Brisk Business in Catalog Sales

By Satoshi Otomo

Catalog sales in Japan passed the ¥1 trillion mark in 1986. Even as growth in total retail sales slowed, catalog sales surged 9% last year. Yet despite this strong performance, catalog sales remain an infant industry, accounting for scarcely more than 1% of Japan's total ¥97.38 trillion retail sales.

Some 3,000 to 5,000 companies are engaged in catalog sales. No more accurate count is available. Many in the business are either subsistence-level outfits with no established marketing channel of their own, retailers who use catalog sales only sporadically or merchants who solicit orders only from the employees of specific target companies. Only some 10% of catalog sales firms have annual sales exceeding ¥100 million, while the top 150 companies alone account for more than 80% of industry sales.

Recent years have witnessed a flood of new companies into the catalog sales business. Nor are they all retailers. The list includes manufacturers, trading companies, wholesalers, trucking firms, service industries, door-to-door sales, fuel dealers, food companies and broadcasting stations, newspapers and other mass media organizations.

Especially conspicuous is the entry of big corporations. The deterioration of the export environment brought on by the strong yen has spurred domestic sales competition among automakers, home appliance makers and other traditionally export-oriented companies. Often they have added catalog sales to their marketing strategy. Others, like oil distributors and food wholesalers, got into catalog sales as a way to revitalize their own sales routes. Not a few, like the big *sogo shosha* trading houses and food manufacturers, saw catalog sales as a means to develop new sales channels and get into new fields of business. Transportation companies used catalog sales to spur their home-delivery business.

Yet for all the popularity catalog sales now enjoy, most new entrants are having a hard time. Indeed, it is mostly the stronger companies among the early participants in the field that are steadily gaining market share. The customer databases, marketing techniques, merchandising power and marketing strategies they have acquired over long years in the business are enabling major mail-order houses and big department stores to lengthen their lead over latecomers and the marginal enterprises. There is a marked trend toward oligopoly.

Exclusive catalog sales companies have a 60% share of the market, followed by department stores with nearly 15%. Correspondence schools account for another 10%. The remaining 15% is divvied up among mass merchandising stores, specialty shops, trading houses, manufacturers, trucking firms and others.

The company whose astonishing growth is being watched most avidly by the distribution industry is Cecile. Cecile is a comparatively young company, founded in 1972. Since its establishment,

Catalog sales are in their infancy, but a flood of new companies has entered the field recently.

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Table 1 Ratio of Mail-order Sales to Private Consumption Expenditure and to Retail Sales

Year	Private consumption expenditure		Retail sales		Mail-order sales		Ratio of mail-order sales to private consumption expenditure (%)	Ratio of mail-order sales to to retail sales (%)
	Amount (¥ billion)	Increase over the previous year (%)	Amount (¥ billion)	Increase over the previous year (%)	Amount (¥ billion)	Increase over the previous year (%)		
1974	72,912	–	38,053	18.9	180	–	0.25	0.47
1975	84,763	16.3	45,177	18.7	240	33.3	0.28	0.53
1976	95,784	13.0	48,200	6.7	280	16.7	0.29	0.58
1977	107,076	11.8	53,609	11.2	330	17.9	0.31	0.62
1978	117,923	10.1	58,332	8.8	390	18.2	0.33	0.67
1979	130,078	10.3	79,058	–	430	10.3	0.33	0.54
1980	141,324	8.7	87,920	11.2	460	7.0	0.33	0.52
1981	149,385	5.7	92,849	5.6	550	19.6	0.37	0.59
1982	159,606	6.8	94,970	2.3	630	14.6	0.39	0.66
1983	167,809	5.1	95,933	1.0	830	31.8	0.49	0.87
1984	175,984	5.0	95,973	0.0	920	10.8	0.52	0.96
1985	184,427	5.0	97,388	1.5	1,010	9.8	0.55	1.04

Notes: 1. In and after 1979, values changed greatly in comparison with the preceding years because of changes in industrial classification.
2. The reason for the sharp increase in fiscal 1983 mail-order sales is that correcting students' exercises by mail was newly added to the sales of correspondence schools.

