Evolution of Marketing Channel of Distribution in Japan*

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1. Introduction

As in the historic countries in Europe, the structure of retailing sector in Japan has been characterized in its “smallness”, “complexity”, “excessiveness”, and so on. This traditional structure of Japanese retailing sector, however, has been gradually changing after 1980. In the marketing channel of distribution in Japan, especially in the retail sector, the number of retailers had been increasing from 1950s to the beginning of 1980s consistently. However, it has begun to decease in the beginning of 1980s. One of important issues is the continuous decline of the number of small retailers, which has never been observed after World War II. While small retailers still has been occupying 70% of the total number of retail establishments even in the latest survey data of the census of commerce, their occupation in total sales has been decreasing certainly.

According to the census of commerce, the number of retailers had been decreased from 1,720,000 in 1982 to 1,300,000 in 2002. Among this, the reduction has been remarkable in independent small retailers, which has been contrasted to the growth of chain stores. The annual sales ratio of retailers with over 10 stores to total retail sales has increased from 12.8% in 1972 to 47.5% in 2002. Adding the sales of retailers belonged to voluntary chains and franchise chains, the annual sales proportion of the chain store type retailers has reached to around 60%. According to the survey of Nikkei in 2002, among top 500 retailers, chain stores excluding department stores and cooperatives have occupied 397. The most has been specialty store chain, home center, drug store, apparel supermarkets, and so on. Supermarkets, general merchandising stores and food supermarkets, and convenience stores have followed.

2. Turning Points for Modern Marketing Channel of Distribution

Japanese modern marketing channel of distribution can be back to the beginning of 1960s. The first turning point had come from the demands from manufacturers’ sides. Manufacturers in that time needed the mass distribution system for their products of mass production. Distribution channels had to be arranged in many industries. The markets for these mass-produced products are not existed beforehand naturally. In other words, mass distribution system for mass products meant that the mass markets were needed for the products. Except for manufacturers of foods and groceries, who could use existing traditional retail systems, almost

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manufacturers of new evolutional industries had to built their own retail systems or ask for existing retailers to change their systems. As the result, the exclusive retail system had been adopted in automobile, home electronics, cosmetics, and so on.

The second turning point was the development of supermarkets in foods and groceries. In processed foods, each manufacturer has proceeded to control retailers through organizing wholesalers based on the traditional wholesaling and retailing system. However, the development of retail chains like supermarkets after 1960s has brought the great change of old fashioned marketing channel policy. As the result, the new retailers were the disturbing factors to the traditional channel of distribution. They demanded the direct transaction with manufacturers for seeking to price discounts compared with the transaction through wholesalers. Before 1990s, the relationship between food manufacturers and chain retailers was rather conflicting. After 1990s, however, manufacturers tended to strengthen their ties with major retail chains, because manufacturers could not ignore the definite position of retail chains. By that way, manufacturers not only have secured retail outlets for their products, but also have took up to supply the excluding products and/or the collaborating or private brands for retailers. However, there still have been many small retailers in foods and groceries. These retailers have been remaining to depend on wholesalers. In the distribution channel for foods and groceries, there has been remaining the dual distribution channel. Manufacturers have to adjust the conflicts and stakes in the dual channel system with providing different products and brands for each channel.

3. New Evolutional Channel in New Industries

(1) Home electronics industry

The home electronics industry also has been seeking for new marketing channel of distribution. At that time, there was little technical difference of the product between major oligopoly manufacturers. It meant that the superiority or inferiority between manufacturers hung to their marketing power. Among several marketing policies, the priority was in building vertical marketing system of organized wholesalers and retailers with exclusive dealing. For example, Matsushita organized agent wholesalers to "National Kyoei Kai" (National Prosperity Association), and thereafter established own wholesales company. Other major home electronics company like Hitachi, Toshiba, Mitsubishi, Sharp, and Sanyo followed Matsushita's marketing channel policy. The next step was the maintenance of retail stage. Matsushita aggressively reorganized the previous federation retail shops per product to general federation retail shops that could deal all products of Matsushita. After concentrating these retail shops in same region and selecting superior shops, Matsushita organized "National retail shop association". Among them, Matsushita selected shops of exclusive dealing or quasi exclusive dealing and asked these shops for exclusive dealing in principle in exchange for dealer helps, rebates, and resale price maintenance. This marketing channel in home electronics experienced steady growth from 1960s to 1990s with some disturbances. After the diffusion process of basic home electronics had revolved, sales in retail sector had been decreasing and wholesalers and retail shops had excess inventories. Matsushita had to reorganize its new marketing channel system. It had included the adoption of rigid closed territorial restriction, the rigid selection and rating of retail shops, and the role sharing between sales company/agent, retail shop, and credit company. On the other hand, GMS and retail chains have been developing their position in home electronics channel of distribution after 1970s. While reorganizing regional sales companies and retail shops, home electronics manufacturers has been make tight relationship with large retail chains as their strategic retail outlets hereafter.

