

# Japan's Distribution System: An International Comparison

By Yoshihiro Tajima

Japan's distribution system is now the focus of international interest. One sign is the rapidly growing number of foreign experts—university professors and researchers—studying how the industry works. They come not only from the United States but from Europe, the Republic of Korea and Southeast Asia.

The Japanese distribution system is a subject for discussion and study in the Executive Training Program, a two-year course taught in Japan for young businessmen from European Community (EC) nations. Distribution problems are also addressed in a similar program on the Japanese market offered by the Institute for International Studies and Training. This program, initiated at the suggestion of the Ministry of International Trade and Industry (MITI), is attended by businessmen from the United States, Canada and EC nations.

Ironically, the worldwide surge of interest in Japan's distribution system was prompted largely by charges leveled by the United States and West European countries against what they perceive to be "non-tariff barriers" to foreign products. Foreign governments cite four kinds of "distribution NTBs"—a complex and backward distribution structure; irrational trading practices; exclusive control of distribution routes by large producers; and excessive government intervention.

As foreign observers have learned more about distribution in Japan, there has been a clear shift in the importance they attach to these NTBs. The "complexity" and "backwardness" of Japan's distribution structure, once one of the most frequently cited problems, is now counted among the least important, although Americans and Europeans continue to

perceive it as inherent to distribution in Japan.

What are the criteria for judging if a nation's distribution system is "developed" or "backward?" This is of crucial concern in academic studies, but the yardsticks used by laymen in other advanced industrial nations are very subjective. They tend to regard anything differing from their own countries as "backward."

Such a subjective rating system is hardly meaningful. What is needed is an objective comparative study of the similarities and dissimilarities of distribution systems in different countries. It was precisely with this in mind that, five years ago, five young researchers and I launched a comparative study of distribution systems in Japan, the United States,

West Germany, France, and Britain. The project was sponsored by the Distribution Policy Institute, headed by Prof. Masao Uno of Waseda University, and the results will soon be made available in English. Preparations are also under way to form the Academic Society for Comparative Study of Distribution, which will include researchers from other countries as well as Japan.

## "Hard" and "soft" distribution structure

The culture of any ethnic group consists of a "hard" part that is difficult to alter and a "soft" part that is easily changed. This is equally true of Japanese



A session of an EC-sponsored 2-year "Executive Training Program"

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culture, of which the distribution system is an integral part. The hard portion may be likened to the seeds of a fruit, and the soft portion, in which this core is wrapped, to the flesh. Of course, it is also true that even the core can change, if slowly, with the changing of the layers that cover it.

Any evaluation of distribution in Japan will differ radically depending on which aspect, the hard or the soft, one looks at. The soft part includes department stores, supermarkets, and convenience shops. In form, operating methods, and managerial organization, they differ hardly at all from their counterparts in the United States and Western Europe. Likewise, there is no difference in the way they are being remolded by technological innovations. Bar code scanning systems are being actively introduced, and the software for utilizing the data so obtained in merchandising decision-making ranks alongside that of the United States as some of the most advanced in the world.

Discussions at the First Asian Retailers Convention held in Tokyo last year suggest that Asian business circles are interested in this "variable" side of Japanese distribution and strongly hope the relevant technology will be transferred to the distribution industries of their own countries.

In contrast, the core of distribution in Japan consists of very small retail stores, family-owned and run, and two-tiered (or, in exceptional cases, multi-layered) wholesale distribution structures that, together with trade customs and practices, differ considerably from the norm in Western nations. This inner part of Japan's distribution system strongly reflects the country's history and culture—precisely the areas which Westerners find most peculiarly Japanese. It is this "peculiarity" that is most frequently singled out for foreign criticism.

It is hard for government authorities to change this traditional side of the Japanese distribution system. It is also simplistic to say everything in it is irrational and should be changed. The United States, as a relatively young nation, has few "hard" elements in its distribution system, but distribution practices in West European countries are deeply rooted in their histories and cultures. The West German store hours law (*Ladenschlussgesetz*) is but one example. Even in countries without such laws, however, most retail stores still close on Sundays and holidays. Business hours even on weekdays are shorter than in other parts of the world. All this is due primarily to religious considerations. And the morning bazaars found in many European cities do not mean that distribution there is underdeveloped; it merely reflects the historical fact that daily necessities, par-

ticularly vegetables, fruits and flowers, used to be distributed mainly through these markets.

Yet even the core changes over the long term. In Japan's case, tertiary wholesalers have almost completely disappeared in a span of 10 years, and secondary wholesalers are beginning to follow. For all practical purposes, it is now possible to set up independent distribution channels, instead of going through the wholesalers in the core distribution system. In fact, many Japanese producers no longer rely on the historical distribution structure but are trying to establish more direct channels for their goods. As these efforts spread, the whole distribution structure will become further simplified.

## Lifestyles—a major factor in distribution

The shape of a nation's distribution system is determined by the lifestyles of its consumers. Japan is no exception.

There are about 1.7 million retail stores in Japan. Their extremely small average size is often termed "symbolic" of a backward distribution system. Nearly half of these retailers sell food items, which suggests this peculiarity of Japan's distribution structure stems in part from the traditional approach to marketing foodstuffs. That, of course, is in turn closely related to the dietary customs of the Japanese people.

Japanese consumers display a strong preference for perishable food. For example, they prefer fresh fish and vegetables to processed foods; they like to cook "raw materials" at home rather than buy ready-to-eat items. This may even help account for their longevity, and is certainly important to the happiness of Japanese home life.

This demand for perishables explains the existence of so many small stores for vegetables, fruits, fish, and meat in every community across the country. In this respect Japan is similar to France and Italy, where there is relatively heavy consumption of fresh fish and vegetables.

The large weight perishable food carries in Japanese food consumption means that stable supplies for big-city residents and stable prices are also vital for social stability. It is for this reason that Japan maintains such a highly developed social system for the collection, pricing and delivery of perishables—a system without parallel in any other country. Wholesale markets occupy a central position in this system.

Big-city authorities are obligated under the Wholesale Market Law to open central wholesale markets, which are operated by private interests under of-



A typical auction scene at Tokyo's Tsukiji fish market

ficial supervision. Commodities are collected by wholesale companies from farmers and fishermen's associations across the country, and are auctioned off each morning to retailers and brokers. Retailers and restaurant operators who do not take part in these auctions visit the wholesale markets each morning to purchase supplies from brokers.

The central wholesale markets are supplemented by hundreds of smaller wholesale markets in localities across the country. These are the work of private interests, not the local authorities. But they function in the same way.

This system of wholesale markets has traditionally supported the existence of small and medium-sized retailers. But now distribution patterns for perishables are changing. Consumption of processed food is on the increase as the proportion of food cooked at home shrinks due to the rising number of working housewives. The westernization of the Japanese diet, particularly among young people, is also eroding traditional eating habits.

Supermarkets do not always find it advisable to secure large quantities of goods through wholesale markets. Prices are formed through auctions, and large-volume purchases can be expensive. Instead, many supermarkets purchase directly from producers, and process and pack the produce at their own facilities. In the long run, in-house processing and packaging is likely to transform the traditional distribution system for perishables.

But we must never forget that, in the final analysis, the distribution structure is shaped by consumers' lifestyles. This goes for not only perishable food but for every kind of commodity. No distribution systems can remain static forever; they are organic systems, and will change with the changing times. ●