Source: Economic Planning Agency's *Annual Report on National Accounts* for private consumption expenditure; MITI's Current Survey of Commerce for retail sales

its sales have nearly doubled every year, reaching ¥45.57 billion for the term ended October 1985. The next year, the company set its initial sales target at ¥70 billion, but had to revise it in midterm to ¥85 billion. In the end, its financial statement for the year showed sales of ¥103.9 billion, with declared profit of ¥2 billion. At a time when virtually all goods are hard to sell, Cecile managed to increase sales nearly 2.3-fold in one year, propelling it to the top of the industry in a single bound.

Cecile's main catalog is *Cécilene* for intimate apparel. The company has also diversified, with its *C'est La Vie* catalog for outer wear and *Verger* for household items. The company is now in the middle of a five-year plan aimed at boosting sales to ¥300 billion and declared profit to ¥15 billion by 1991 through catalog sales of clothing, food, housing and leisure activities.

Following Cecile on the roster of high-flying catalog sales companies are Senshukai, Mutow and the Takashimaya and Mitsukoshi department stores.

Pervasive *demae*

For years, *goyo-kiki* and *demae* methods of business have permeated life in Japan. *Goyo-kiki* means making the rounds of customers' homes to take orders. *Demae* is the home delivery of cooked food. Nowadays the customer phones the neighborhood *sushi* or noodle shop and the order is delivered in minutes by motorcycle. Meanwhile, stores selling such bulky, heavy staples as rice, soy sauce and sake make the rounds of customers' homes to take orders for doorstep delivery. This style of business is deeply rooted in Japanese consumer life.

In recent years, the development of home-delivery and air transportation services has combined with growing consumer leanings toward gourmet and health foods to generate brisk business in direct delivery of food items from famous production centers, not only in Japan but from overseas as well. Further fueling the boom are the aggressive efforts of rural communities to promote local industry. Agricultural and fishery cooperatives and local governments are seeking to develop nationwide sales channels for their local products as one way to forestall the "hollowization" of their communities. Department stores, local food manufacturers, gourmet specialty shops and home-delivery service companies are also vigorously promoting this business.

The Ministry of Posts and Telecommunications also sees catalog sales as a way to resuscitate its parcel post business, left reeling by the inroads of private home-delivery services. Since 1983, the ministry has been pushing what it calls the "package from hometown" parcel service, a system that aims to simultaneously expand the ministry's parcel post business, revitalize regional economies and supply consumers with specialties fresh from production centers. Consumers place orders for products listed in the catalog at any of the 23,000 post offices scattered throughout the country, and receive the goods directly by parcel post. In 1986, the service handled 3.8 million parcels. Encouraged, the ministry then launched an international "Import Promotion Parcel Post" system in 1985.

The number of home-delivery supermarkets that send merchandise to the homes of registered members is also on the rise. The Fresh Systems group, for instance, has already lined up 18 regional sales companies and 19 depots (computation and dispatch centers) as part of a nationwide franchise network. Group sales in 1987 are expected to clear ¥35 billion.

In the mass merchandising and department-store end of the business, more than 20 companies are experimenting with home delivery of daily necessities ordered by telephone. Such giants as Shiseido, Kao and Sumitomo Corp. have caused much talk with their advances into the home-delivery business. Japan is entering a new era of competition in *demae* services, in which information will be the deciding factor.

Raising the curtain on telemarketing

In November 1985, NTT introduced its "Free Dial 0120," a service similar to Inbound WATS: 800 in the United States in which the party receiving a phone call pays the toll. At first, the service was only available in Tokyo, Osaka and Nagoya. It has since been expanded, and will be offered nationwide by mid-1987. As of March 31, 1987, the number of companies subscribing to the Free Dial service already totaled 10,000, using 15,000 circuits. According to a recent survey by the Japan Direct Marketing Association, the national trade association of mail-order companies, 39.5% of exclusive mail-order houses subscribe to Free Dial, as do 43.9% of companies running catalog sales on the side. NTT has launched a publicity campaign in the mass media to make the Free Dial service better known.

Telemarketing agencies are also on the increase. Already NTT has established 13 such subsidiaries, and a value-added information network (VAN) linking them will soon enter operation. This information network will allow nationwide telemarketing services for a uniform rate.

Technology continues to open new doors. More than 20 companies have now installed voice-actuated automatic telephone ordering systems, and many are gearing up to accept telephone orders 24 hours a day. Japan still lags behind the U.S. in telemarketing, but it is clearly on the way.

