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RECENT CHANGES IN JAPANESE DISTRIBUTION

by

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The Distribution Revolution

Recently, the "distribution revolution" has attracted profound interest in many circles and has been under earnest discussion. I would like to make a few observations on that revolution with particular emphasis on Japanese retailing.

First, let us clearly define "distribution revolution". The term has been in popular use only since about 1962 and is not as well understood as are the terms "consumption revolution" or "style of living revolution". The general term is carelessly used to cover implications in all stages of distribution, manufacturer to wholesaler to retailer to consumer. But since the most drastic changes have occurred in the retailing sector, the distribution revolution might be partly used interchangeably with the term "retail revolution". Distribution revolution, then, refers to the drastic or "revolutionary" changes that have been affecting retailing, the final part of the distribution process and that part directly connected to consumers.

Sources of the Distribution Revolution

The source of the distribution revolution affecting traditional marketing channels connecting the manufacturer, wholesaler, retailer, and consumer can be found in the acceleration of technical innovation and automation after World War II. These technical innovations and the increase of automation based on extensive investments in equipment (especially in steel, chemicals, motor vehicles, foods, textiles, and electrical equipments) has naturally resulted in more efficient mass production and, at the same time, a remarkable rise in productivity. However, enterprises now have to depend on continual development of new or improved goods because of intensified competition and shorter product life cycle. This, in turn, causes rapid depreciation and hence full utilization of equipment. To meet such demands, stabilized markets for the manufacturers must be maintained.

In the consumption sector of distribution a series of drastic changes (often called the consumption revolution or the style of living revolution)

has emerged, supported by higher national income. We, therefore, have drastic changes taking place in two key parts of the distribution mechanism, in the production phase and in the consumption phase. But the distribution link connecting the production and consumption phases has not operated smoothly, thus causing a number of problems to arise. In Japan, this distribution link, including the wholesaler and retailer, is still based on the traditional composition of medium-small enterprises with weak financial and organizational characteristics. These traditional distribution links must be greatly altered in order to deal with the mass production and mass consumption of recent years. You say that the distribution pipe must be straight and adequately thick for the smooth flow of products.

The above mentioned transformations in the production and consumption fields (not to mention the important changes in the labor market, with an increased shortage of labor and increased wages) are, of course, nothing but the consequences of rapid growth of the Japanese economy. The resulting demands on the distribution links have caused a number of revolutionary changes in the retailing structure, which can be seen in the spread and expansion of self-service stores, the growth of supermarkets, the development of chain stores and voluntary chains, the birth of discount houses, or SSDDS, and the growth of purchase cooperatives.

Causes of the Retail Revolution: Changes in Economic and Social Characteristics

Let us clarify the factors that have led to the present retail revolution. The factors mentioned below may be direct or indirect but, in any case, have acted to create important changes.

(1) Structural Changes in Production

First, we see the importance of changes in production. The increase in standardized commodities has encouraged the emergence of large scale retail stores. Efforts for mass sales have been made by manufacturers to solve bottlenecks in product distribution. These efforts have included a number of dealer-helps and linkages. Such attempts by manufacturers to influence and control distribution in conjunction with consumer desires for lower priced goods have produced supermarkets, SSDDS, and chain stores. Technical developments in production, such as refrigeration, new food processing techniques in addition to brand promotion and other preselling efforts, have made self-service selling more and more realistic.

A second factor has been the increased smoothness of the movement of goods. The progress of transportation and warehouse facilities has significantly shortened the distance between production and consumption.

(2) *Development of Mass Media*

The development of mass media, particularly television which is of 94.1% degree of prevalence as of 1966, has facilitated quick transmission of information about standardized goods and hence has enabled the producers to come into more intimate contact with consumers.

(3) *Structural Changes in Consumption*

Of particular importance have been the structural changes in consumption, both quantitative and qualitative, caused by the rising level of incomes, the increase of people in the middle income brackets, the concentration of people in urban areas, the growth of group-housing areas, changes in the characteristics of food consumption (like the increased use of processed foods), and signs of a new philosophy of living innovation based on the benefits of increased consumption. One sign of the quantitative change in consumption can be seen in the cost-of-living index; between 1953 and 1961 the index rose an astounding 1800 percentage points.

(4) *Mental Changes in the Consumers*

Formerly the major concern of Japanese consumers was service offered by shops or peddlars. Today this attitude is disappearing owing to the knowledge of goods readily obtainable from advertisements in the mass media. In essence, there has been a slow removal of the personal element (the personal relations between the customer and the shop owner or local peddler) and its replacement with the selfservice system.

