

Distribution Industry Must Adapt to New Reality

By Toshio Nakanishi

The Japanese distribution industry (wholesale and retail) is a massive grouping of enterprises whose aggregate sales account for 15% of Japan's gross national product (GNP) and which employs 20% of the nation's total employed workers.

During Japan's high economic growth period in the 1960s and 1970s, the distribution industry served as the vital link between mass production and mass consumption, and expanded by leaps and bounds. In wholesaling, the *sogo shosha* (general trading companies) grew into giants in parallel with the expansion of such raw material industries as steel, non-ferrous metals, chemicals and textiles. In retailing, a new form of business called the "supermarket" emerged as the star of Japan's mass consumption society, and quickly took its place at the top of the retailing pyramid.

Hit hard by the two oil crises which rocked the world in the 1970s, the Japanese economy subsequently slipped into a period of low growth. At the same time, the environment surrounding the distribution industry changed drastically. Consumer behavior matured, and demand

began to shift away from "durable goods" as an information-oriented society emerged. Japan's distribution industry now urgently needs to adapt itself to this changing environment.

Retailing

Japan's retail industry has a distinctive bipolar structure. Large outlets, such as department stores and supermarkets, co-exist with an enormous number of small operations. The large retailers, which account for less than 2% of the 1,720,000 stores in the country, generate as much as 33% of total sales, whereas small shops with fewer than three employees constitute 60% of all stores yet account for only 14% of sales. In between these two poles are stores employing 3-19 workers (Table 1).

The *raison d'être* of these many small shops is the Japanese preference for fresh, perishable foods. Small neighborhood shops selling fish and vegetables are able to continue in business because they are convenient for housewives. Moreover, skyrocketing land prices in cities hamper

the opening of large stores, which otherwise would gobble up the business of small shops.

Although the position of small retail stores is declining little by little, most are expected to hang on tenaciously in the face of the onslaught of the large stores. The bipolar structure of Japan's retail industry is expected to endure.

Representative of the big outlets are Japan's department stores, many of which have been in business for more than 80 years, and which account for nearly 8% of the country's total retail turnover. They have been joined by the supermarkets, which attained rapid growth in the past 20 or so years and now account for more than 15% of national retail sales (Table 2).

Department stores are located on the main streets of big cities or conveniently sited at public transport terminals and other bustling urban centers. They have the greatest sales floor space among retail stores, with some exceeding 70,000 square meters. They deal primarily in high-class apparel and accessories and sophisticated miscellaneous goods. Stocking famous overseas brands, the department stores target fashion-conscious consumers.

However, the environment facing department stores is no longer as comfortable as it used to be. Consumers already have more clothes than their wardrobes can hold. At the same time, specialty apparel stores are gaining ground as consumers show a pronounced tendency to by-pass department stores. In order to reverse the gradual decline in their position, department stores are beefing up their merchandise development capability and remodeling their buildings and layouts. These measures may not be fundamental solutions, but their success or failure will doubtless widen the performance gap between competing department store companies.

In the 1960s, supermarket operators imported the concepts of the chain store and self-service from the United States. Supermarkets rode the crest of the mass-production/mass-consumption wave to rapid growth. In just 15 years, they became the biggest retailers in Japan.

Most supermarkets are located in front of railway stations or in suburban areas, and the majority have sales space ranging from 2,000 to 15,000 square meters.



Distribution industry sales account for 15% of Japan's GNP. The sector employs 20% of the country's work force.

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Some 40% of supermarket sales come from foodstuffs, 30% from everyday clothing, and 30% from daily necessities and other sundries.

The rate of growth in supermarket sales has begun to slow, due in part to the sluggishness of personal consumption as disposable income is leveling off and also because the sales of older stores with limited floor space have begun to sag. All supermarket chains are trying to improve their earning power by enforcing inventory control and other measures to cut costs, or by renovating existing stores.

Some supermarket companies are also establishing restaurant chains and convenience stores that showcase their chain store operational know-how. In addition, in order to meet growing consumer demand for diversified services, supermarket companies have expanded into house-moving, insurance and other services related to the daily life of their customers. They are also issuing credit cards and shopping cards as one means of gathering information about consumers in preparation for storeless sales and other new marketing formats now coming down the track. While not about to surrender their supermarket operations, big supermarket companies are seeking to evolve into comprehensive consumer service businesses where their often nationwide networks of stores should be a powerful weapon.

Wholesaling

Like the retail industry, Japan's wholesale industry has a bipolar structure. Sogo shosha and other big companies, numbering less than 1% of all wholesalers in Japan, handle more than 40% of the business. The marginal wholesalers, nearly 50% of all firms, handle barely 5% (Table 1). A second distinguishing feature is the industry's multiple-tiered structure, consisting of primary wholesalers, secondary wholesalers, and on down the ladder. This helps explain why the ratio of wholesale sales to retail sales (W/R) in Japan is 3.73, or nearly double the 1.91 ratio in America (Table 3).

Today, the Japanese wholesale industry is in need of major reform. Supermarkets and other large retail outlets, for example, are forcing a reorganization of foodstuff wholesalers. Those who cannot satisfy the demands of large retail stores for

greater efficiency in processing orders and making deliveries will be weeded out. The apparel field, meanwhile, has seen the appearance of segmented wholesaling. This is an example of wholesalers going in for specialization in accordance with their own merchandise development ability.

The wholesaling of capital goods is still dominated by the sogo shosha, the biggest wholesalers in the country. They handle 55% of Japan's exports and imports and 20% of domestic wholesale transactions. By industry, raw materials like steel, other metal products and petrochemicals account for 60% of sogo shosha trade.

Following the oil crises, the raw materials industries slumped and manufac-

turers began to depend less on the sogo shosha. To make up for their deteriorating performance, sogo shosha are developing their offshore trade and are making full use of their global information networks to increase plant exports. Moreover, they are keeping a watchful eye on opportunities to advance into new materials, information-handling and any other field with strong growth potential.

Of even greater interest is their attempt to restructure domestic distribution by utilizing new information networks. This is why big sogo shosha are so enthusiastic about building information network systems, such as VAN (value-added networks). The survival of the sogo shosha will depend on their ability to restructure their domestic distribution networks. ●

Table 1 Structure of Japan's Retail and Wholesale Industries

(%)

No. of employees		No. of stores	Annual turnover
Retail industry	Less than three	60.2	14.0
	3-19	38.0	53.4
	20 or more	1.8	32.6
Wholesale industry	Less than five	48.5	5.3
	5-99	50.8	53.3
	100 or more	0.7	41.4
	(of which 500 or more)	(0.0)	(24.2)

Source: Census of Commerce

Table 2 Growth of Supermarkets

		1970	1974	1979	1982
Sales in value (¥ billion)	Supermarkets	1,612	4,239	10,670	14,601
	Department stores	1,771	3,563	5,700	7,048
	Retailers' total	21,773	40,300	73,564	94,175
Composite ratio (%)	Supermarkets	7.4	10.6	14.9	15.5
	Department stores	8.1	8.8	7.7	7.5
	Total retailers	100.0	100.0	100.0	100.0

Source: Table of Statistics on Self-service Stores

Note: Supermarkets are stores using the self-service format in more than 50% of their sales floor space.

Table 3 Japanese and U.S. W/R Ratios

	Japan (1979)	U.S. (1977)
W = wholesale turnover (¥ billion)	274,545	270,699
R = retail turnover (¥ billion)	73,564	141,560
W/R	3.73	1.91

Source: Census of Commerce