

# Vision for the Distribution System in the 1990s

By Yoshihiro Tajima

Japan's distribution industry has come in for harsh treatment at the hands of foreign and domestic critics. Yet the industry is going through a time of change that is shifting many of the most basic assumptions of both its supporters and detractors. Where is the industry going, and what will it be like in the years ahead? These are questions that will affect not only Japan's domestic economy, but also the nation's relations with the rest of the world.

The distribution panels of the Industrial Structure Council and the Small and Medium Enterprise Policymaking Council, the two key councils that have been making proposals and recommendations to the Japanese government on distribution policy, organized a joint committee in July last year to seek to answer these questions. The joint committee studied, analyzed and discussed various problems concerning Japan's distribution industry over about a year, and compiled a report entitled "Basic Direction for the Japanese Distribution System in the 1990s." Popularly known as the "Vision for the Distribution System in the 1990s," the report was submitted to the government on June 9.

The report is not official, and does not express the government's own views. Rather it contains opinions and recommendations submitted by an advisory organ formed principally of private-sector representatives and researchers. Yet the report will provide pointers to the government when it drafts its official policy, and to the distribution industry itself as it plans its future activities. The report is a condensation of the opinions of people from many walks of life.

The planning and research subcommittee and the system problem subcommittee established within the joint committee were in charge of the actual study. These two subcommittees were each composed of scholars, researchers, journalists, representatives of consumers and workers, chambers of commerce and



Import fairs sponsored by various local retail organizations

industry, and commerce and industry associations. There were also representatives of big enterprises as well as small ones. Full consideration was given to ensuring that the opinions of people from various fields were heard.

The subcommittees held hearings to obtain the views of people from all corners of society, including officials of foreign chambers of commerce and industry in Japan and foreign housewives residing in the country. Numerous private research organs were mobilized to conduct research. In addition, a research mission traveled to the U.S. and Europe last November to inspect their distribution systems and gather information about distribution policies.

## Dynamic change

The Japanese distribution system has been criticized by many countries. Regrettably, however, most of that criticism is based on outdated information. The Japanese distribution system has been undergoing dynamic change. The Vision for the Distribution System in the 1990s describes chiefly the structural changes that are taking place in the Japanese distribution system today and the technical innovations represented by the growing role of information.

The most obvious structural change is profound indeed: the number of retail stores, particularly subsistence-level

stores, is decreasing sharply. As a result, the average size of Japanese retail stores is already approaching that of their European and American counterparts.

Changes in business are conspicuous, too. Whereas the number of traditional retail stores is decreasing, those in new types of business and in areas which do not even fit the conventional categories are increasing sharply. Obviously, these changes reflect the changing lifestyle of consumers and the consequent shifts in their spending patterns.

Most noteworthy among the structural changes taking place in the retail industry is the rapid-fire appearance of new forms of retail business and the fierce competition, both price and non-price, that erupts between them and existing retailers. The number of 24-hour convenience stores has increased so sharply they are already considered to be in excess. Most of these stores evolved from old conventional stores by joining franchise chains, and an increasing number are equipped with point-of-sales (POS) systems. Discount stores and roadside stores of various types are also among the groups of retailers that have attained the most spectacular recent growth, as are mail-order sales outfits. As new types of retail stores appear, they invigorate Japan's retail structure as a whole.

The changes sweeping the retail industry pose difficult problems for local community shopping centers made up of



traditional stores. Suburban shopping malls and roadside outlets are stealing away their customers. From a city planning standpoint, it is important to devise ways to revitalize these traditional community shopping centers.

The wholesale business, too, is undergoing big changes. According to the Japanese government's industrial classifications, the branches and sales outlets of manufacturers fall under the category of wholesalers. Now manufacturers are increasing their branches and sales outlets as part of area marketing strategies. The same is true of merchant wholesalers. Thus, while the statistical decrease in the absolute number of wholesalers is not as evident as with retailers, the corporate concentration of wholesalers has progressed dramatically. Distribution channels are becoming steadily shorter.

The rapid dissemination of distribution information systems is another symbol of the dynamism of today's Japanese distribution system. It has become common practice, in particular among supermarkets and convenience stores, to install POS systems. The placing and receiving of orders between retail stores and suppliers is rapidly being automated.

## Policy and problems

Prominent Japanese retailers are stepping up their global merchandizing. Japan's imports have increased substantially in the past few years, due largely to the increased efforts of overseas companies to export their products to Japan.

This has accelerated the internationalization of the Japanese market, and is naturally intensifying competition for everyone. Consumers are becoming more and more demanding about prices and product quality and less concerned about country of origin. In the future, the shape of Japan's distribution system will be determined more by market mechanisms; the government's principal role will be to improve the environment for competition.

Among problems needing special attention, the Vision for the Distribution System in the 1990s cites the creation of a more efficient distribution system

through competition, structural reform, expanding imports of manufactured goods, accelerating globalization in the distribution field, giving consumers a wider range of options, strengthening the functions of local community shopping centers and enhancing their attractiveness. It also offers several key practical proposals for achieving these goals.

First, in order to create a more efficient distribution system, the Vision strongly recommends relaxing various rules and regulations concerning distribution and properly enforcing the "Large-Scale Retail Store Law." Both the domestic and overseas parties concerned are showing particular interest in how the government will apply this law in the future. The Vision does not ask the government either to abolish or revise this law, but it does express the hope that the government will enforce it appropriately in order to attain its stated objectives.

From the standpoint of city planning and especially for the sake of improving Japan's living environment, the poorly planned construction of large-scale commercial facilities is to be avoided. In order to prevent the evils of excessive concentration, smaller retailers should be revitalized to provide a countervailing force to large-scale retail outlets.

In order to rationalize the current dis-

tribution system, it is also essential to rectify such traditional commercial practices as returning unsold products to the makers or of paying kickbacks. This requires strict enforcement of the Antimonopoly Law. It is also necessary to step up surveillance of the commercial practices of general import agents to remedy the disparity between domestic and overseas prices.

Since most overseas criticism of the Japanese distribution system stems from the difficulties encountered in gaining access to the Japanese market, accessibility must be improved for overseas products and enterprises. At the same time, more should be done to increase Japan's imports of manufactured goods by reinforcing the distribution industry's global merchandising. From the standpoint of global harmony as well as helping Japanese consumers attain a more affluent life, it is a vital task of the Japanese government's economic policy to strengthen the functions of the country's distribution industry.

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Renewing for survival. The old-style shopping street (left) and the same area rejuvenated (right) looking totally different.



The number of "roadside shops" like this is rapidly increasing.