Distribution

Japan's distribution industry is undergoing structural changes due to the slowdown in the growth rate of consumption of goods and the increase in spending for services as a percentage of personal consumption expenditure. It is changing also because consumption itself is rapidly becoming pluralistic. Moreover, the appreciation of the yen against the dollar, continuing since the autumn of 1985, has accelerated the globalization of the distribution industry, which used to be strongly domestic-oriented.

According to the 1985 survey of commerce, the scale of the Japanese retail market was approximately ¥82.5 trillion (excluding sales of automobiles, gasoline and services). It had expanded about 2.7% annually in the three years up to 1985. The top 200 retailers, including department stores and supermarket chains, had a 25.6% share of the ¥82.5 trillion market. The market share of big retailers has been rising steadily since 10 years ago when their share was about 20%. On the other hand, the small and medium-sized retail stores have been shrinking gradually not only in market share but also in number. In the 1985 survey, the market share of the smaller retail stores showed a 5.4% decrease from three years earlier.

A national survey on actual consumption reveals that the average household consisting of two or more family members spent 35.2% of its total consumption expenditure on services in fiscal 1984, which was considerably higher than the 28.6% in fiscal 1974.

In recent years, the consumption increases have been in services rather than goods. In line with this shift, the distribution industry is changing into a provider of comprehensive lifestyle-oriented services. Leading this trend are the major retailers. With mainline retailing as the base, they are diversifying into leisure and financial businesses. They have already advanced into such related fields as restaurants and convenience stores and are now trying to undertake the sale of everything related to living, both goods and services, by branching out into different fields.

Typical examples of this are Daiei Inc. and the Seibu Saison Group. The Seibu Saison Group has expanded its business territory to cover all fields, such as department stores, supermarkets, convenience stores, restaurants, fast-food chains, credit business, life and nonlife insurance, leasing, real estate and land development. Recently, it branched out into travel, advertising, hotels, film production and movie theater management, theaters and ticket sales.

In parallel with horizontal expansion, vertical moves are also brisk. Vertical integration is taking place along the line of the flow of goods from manufacturers to consumers. In all fields and all types of businesses, the marker–trading company and wholesaler–retailer–consumer flows are becoming blurred.

Leading supermarket chains and specialty stores have developed private brand products. Commissioning their production to manufacturers, they market them at their own risk. This represents new moves among retailers to lead the manufacturing sector. In contrast, consumer electronics makers and cosmetics makers have started revitalizing their sales network. They advise retail shops not only on their store layout but also on the lines of products they should handle. Through this, they are trying to reinforce their sales network and step up rationalization. There is an increasing tendency among leading apparel makers and wholesalers to increase the number of their directly managed shops. Also there is a conspicuous move among consumer organizations and consumer cooperatives to deal directly with manufacturers, farmers and fishermen.

The horizontal and vertical moves have resulted in cooperative ties between the distribution industry and various other types of business. With the progress of financial deregulation and liberalization of trade in farm products, the distribution industry will increase tie-ups and cooperation with securities, life and nonlife insurance companies and even with agricultural and fisheries producers, airlines and oil distributors. This, in turn, may accelerate the burgeoning restructuring of conventional trading relations.

The yen's appreciation is also nudging the distribution industry toward restructuring. The yen's rise has led to two moves in Japan's distribution industry.

Photo: Seibu Saison Group

Major retailers are providing new and innovative services.

One is the expansion of overseas procurement of goods (imports) by retailers and wholesalers. Some of them have already established purchasing offices overseas or started local production abroad. Since 1986, imports of consumer goods have increased sharply. Many retailers are directly importing cheap home electrical appliances from South Korea and Taiwan.

The other is the extension of business overseas. Leading retailers, such as Sogo (department store) and Yaohan (supermarket), have been actively opening stores in Southeast Asia, resulting in a rush that is likely to overwhelm local capital in Hong Kong and Singapore. Not only retailers but also trucking companies are stepping up their advance overseas through tie-ups with American companies.

The advent of the information age, too, is accelerating the restructuring process. Already, 11,000 retail stores in Japan have installed POS (point of sales) systems. This exceeds the combined number of stores with POS in the 12 EC countries and is close to the total number of such stores in the United States and Canada. The dissemination of POS systems, the installation of on-line systems for placing and taking orders, and the integration of these into a sophisticated information network will probably change the mechanism of the distribution system drastically in the future. ●

(By Kensuke Yamagata, business news correspondent, the *Nihon Keizai Shimbun*)