

The Distribution Industry in the 1980s

By Shuji Ogawa

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The Japanese economy industrialized rapidly after the Meiji Restoration of 1867, when Japan opened its doors to the rest of the world. A key part of this process was the active introduction of technology from the United States and industrially advanced West European nations. By the 1970s, following a period of rapid economic expansion after World War II, the nation had caught up with the West in "flow" or quantitative terms. Now Japan is going through a maturation process in which the primary emphasis is on expansion in "stock" or qualitative terms, and on meeting the needs of value diversification and cultural reorientation.

At the same time, moves are afoot in Japan to create an advanced information-based society. The dramatic progress in semiconductor technology, particularly in large-scale integrated circuits (LSIs), has made it possible to combine many different types of technology. The keyword today is "informationalization"—a new wave of technological innovations with far-reaching effects on our economic society. Therefore, Japan is witnessing the maturing of its industrial society proceeding in parallel with the emergence of an advanced information society.

Japan's distribution industry is also being affected by these changing economic and social conditions. And it was under these circumstances that a report entitled "The Basic Direction of the 1980s Distribution Industry and Policy" was compiled jointly by the Distribution Committee of the Industrial Structure Council and the Distribution Policy Subcommittee of the Small and Medium Enterprise Policy Council.

The report, released last December, differs fundamentally from the distribution forecast drawn up by the Industrial Struc-



ture Council in the 1960s and 1970s during the high-growth period. The principal aim was to deal efficiently with the quantitative expansion of the economy by modernizing and rationalizing distribution in step with progress in the production field.

However, the maturation of the Japanese economy following two successive oil crises has brought new challenges. There is a pressing need today to improve the quality of consumer life. As consumer needs shift increasingly away from simple quantitative requirements to quality and diversification, the distribution industry also must accurately follow these trends and respond effectively to them.

The projection for the 1980s addressed the question of how the distribution industry can best meet this new challenge. For the first time the report stressed not only the need to raise distribution efficiency but also the important social and cultural functions distribution performs in regional communities. The following is a brief outline of this important report.

Commerce rediscovered

In a maturing society the distribution industry needs to accurately grasp changing consumer requirements. For this purpose it must serve not only as a "pipeline" carrying merchandise from producers to consumers but also as a "relay point" for information flows between the two. This function will become even more important with the advent of an advanced information society in Japan. The simultaneous progression of the economy's "maturation" and "informationalization" will vastly increase the role of the distribution industry as an information relay point for producers and consumers.

Dramatic progress in high-tech industry is likely to lead people to seek more of the "human touch" in lives that are increasingly culture-oriented. These non-material requirements will likely be reflected in purchasing behavior. It will become more important than ever to anticipate and respond effectively to con-

Table 1 Gross Domestic Product (GDP) of Wholesale & Retail Industry (in 1980 Prices) & No. of Employees

	1970	1972	1979	1982
GDP (A) (¥ trillion)	117.8	134.1	180.9	197.5*
GDP of wholesale & retail (B) (¥ trillion)	15.9	19.8	26.6	29.0*
B/A (%)	13.5	14.8	14.7	14.7*
Total no. of employees (C) (thousand)	50,040	50,430	53,940	55,510
No. of wholesale & retail employees (D) (thousand)	7,790	8,150	9,630	10,470**
D/C (%)	15.6	16.2	17.9	19.9

* 1981 figures ** Preliminary 1982 figures

Sources: Annual Report on National Accounts (Economic Planning Agency); Labor Force Survey (Prime Minister's Office); Census of Commerce (MITI)

sumer needs—both those arising from new and diversifying lifestyles and those stemming from the growing desire for a more culture-oriented life. By integrating these three factors—high technology, closer human contact, and anticipation of potential needs—the distribution industry should be able to play the leading role in an information society. In short, distributors should prepare for a "rediscovery" of commerce as Japan enters the information age.

Individualization and diversification of consumer needs

Consumer needs are becoming increasingly individualized and diversified as both personal income and leisure time increase. This has been reflected in consumer spending in a shift from essentials to items related to leisure and hobby activities (Fig. 1)

Consumer behavior is also changing in other ways. Even in hobbies and leisure consumers are putting greater stress on variety, the quality of merchandise information, and culture.

Consumers remain price-conscious when purchasing daily necessities. But at the same time, there is a growing prefer-

ence for convenience, reflecting higher female employment, the growing number of singles, and shifts in waking hours. There is a tendency to buy things at the nearest store, at the most convenient time of the day, as quickly as possible. This suggests an increasing polarization in consumer behavior between daily necessities on the one hand, and leisure- and hobby-related merchandise on the other.

This diversification of consumer needs makes it likely that competition in the distribution industry will intensify. The relative decline of supermarket chains, which achieved phenomenal growth during the period of high economic growth, is only one sign of the changes wracking the industry.