(2) Cosmetics industry

The cosmetics industry has been the rapid growth industry after World War II. Its marketing channel of distribution mainly has been divided into the following three types. The first is called "Chain system", where manufacturers distributed their cosmetics to contracted chain retailers through their own sales companies or particular wholesale agents. In this channel, manufacturers adopted the exclusive channel with maintaining the retail resale price and exclusive dealings. The second is called "Generic system", where manufacturers distributed their products to the general retailers through the general wholesalers. It adopted the extensive distribution system and did not maintain the retail resale price strongly. The last third is called "Direct s ystem", where manufacturers directly visited to consumers and sold their cosmetics to them. The main stream in the distribution system of cosmetics has been the first "Chain system", and the famous cosmetics manufacturers like Shiseido and Kanebo are belong to this system. The "Direct system" has been following as the next. Recently, drugstore and convenience store has been recognized as the important retail outlets for the extended product variety. It has brought special new brands of manufacturers and/or retailers one of which is called "convenience cosmetics".

(3) Apparel industry

Apparel industry has been one of the traditional type of marketing channels of distribution. It has been remaining long and complex channel from fibers to final apparel products. In 1970s, the leading character had changed from fiber manufacturers to manufacturing wholesalers. These new leaders had occupied the core position in the industry. The reasons of their developments are the enhanced product development, management of retail risks by consignment stocking or digestive stocking, absorption of consumer information, and the building direct relationships with final consumers by their own brands/labels.

In 1980s, with consumers' more sensitivity with price, retail outlets have been varied from department stores and apparel shops to supermarkets and discount stores. Manufacturing wholesalers developed segmented brands for each marketing channels. The new apparel companies, which are called SPA, also have been developing and taking a large market share in the value price zone.

After 1990, with the entrance of foreign apparel companies to Japanese markets, several apparel companies have been changed. Their strategy is the reduction of inventory and sales opportunity loss with the integration of production and distribution process, the speeding up of production and distribution, and the integrated brand building with planning, production management, retail management, and communication.

4. Marketing Channels of Distribution in Foods and Groceries

(1) Supermarket chains

There have been three bases that contributed to the development of supermarkets after 1960s in Japan. The first base was the emergent of prosperous supermarkets. They were doing good business by joining to the management seminar and exchanging information on their business based on the common aim for catching up and outstripping department stores. The second was the development of retailers adopting new sales technologies from abroad. It resulted in the appearance of new supermarkets with self service system, new shelf space style, cash register, and so on. The third was the organization of chain store system. With self service system, several retail chains have been growing to general food supermarkets and general merchandising stores. At the same time, the development of shopping centers and motorization has promoted the development of specialty store chains. Drugstores, home centers, and specialty store chain of camera and men's wear has been growing as the tenant shop in shopping center and locating beside road side. The specialty chain stores of home electronics, sporting goods, shoes, toys, and so on have since developed in 1980s. In 1960s to 1970s, we could find the two tendencies in supermarkets' development. The one was that large chain stores tended to become general merchandising stores. The other was that medium and small size supermarkets groped for the new Japanese food supermarkets. The latter, in the competition with large general merchandising stores, mainly assorted fresh and daily products adaptive to the buying behavior of Japanese consumers and developed store operation system to provide appropriate fresh products with in-store processing.

(2) Convenience stores

The other in retailing in food sector has been the rapid development of convenience stores after 1970s. At the beginning of the development, convenience stores were introduced as the new type of retailing from U.S.A. After the introduction in Japan, however, the convenience store system has been growing with its own particular characteristics responding to Japanese consumers' needs and their buying behaviors. Along with the adaptive development process, convenience stores have been developing their new markets and consumer needs. Today, convenience stores have their steady position in the retail scene in Japan.

