

Wholesale Industry in Transition

By Masafusa Miyashita

There are about 430,000 wholesale businesses in Japan, as shown in Table 1, about half of them supplying consumer goods to some 1,620,000 retail outlets. Japan has more wholesalers, relatively speaking, than any other major Western nation. The existence of this vast number of retailers is not the only reason why the country has so many wholesale businesses.

As shown in Table 2, the majority of wholesalers are extremely small, with one- or two-person operations accounting for 21.8% of the total and three- or four-person operations another 25.2%. Thus small enterprises with not more than four persons make up nearly half the total number. This is another reason why there are so many wholesalers in Japan.

Traditional features

The existence of a very large number of wholesale businesses is a longstanding characteristic of the Japanese wholesale industry. This has a great deal to do with the fact that most retail stores are very small—so-called “mom and pop stores.” As noted in Table 2, one- or two-person retail operations account for 54% of the total and those of three or four persons another 26.1%. These small retailers depend on small wholesalers for their merchandise. This is why there are such a large number of small wholesale businesses in Japan.

It is customary for these small wholesalers to purchase merchandise from large wholesalers, not directly from producers. This peculiar system of merchandise distribution, whereby goods move from larger to smaller wholesalers, is responsible for the multitiered distribution structure.

The vigor with which transactions are conducted among wholesalers themselves make the Japanese distribution system appear quite “complex.” Whether it is complex or not, the prevalence of multistage transactions is another char-

Table 1 Numbers of Wholesalers and Retailers

	1982	1985	1988
Wholesalers	428,858	413,016	436,502
Retailers	1,721,465	1,628,644	1,619,599

Source: Commercial Statistics, Ministry of International Trade and Industry

Table 2 Distributors Classified by Number of Persons in Operation (1988)

(%)

	1 or 2	3 to 4	5 to 9	10 to 19	20 to 29	30 to 49	50 to 99	More than 100	Total
Wholesalers	21.8	25.2	27.9	14.8	4.6	3.2	1.8	0.7	100.0
Retailers	54.0	26.1	13.2	4.3	1.2	0.8	0.3	0.1	100.0

Source: Commercial Statistics, Ministry of International Trade and Industry

acteristic of Japan's wholesale structure.

Still another characteristic is that there are two types of wholesalers—primary and secondary. The former buy products directly from makers, and the latter from primary wholesalers.

Most primary wholesalers maintain special agency contracts with selected makers. As special agents, primary distributors handle on a preferential basis products of the maker with whom they have such contracts. In return, they purchase goods from that company on favorable terms and receive rebates. Thus agent wholesalers tend not to handle products of makers with whom their supplier is directly competing. This “exclusionary” tendency on the part of primary wholesalers is seen by foreign countries as a de facto trade barrier, hence the notion that the Japanese distribution system is “closed.”

These characteristics are common knowledge in Japan, and in recent years foreigners, too, have become increasingly aware of them. These features have been criticized abroad as evidence of “backwardness” in the Japanese distribution industry. Behind this criticism is the belief that market access for foreign products

is effectively restricted by the existence of so many small wholesalers, and the multitier distribution structure and its exclusionary nature.

It is difficult to prove how much these traditional features of Japan's distribution system are actually impeding the entry of foreign goods. Japan's distribution structure is in fact criticized without corroborative evidence. It remains true, however, that the wholesale structure has some peculiarities as compared with those in other countries.

Supposedly it is these peculiarities that are making it difficult for foreign enterprises or products to break into the Japanese market. If this is the case, these characteristics need to be changed as far as practicable. In fact, there have been gradual changes in recent years. Below, some of these changes in the nation's wholesale industry are analyzed.

Direction of change

Simplification of distribution structure

Large chain stores, notably supermarkets, have achieved phenomenal growth in Japan since the mid-1960s. Today these large-scale retail stores account for 40-

50% of total retail sales of daily consumer goods. Naturally, the rapid growth of chain stores has brought about major changes in the structure of the nation's wholesale industry.

First, the structure itself has been simplified. As noted earlier, the wholesale industry consists broadly of primary and secondary wholesalers. Chain stores now purchase directly from large-scale primary wholesalers, because this way they can obtain large quantities of merchandise at lower prices. At the same time, goods are increasingly purchased directly from makers.

In the case of large processed food wholesalers dealing with supermarkets, for example, about 50% of sales are accounted for by direct transactions with these large-scale retail stores. The remaining 50% or so are supplied to secondary wholesalers. Direct sales from primary wholesalers to retailers have thus been increasing.

Computers are now widely used by chain stores, particularly supermarket stores, in placing orders with wholesalers. Obviously, wholesalers taking orders from such large retailers must also be large enough to introduce their own computer systems. This is one reason behind the ongoing simplification of the distribution structure. The extensive use of information networks has contributed to the concentration of transactions between wholesalers and retailers, thereby increasing the efficiency of wholesale distribution.

These moves will go a long way toward reducing the perceived complexity of the Japanese distribution system. The computerization will also lead, though gradually, to the simplification and correction of the rebate and sale-or-return systems that have existed between makers and wholesalers, between wholesalers themselves, and between wholesalers and retailers. These complex and questionable practices, which are of long standing, have also been criticized abroad as restricting market access for foreign goods.

Development of modern systems

It is worth noting that voluntary chain stores and joint purchasing bodies—sys-



The Yokohama Sogo Oroshiuri Center (an integrated wholesale center) where 91 companies handle a variety of products.

tems that have developed in the United States and other Western nations—are also taking root in Japan.

In the case of **voluntary chain stores** in particular, the Japanese government has for the past quarter of a century been promoting measures to develop them as part of its efforts toward the modernization of the distribution industry.

The Japan Voluntary Chain Association had 133 members with about 56,000 stores as of May this year. These outlets are underdeveloped compared with similar units in other industrialized countries, yet they are showing steady growth, particularly in the food wholesale business.

A voluntary chain consists of small and medium-sized retail stores which purchase their goods from common wholesalers. Development of such voluntary chain stores is considered an essential condition for the modernization of the distribution industry. In fact, further progress is expected in this area, given the increasing use of computer information networks between "headquarters" (wholesalers) and member stores.

High hopes are pinned also on the development of the **joint purchasing system**. In Japan, a vertical distribution system dominated by makers has been established. The Western-style system of joint purchases by wholesalers or retailers has remained undeveloped. A trend toward joint purchasing is now increasingly discernible, however, in such fields of wholesaling as daily necessities and sundry goods, and also in such large-scale retailing as department stores and supermarkets. It is hoped that joint purchasing bodies will also be established for foreign products.

Wholesale centers represent a unique Japanese system established with the support of the government to promote the rationalization and modernization of the wholesale industry. A wholesale center is made up of a group of wholesalers who have moved away from the city center to the suburbs.

The center, managed by a cooperative association, undertakes various joint projects. Wholesalers setting up a center are qualified to obtain guidance as well as easy-term credit from the government. Currently there are about 170 wholesale centers across the country with a total of about 8,000 wholesalers taking part. Joint projects include the exhibition, storage and forwarding of merchandise, and holding of seminars. The wholesale center represents a revolutionary development in the distribution industry that has no parallels in other industrialized countries.

In light of the growing need for market liberalization, distribution modernization in Japan is certain to make further progress. This goes particularly for the wholesale industry, which has various structural characteristics that tend to impede modernization. It is also true that Japan's wholesale structure is undergoing some revolutionary changes in the direction of further modernization. These changes must be encouraged through government-industry cooperation so that the positive trend now under way will gain further momentum.

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