(5) *Structural Changes in the Labor Market*

In recent years the labor market has shown a rapid tightening trend due to Japan's fast economic growth. A survey of the "Japan Economist (Nihon Keizai Shinbun)" on jobs filled by new graduates from middle schools showed that, the percentage of middle school graduates employed was only

Table 1
Estimate of Labour Force (15~19 yrs. of age)

	15~19 yrs	all number
1960	11.4%	5,955
1965	10.6%	6,539
1970	8.4%	7,524
1975	6.5%	7,952
1980	5.3%	8,402
1985	5.0%	8,818
1990	5.0%	9,212

(Source: The White Paper on Economy in 1966) unit 1,000

16.7% in 1967 compared to 19.0% in 1966, 30% in 1962 and 44% 1960. Accordingly, the rate of recruits from middle school to jobs was 3.9% in 1967 and 4.8% in 1966. Also, the rising rate of wage for middle school to jobs was 7-10 from 1966 to 1967. We see, then, fewer student graduates of the middle and high schools (15-19 yrs. of age) filling jobs as the years progress; i.e., it has become more and more difficult to recruit middle and high school students to a number of jobs. This shortage of labor has been particularly acute in retail stores where there have been increasing difficulties in obtaining clerks. For this reason, larger scale self-service retail systems have been promoted.

(6) *The advance of Foreign Enterprises*

The necessity for reorganization and rationalization of the traditional Japanese market structure has increased in urgency because of the intensified competition offered by foreign companies coming into Japan. These foreign firms have made rapid inroads in Japanese markets with their large expenditures for advertising and by the introduction of their unique sales systems.

These six factors mentioned above have had an important impact on the economic and social circumstances of retailing in Japan. The resulting distribution revolution has been largely directed at increasing the scale of business and following American patterns. It is interesting, however, to note the unique characteristics found in the retail of scene in Japan resulting from this revolution.

Supermarkets

Symbolic of the distribution reformation has been the mushrooming growth of self-service stores as shown in Table 2, of which the most influen-

Table 2
Growth of Self-Service Stores

	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
No. of Stores	40	139	283	565	1086	1592	2430	3455	4253	5045
Increase	37	99	144	282	521	506	938	1025	798	792

(Source: Japan Self-Service Association.)

tial ones, the supermarkets, have gravely threatened the traditional retailing structure. In Japan, "supermarket" is defined by the Medium-Small Enterprise Bureau and the Japan Self-Service Association as those enterprises which: (1) retail a multiple number of foods, (2) have a self-service system, (3) have yearly sales of more than 100 million yen and daily sales of more than 270,000 yen, and (4) are principal independent enterprises. Table 3-2 illustrates the great rise of supermarkets. An estimate by Nihon Kangyo

Bank showed that the total yearly sales of supermarket (including super-stores to be mentioned below) in 1966 is 600 billion yen, 20% increase compared with that of 1965. It was almost five percent of total retailing sales in Japan. Most of these stores are showing yearly sales increases of 30% to 50% and further progress in the future is expected. The first self-service store was initially opened by the Kinokuniya Company in Tokyo, when it opened a store designed to sell high quality foods mostly to foreigners. Afterwards, supermarkets opened in Kokura (the Maruwa Food Center) and Kurume (the Sogo Store) and other places stimulated the rapid opening of many other supermarkets.

Table 3
New Opening of Supermarket

1956	1957	1958	1959	1960	1961	1962	1963	1964
33	15	40	57	57	120	55	358	772

(Source: Japan Chemical Fiber Association.)

"A sensation of supermarket" in Japan which had begun from about 1960 is going to enter into the second rising stage through the depression of 1964. According to National Cash Register (NCR), the number of supermarkets (including clothing leading stores) increased 102 during only ten months in 1966. The future of supermarkets shows great promise. At the present time, they have characteristics similar to supermarkets seen in the past in America with large scale sales, low margin, cash purchasing, and quick turnover. In the future, they will step out of the patterns of low-price retailing and will emphasize brand goods, attractive stores, and good consumer services. Even now they are beginning to turn to the appeal of confidence in brand names.

The promise of the supermarket field can be seen by the movement of big capital into this area. Ten supermarkets have been founded by department stores, eleven by trading companies, seventeen by transportation companies, and five by food products manufacturing companies.

Super-stores

While the supermarkets in Japan deal mainly in food commodities, the "super-stores" include other goods; drugs, cosmetics, clothing, and even hard goods are retailed by these stores. The line between a super-store and a supermarket is sometimes difficult to draw. The latter, however, may be defined as big scale retailer using the self-service system to sell goods, not more than 50% of which includes foods. Because of their emphasis on non-food items, the super-stores are in competition with existing specialized dealers and hence are confronted with an important source of competition. In actuality, however, their sales of clothing goods have accounted to 70

billion yen, half the amount of department stores. Discount sales of the super-stores have apparently drawn many customers away from their customary shops. As the recent movement of super-stores, we can see many branches which was established by the existing big companies such as Tōkō-Store, Seiyū-Store and Itoh-Yohka Do.