For minimizing inventories in store and the possibility of out of stock, major Japanese convenience store has been wrestling with the high accurate ordering system and the high frequent small lot-size delivery system based on the developed information system, collaborative delivery system, the high density of stores by dominant regional store locations, and the joint development of original products with manufacturers. They could contribute to the high steady growth of Japanese convenience stores.

The development process of Seven Eleven Japan, which differs definitely from seven Eleven in USA, is the fact that Seven Eleven Japan has been developing the system involving its vendors (Kawabe 1994). The first step for developing the system started with the reforming of its distribution and logistics system. It resulted to construct the frequent and small-lot delivery system of multi-items. The introduction of the electronic ordering system, the intensification of relationships with vendors, the collaborated logistic system, and the introduction of the point of sales system were attained in this new system.

The second step was the alliances with manufacturers in merchandise categories of daily foods. Fresh lunch boxes, rice balls, sandwiches, and delicatessen were included in these merchandise categories, which were correspond to the instantaneity of consumption aforementioned. While all of alliances have not been in success, almost alliances have brought the compression of inventories, the reduced loss of sales opportunities, and product developments and assortments in response to consumers' needs, all of which were base on information sharing with manufacturers and suppliers.

It also has reduced two types of risk. The first type is from the excessive holding of inventories. In past, Japanese retailers believed that the more inventories they had, the more sales they could attain. For them, retailers holding small amount of inventories reflected their weak competitive powers and passive strategies. The second type of risk is from the out-of-stock of merchandises. This brings the sales opportunity loss for retailers, and the disappointment and dissatisfaction for customers. For Seven Eleven Japan, the higher accuracy of ordering was thought to bring the reduction of two types of risk and increased customer's satisfaction. In this sense, the convenience store system of Seven Eleven Japan has been a trial to combine the just-in-time assortments for customers and the just-in-time supplies from vendors. This also means the postponement strategy and reduced inventories in the total supply chain and storefront.

Convenience stores have to make a decision, which attains the ideal merchandise assortments in the limited shelf space. It will be easy to be attained in the situation that the production and stocking can be carried out after the settlement of consumers' demands. However, these have to be carried out in advance on the estimation of consumer's shopping behavior. First, this effort has crucial importance for the competitive advantage of convenience store, because of the efficiency that comes from the minimization of inventory and the total logistic system. Secondly, convenience stores are demanded to respond to the instantaneous consumption, which means the short lead-time of consumer needs.

The purchasing and consuming process of consumers can be divided three phases. The first phase is the decision making, which is the stage to determine what the consumer buy. The second phase is the actual purchasing, which is the stage to go shopping trip to get merchandises. The third and last phase is the consuming, which is the stage to consume the purchased merchandises. Each phase may have its inherent time to perform the task. The time for consumers consists of the total time of these three phases. It may vary among merchandises and consumers. The instantaneity of consumption means the case in that the total time for consumers is very short. Convenience stores are corresponding to this instantaneity of consumption. As a result, main good seller items of convenience stores are the merchandises corresponding to the instantaneity of consumption. Convenience stores are aiming for the assortment of merchandises and services, which corresponds to the short cycle of consumer needs. Consumers are very sensitive to the freshness of merchandises, which convenience stores hold as inventories. The ultimate, and probably ideal, goal is to pursuit the synchronization of production, supply, logistics, and purchasing in the storefront.

5. Concluding Remarks

After 1980s, Japanese marketing channel of distribution has been expanding its variety. The new types of retailing still have been coming from abroad. However, any type of retailing has not been able to be in success in Japanese market. For example, Toysrus and Correfour recently have been facing hard fight in Japanese market compared with the beginning of entrance. Among them, the latter's hard fight has been serious, because the main assortments are foods that are sensitive to Japanese consumers' shopping behavior. In the globalization of distribution, the globalization and standardization of consumption and shopping behavior has been pointed out. However, consumption and shopping behavior has its regional and local aspects. Foreign retailers have to be adaptive to local consumers or to change the consumption patterns and shopping behavior of them. This also applies to Japanese retailers that go abroad and enter into the foreign markets. It means that the superior Japanese convenience store system can not work well in other countries with the different consumption patterns and shopping behaviors. This is the destiny of marketing channel of distribution, especially for retailers, that it vacillates between global markets and local markets.

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