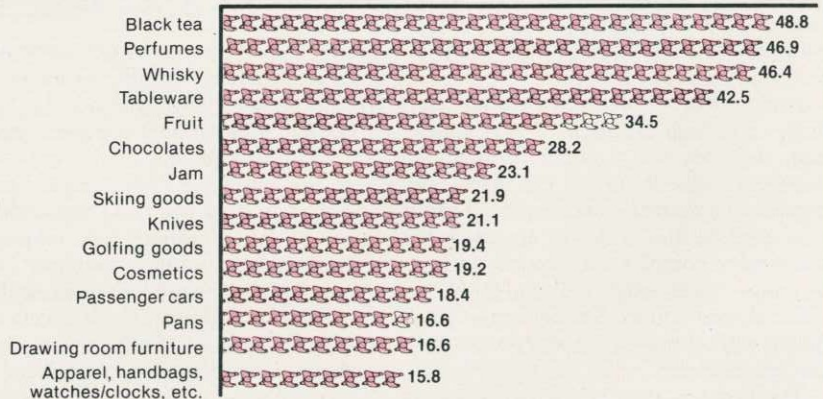
B. Preference Ratio for the "Expansion" of Manufactured Imports



C. Imports in Use in Japanese Households (%)



D. Ratio of Those Who Wish to Purchase Imported Goods (%)



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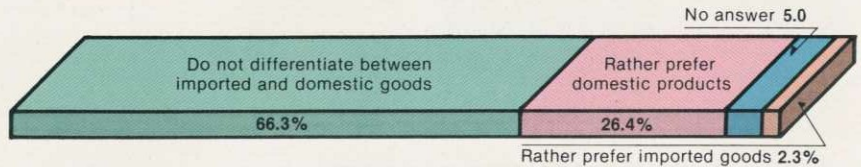
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