The growing consumer preference for convenience in purchases of daily necessities is helping convenience stores and similar establishments. In the hobby and leisure field, on the other hand, inter-regional competition is intensifying thanks in part to the progress in motorization, which has greatly increased the distance consumers are willing to travel. As a result, siting and modes of operation have become matters of great importance not only for independent small stores but also for shopping centers. Another noteworthy development is the organization of small and medium-sized stores into

Fig. 1 Changing Structure of Household Spending (Monthly National Average of All Households in 1980 Prices)

Source: Annual Report on Family Income and Expenditure Survey (Prime Minister's Office)



voluntary and franchise chains. The importance of organized retail stores has clearly increased.

Governmental distribution policy is aimed principally at promoting the vitalization of small and medium-sized distribution businesses and of helping maintain proper competition among them to effectively meet diversifying consumer needs.

Harmony with regional communities

The near equalization of income levels in different regions of the country and the rapid expansion of urban populations (Table 2) have made people increasingly expectant of an affluent and individualistic urbanized consumer life. This has generated a growing need to build attractive shopping centers designed to better meet these cultural and social needs. It is likely this will eventually lead to a new "urban commercial culture" in

many cities around the country. Current regional moves to promote town-building and cultural activities, for instance, are aimed at restoring "humanistic" commercial space to towns and cities. In this sense, we are entering an age of urban commercial renaissance.

Distribution policy has as its objective the development of the retail business in harmony with regional communities. For this purpose it is necessary to promote urban commercial policies in close cooperation with urban planning authorities. There is also a need to materialize the so-called "community mart concept" of supporting the voluntary town-building activities of small and medium-sized retail stores.

Creative development of distribution technology

A full 43% of the computers used in Japanese industry today are in the distribution sector. Technological innovations such as the POS (point of sale) system, on-line computer networks for trade information, and computer processing of customer information are being introduced in both retailing and wholesaling (Fig. 2). In recent years, distribution data services have also posted significant progress, making fuller use of the consumer information accumulated through POS and other systems. And new technological innovations are beginning

Fig. 2 Diffusion of Drugstore-Type POS Systems & Common Product Codes

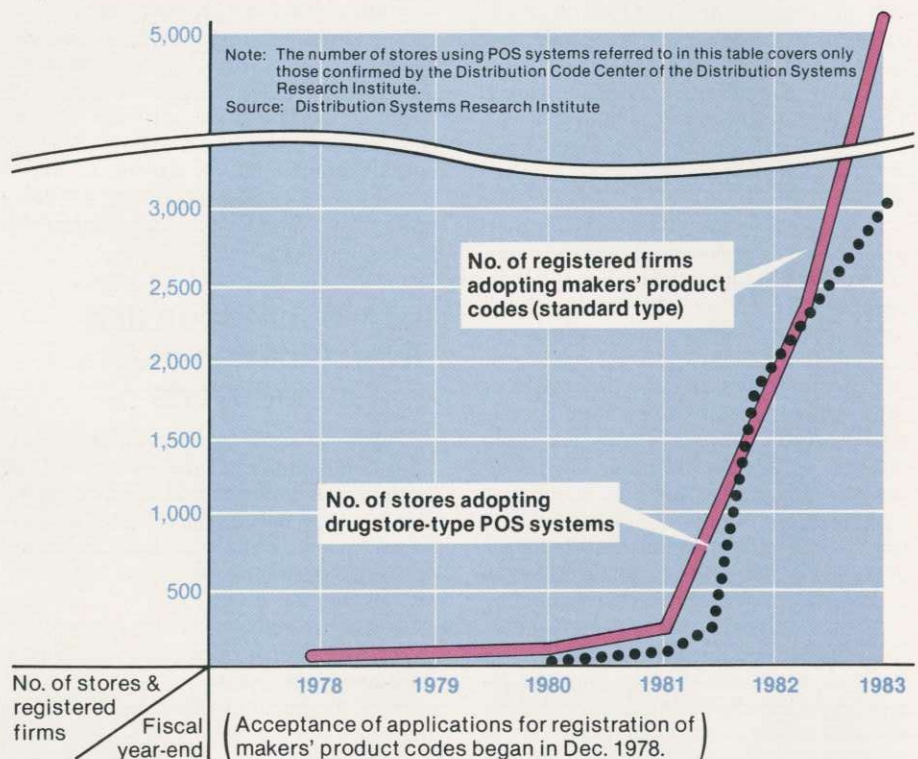


Table 2 DID Population Ratios by City Type (%)

		1960	1970	1980
National average		43.7	53.5	59.7
City type	1) Capital cities	91.2	93.1	95.8
	Core cities	57.2	72.4	83.8
	Smaller cities	46.0	54.2	63.1
2)	Capital cities	84.4	84.8	87.6
	Core cities	62.6	62.4	69.2
	Central cities	46.0	47.1	50.8
	Smaller cities	33.8	36.3	37.7
Towns & villages		—	—	30.4

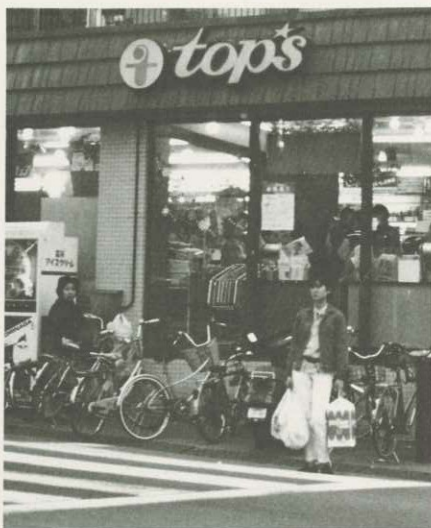
1) Three largest urban blocs (Tokyo, Osaka & Nagoya)
2) Regional blocs

Note: The DID (densely inhabited district) population ratio is the rate of DID population to settled population. A DID is a sample district—inside a city, town or village—where the population density is 5,000 or more per square kilometer and which is adjacent to areas with population density of 4,000 or more.

