

## **CHANGES IN THE DISTRIBUTION SYSTEM**

### The Distribution system in Japan

Major changes have taken place in the Japanese distribution system. Formerly manufacturers exercised vertical dominance over wholesalers and retailers, but today their influence over the distribution market has waned considerably. Some of the reasons are :

- ( i ) The Fair Trade Commission has declared that resale price maintenance actions whereby manufacturers fix prices or restrict distributor resale prices constitute illegal unfair trade practice.
- ( ii ) Retailers undertook the risk of doing business directly with foreign manufacturers and acquiring manufacturing capabilities that allowed them to develop private brand products that rival national brand products
- ( iii ) IT-based improvements were made to the physical distribution and marketing management systems and distribution systems were rationalized and made more efficient and
- ( iv ) Foreign distributors brought global standards with them when they entered the Japanese market thereby compelling distribution to change in Japan

### Diversified modes of importing

In the past, the typical distribution pattern for imported products was for the importer – a general trading company, sole import agent or specialty importer, to import goods from foreign manufacturers and distribute them to primary wholesalers which in turn distributed through secondary wholesalers to retailers (specialty stores, department stores etc.). However recent years have witnessed more diversified modes of importing. Leading retailers and wholesalers rely more on development imports (Japanese wholesalers/retailers develop product specifications and outsource production to an overseas plant and then import the product and market it under a private brand label) while Japanese manufacturers import goods from their own offshore production facilities. Small and medium-sized wholesalers and retailers do small-lot imports and consumers themselves increasingly import products directly from abroad.

With the globalization of product procurement more and more retailers are able to import high quality low-price goods from abroad and distribute them without going through primary or secondary wholesalers. This has resulted in distribution channels that are shorter and more efficient than Japan's traditional channels.

Finally diversified consumer needs and wants, intensified price competition and the spread of the Internet, among other factors, are dramatically altering the environment for the distribution of imported goods.

### The retail market

The size of the Japanese retail market is approximately 135 trillion yen annually (based on 2002 statistics). Continuing deflation is resulting in the shrinking of this market. Department stores, supermarkets and other traditional general merchandise stores are all depressed whereas convenience stores, home centers, drug stores and SPAs (specialty store retailers of private label apparel) are all thriving with innovative marketing techniques.

In the past some large retail stores tried to develop private brand (PB) products and import them in mass quantities at low prices. However most of these products had nothing to distinguish them other than low prices and in the end most of them were taken off the market. Retailers responded to these failures by concluding that they had to appeal to customers through originality and not low prices.

Now retailers increasingly develop PB products with greater originality, products catering to customer needs and wants or they import products entirely new to the Japanese market. In the past, size, location and product line determined the success or failure of a distributor, but today success depends on being able to develop products that consumers want, procuring it from the right place at low cost and offering it to consumers at the right price. Thus imported products are likely to assume an increasingly prominent role in distribution in Japan.

Another factor promoting major changes in the Japanese distribution system is the entry of foreign-affiliated retailers such as Toys R Us (USA), Costco (USA), Carrefour (France), Wal-Mart (USA), Metro (Germany), Tesco (UK) ushering in an era of 'hyper-competition'. The reason why foreign concerns are willing to enter the Japanese market despite the deepening recession is that Japan still ranks as the world's second largest market despite the fact that the Japanese market is still affected by a high cost structure.

#### **Annual retail sales by type of business**

Unit :Yen billion

<b>Type of Business</b>	<b>Annual Sales (2002)</b>	<b>Vs 1999</b>
Department stores	8,021	-17.4
General merchandise stores	8,917	+0.8
Convenience stores	6,713	+9.6
Home centers	3,073	+27.9
Drug stores	2,496	+67.0
Specialty supermarkets	20,558	-0.8
Other supermarkets	6,808	-10.0
Ordinary retailers	78,539	-9.7
<b>TOTAL</b>	<b>135,125</b>	<b>-6.1</b>

Source : Census of Commerce (2002), Ministry of Economy, Trade and Industry