Internationalization of catalog sales

In December 1972, the Seibu group tied up with Sears, Roebuck for catalog sales. The next year, Matsuzakaya followed suit with Quelle of West Germany. In 1972–1973, many other Japanese companies established tie-ups with overseas merchandisers and distributed their catalogs among Japanese consumers. Individual orders were placed together, and the goods were imported in bulk direct from the overseas merchandisers.

Yet while these sales tie-ups started with much fanfare, results were not up to expectations. The main reason was the time customers had to wait after placing orders: six weeks if the goods were shipped by air and more than two months if by sea. The impatient Japanese found the long waits intolerable. Japanese partners were forced to import stocks of best-selling items in advance.

Currently, Japanese catalog sales are experiencing a second wave of internationalization, this time in a manner consistent with Japanese culture and customs. In the vanguard are Sumitomo Corp. and West Germany's Otto, the world's second-largest mail-order house, which jointly established Sumisho Otto Co. in September 1986 and issued their first catalog in March 1987. This venture was followed by a link-up between Sharper Image and the Japanese home-delivery service Footwork in October 1986 to publish a Japanese-language edition of *The Sharper Image* catalog. Footwork inaugurated its "Delicious Food-Delivery Service" in 1982 which delivers products to the home directly from famous producing centers, and now boasts the highest sales of Yubari melons and salted salmon in Japan. It also started a "Directly Imported Delicious Food-Delivery Service" handling California melons and Hawaiian papayas. Footwork opened a branch in San Francisco last year to liaise with Sharper Image and open salmon shops in the United States. Sharper Image is flinging up stores across the U.S., and Footwork is drawing up plans to bring the chain to Japan as well.

There seems no end to the rush. Tokyu Department Store will establish a joint venture with Williams Sonoma within the year. After conducting test marketing, the company will launch both store and catalog sales, starting with shops in Tokyu's own department stores. Eventually, the joint-venture company hopes to expand throughout the Pacific Basin, adding apparel to the products now handled by Williams Sonoma. Taking advantage of the strong yen, the new company will both help develop a distribution channel to boost Japanese imports and at the same time introduce a new style of business to the Japanese retail market.

Where will it all end? Apparently the sky is the limit. Matsuzakaya is using a communications satellite to take orders for Quelle catalog products, and reports that orders have trebled recently thanks to the strong yen. Fuji Sankei Living Service has also made the development of "Satellite Shopping," its own international mail-order project, its top priority for fiscal 1987. ●

Table 2 Catalog Sales of Main Companies (unit: ¥ billion)

Ranking	Company	Merchandise	Fiscal term	1985	1986	Growth rate (%)
1	Cecile	Intimate apparel	Oct.	45.5	103.9	128.4
2	Fuji Sankei Living Service	General	Mar.	66.7	64.4	–3.4
3	Fukutake Publishing Co.	Educational supplies	Mar.	43.4	52.0	19.8
4	Senshukai Co.	Clothing	Sept.	43.4	49.1	13.1
5	Mutow Co.	Clothing	Feb.	31.8	34.5	8.5
6	Takashimaya Co.	General	Feb.	30.0	34.0	13.3
7	Nicoh Tsuhan Corp.	General	June	28.7	31.5	9.8
8	Nissen Co.	Clothing	Dec.	25.1	26.3	4.8
9	Soutsu Co.	General	Sept.	14.5	22.0	51.7
10	Nihon Bunka Center	General	May	*18.0	*19.0	5.6
11	Hi-Sense Co.	Clothing	Jan.	*17.0	*18.5	8.8
12	Japan Correspondence Course of Education Union	Educational supplies	Nov.	*17.0	*18.0	5.9
13	CBS Sony Family Club Inc.	General	Feb.	17.0	17.9	5.3
14	Mitsukoshi Ltd.	General	Feb.	13.0	15.4	18.5
15	Daimaru Department Store	General	Feb.	14.0	15.0	7.1
15	Daiei Co.	General	Feb.	14.0	15.0	7.1
16	Friend of Freesia	Electric appliances	Feb.	12.8	13.0	1.6
17	Seibu Department Store Co.	General	Feb.	11.0	12.5	13.6
18	N.G.C. Co.	General	Sept.	*10.5	*12.0	14.3
19	Nihon Direct Co.	General	Feb.	–	10.5	–
20	Kokusai Shuminokai Ltd.	General	June	8.3	9.6	15.7

Notes: For some companies, figures include sales other than catalog sales.
*Estimated value