Source: Population Census of Japan (Prime Minister's Office)



A total of 43% of computers in Japanese industry today are used in the distribution sector.



The organization of small and medium-size stores into a voluntary, franchise chain is in progress.

to appear, such as home shopping via various new media. These and other innovations are likely to transform the distribution industry.

It might be added here that problems still remain with home shopping. In particular, the development of an accurate and efficient door-to-door delivery system has lagged behind the work on information and transactional systems.

The role of distribution policy in this context is to promote the development of infrastructure—ensuring, for instance, the sound growth of distribution data services—so as to facilitate the utilization of information. It can also provide positive assistance and guidance for small and medium-sized distributors to prevent the progress in “informationalization” from creating new competitive gaps between large and small businesses. It is also an important objective of distribution policy to develop basic conditions conducive to “informationalization,” such as comprehensive standards and specifications and the deregulation of information transmission.

There is also a need to encourage efforts by smaller retailers to make joint use of computers and establish their own information systems. This, however, will require further organization of such retail units through, for example, voluntary and franchise chains.

Formation of a flexible distribution structure

Small, organically organized distribution units, of which voluntary and franchise chains are representative examples, are the most effective way to respond to changing consumer needs and fully utilize the advantages chains possess (e.g. information processing, commodity procurement, sales promotion). The important

question is how to organize smaller retail businesses, and particularly the very small operations which constitute the majority of retailers in Japan. Continuing efforts are needed in this area.

It is also necessary to have creative and talented people engaged in the small distribution sector. Well-thought-out training programs should be implemented to produce people capable of assuming leadership roles in this sector, as well as in the planning and running of shopping centers.



The POS system is being introduced throughout Japan to boost efficiency.

Responses to internationalization

Japanese imports of manufactured goods have risen steadily in recent years. However, their share of total imports is still short of levels in other industrialized nations. Thus foreigners often criticize Japan for maintaining a “closed” distribution structure and practicing “discriminatory” commercial customs.

It is true that the Japanese distribution system for imported consumer goods is more extensive than corresponding structures in the exporting countries. However, it is almost the same as, and in some cases even shorter than, the channels for competing domestic products. A survey completed by the Manufactured Imports Promotion Committee in June 1983 found that imports generally have an advantage over domestic goods in distribution.

Foreigners also claim that the Japanese distribution structure is multi-tiered and excessively complicated. This reflects a lack of understanding of the rapid changes that have taken place in the Japanese distribution system in recent years, and also ignores the behavior of Japanese consumers, who are extremely exacting about the variety, quality, functions, and physical appearance of the goods they purchase as well as on availability and speed of delivery. Japan should continue to supply information to enhance foreign understanding of its distribution structure and commercial customs.

It is extremely important to expand imports of manufactured goods. It will improve living standards in Japan by mak-

ing available useful foreign products. But it is also crucial for helping Japan maintain harmonious relations with its trading partners.

The distribution industry, therefore, should do more to expand manufactured imports. Distribution policy can assist this effort in a number of ways. First, the relevant authorities can supply relevant information to promote international understanding of Japan's distribution structure. Second, import promotion missions should be dispatched and export promotion missions from foreign countries received in Japan to help “discover” potentially attractive foreign products. One example would be fairs of imported goods at local shopping centers in Japan.

It is worth noting that more and more Japanese retailers have been opening branches and offices overseas. These moves are significant because they:

- 1) Lead to increased manufactured imports by uncovering promising foreign products.
- 2) Help transfer distribution technology to developing countries, contributing to the rationalization of local distribution industries.
- 3) Promote international understanding of Japanese life and culture through introducing Japanese commodities and lifestyles.

As with other Japanese industries, the overseas expansion of the Japanese distribution industry is expected to gain further momentum. The growing presence of Japanese distribution interests abroad will, it is hoped, improve international understanding of Japan and its people.

As for the advance of foreign distribution interests into Japan, it should be noted that foreign enterprises have been and continue to be treated on a strictly non-discriminatory basis.

Modernization and co-prosperity

The biggest challenge facing the distribution industry is how to modernize and boost efficiency. In particular, the adoption of advanced information technology is essential to effectively meet diversifying consumer needs.

Yet economic efficiency should not be the only goal. It is important always to remember the social and cultural functions the distribution industry performs in regional communities—in short, its regional effectiveness. It is desirable that retailers co-prosper with the communities in which they work through responding to consumer needs by the sharing of functions according to types of trade and by participating in town-building and other cultural activities. ●