Self-Service Discounts Department Stores—SSDDS

The self-service discount department store is based on low prices, and self-service, and may be characterized as an "ultrasupermarket" dealing in a number of different goods. In other words, it is a discount store, with some characteristics of both the supermarket and the super-store. One characteristic that differentiates it from the supermarket is that it has banded to develop as a multiple shop in urban trade centers. An example is the Shufu-no-Mise Daiei opened in central Kobe in 1957. In this case the sales percentages are foods, 30% and drugs, cosmetics, clothing, and daily sundry goods, 70%. Since its opening in 1957 through the end of 1962, its capital had increased 25.5 times, employees 92 times and shopping space 6 times.

The Chain Stores

Another trend in retailing is the advance of the chain store. As in America, the chain stores in Japan achieve large sales through a cooperative system of purchasing, prices, store style, advertising, sales promotion, and decentralization. In Japan, this type of store has not yet developed greatly, and most chain stores were created by manufacturers for the purposes of expanding and maintaining their markets. Examples are the chain stores of the Shiseido Cosmetic Company, the store of the Hitachi Company (electric appliances) and the Angel Stores of the Morinaga Company (confectionaries).

Chain stores in Japan can be divided into the groups: the regular chains involving many retail stores under a single central controlling company and the voluntary chains composed of a number of independent stores. In Japan, the former type is more numerous and the latter, less often seen due to the lack of capital resources on the part of small retailers. However, some manufacturers are giving management and sales promotion services to retailers and are thus promoting, indirectly, independent store chains.

Interestingly enough, some department stores have promoted independent store chains in Japan. For example, the Marui Company has created a chain of credit sales stores, the Jūjiya Company has created a clothing goods chain, and the Tōkō Company has created a general store chain. Other examples of the independent store chains are the Japan Mode Shoes Chain, Japan Tic-tag Chain and the All-Japan Spectacle Chain.

Wholesalers have also entered into the creation of chain stores. Because

of the increasing trend to eliminate their role on the part of a number of manufacturers, wholesalers have been obliged to lead a counter-attack to assure the health of their own outlets. Food and cosmetic wholesalers have led this movement. One example is the Looky Chain of 5,000 confectionary retail shops organized by 65 wholesalers.

The Future of Supermarkets and the Japanese Style of Life

We can generally conclude that the supermarkets and other forms of self-service stores have recently made great advances into Japanese retailing. However, an estimate by the Ministry of National Trade and Industry sets the number of shops for 1967 at 5,570 with 1,075 billion yen in sales. For 1972 the Ministry estimates that there will be 7,860 shops with sales of 1,790 billion yen.

It seems that Japan is going through the development which America experienced in the 1930's. However, various differences between the two countries must not be overlooked. For example, in the food field, Japan is characterized by an agriculturists with many antique features that would make mass production difficult. Also, automated processing of Japanese foods often destroys the delicate shades of taste to which the Japanese are sensitive. Therefore, the future of supermarket food sales depends, in no small part, on the transformation of the Japanese Style of Living.

Some changes in this way of life have already been indicated. The White Paper on National Living for 1965 listed the following facts suggesting advances and changes in the Japanese style of life: (1) The level of income in Japan has risen along with the high growth of Japanese economy, and wage or income differences based on workers' job, age and their academic careers have been narrowed, (2) The diversification of consumption and its unequal content have been promoted, representing the following two points, i) The movement from basic consumption which is urged to expend for living maintenance to selective consumption which entirely depend on the consumers' disposal. ii) The development of social consumption compared with the private one. (3) The urbanization and the changes in the rural areas have been developed, (4) The differences in consumption among various social and economic classes and between farm and non-farm households have decreased resulting in the levelling of consumption. This last point, "levelling of consumption", is of course most essential from the viewpoint of marketing. The White Paper notes that this levelling has been represented by the decrease of Engel's Coefficient, a decline in the outlay for cereals, and the "Westernization" of living.

The Future of the Retailing Reformation and the Distribution Revolution

The future course of retailing and distribution in Japan might follow these four lines. First, big manufacturers will increasingly tend to promote the organization and connection of retail stores. Second, large scale retail stores will increasingly take the form of supermarkets, super-stores, discount houses, or chain stores with an increased emphasis on self-service. Third, small scale independent retailers will intensify the cooperation, such as voluntary chains, which will enable them to secure the similar benefits as their big scale competitors. Finally, medium-small retailers will continue to survive by the merchandise specialization in those fields where the benefits of large scale operation are minimal, such as retailing of high-class goods and specialities. These retailers will also simulate their large competitors by grouping themselves in shopping streets or shopping areas.

The recent history of Japanese retailing has been a polarization between two sectors, the big scale department stores and the petty stores operated by owner-managers. The most important change of the future will be the decrease in the small stores and the increase in the chains and supermarkets. Therefore, the rationalization of retailing will make precise analyses of the structures of production and distribution of utmost importance.