

# Formation principle of Japanese distribution system

—Characteristic and transfiguration of Japanese distribution system—

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## Summary

Japanese original management system was formed by the following two causes. The first cause is that depends on Japanese peculiar life style and behavior pattern. The second factor is that developed the management system to which the financial combine (zaibatsu) at prewar days had taken the peculiar management culture to the Japanese enterprise. For instance, it is lifetime employment system, seniority-oriented wage system and company union etc. I think that it has been influenced by the life style and the behavior pattern of the community. We understood that the meaning of the climate is geographic condition and the meteorological condition on the region. But the following understanding was shown by the Dr. Watsuji Teturo who researched about the climate. That is, he said that it is necessary to start the research of the climate from the research of the human nature of people who lives in the region. I think that the idea of Dr. Watsuji is correct. In other words, the climate means the human nature of people who live in the region. Therefore, it needs to research the human behavior of inhabitant of the region. Similarly, the research of the management climate needs to research the idea and the behavior of people who work in the enterprise.

Next, I want to explain the difference between the climate and the culture that is a basic theory of this paper. At the first stage, the peculiar life style and the behavior pattern in the community were recognized as a climate. The climate was forgotten at times and thrown away. But the climate kept living by the community at times and was recognized as a culture of the community. I think that a special filter operates by the process that the climate shifts to the culture. I am calling this filter to Penetration Film. The climate is selected through this Penetration Film and recognized as a culture. A similar phenomenon happens in the enterprise. The similar behavior and the idea arise between employees who work at the same company before one is aware. I define the idea and the behavior pattern recognized together by the employee of the enterprise as the management climate. A lot of behavior patterns recognized as a management climate are selected by the Penetration Film and recognized as a management culture of the enterprise. A theoretical background of this thesis is "Management Culture Penetration Film Theory (Filter Theory)" on which I have insisted up to now. Each enterprise has a different management culture. A different management culture changes to similar system and was recognized as Japanese management system. Japanese distribution system established by such enterprises is different from the distribution system of other countries. A purpose of this thesis is to clarify those mechanisms. And moreover, I want to clarify the change in the Japanese distribution system from a lot of materials.

## 1. Formation process of Japanese distribution system

The International business administration academy was held at Shanghai on July in '97.

We were discussing the difference of the management culture of the West and the Orient on convention. I announced the Management Culture Penetration Film theory (Filter theory) on this convention and explained the difference of the management culture of the West and the Orient. I have announced about the hypothesis of principle by four papers till now. I think my theory apply to formation process of the management culture of the East and the West.

Next, I want to think about formation process of the Japanese distribution system. I think that a Japanese staple diet food culture was an important factor to study the distribution system in our country. The Japanese has brought up the culture of the Japanese food. The staple of the Japanese food is a perishable food. It was cooked by using the fresh vegetables and the fresh fish for a long time. We often eat raw fish like "SASIMI" etc. There was no tool to preserve the perishable foods in the old days and we were able to fish in nearby sea or river. It sold at once in the nearby retail store. That is, the place of production and the consumption place should have been in a very short distance. Moreover, the distance of the retail store and the consumer was also short. In other words, a lot of small-scale perishable foods shops were needed. The Japanese market-

place was formed with small scale's many grocery stores. The convenience store and the clothing shop also opened nearby grocery stores. It is because many peoples gather to grocery stores.

Next, the proportion of the food cost for the household expense was high in our country. We are calling the ratio of the food expense to the household expenditure an Engel's coefficient (Table 1). Needless to say, the Engel's coefficient descends when the personal income increases. The Engel's coefficient was 33.1% in 1925 in prewar days. However, it decreased up to 25.1% in 2003 after 80 years. Naturally, the Engel's coefficient decreases if the personal income rises. However, it can be said that the decrease rate is low in the Japan. Therefore, it is understood that the Japan person handles the food cost by priority. We will have to research the increase and decrease of the Engel's coefficient and the relation to the distribution system.

Well, I want to state the feature of the Japanese distribution system and the formation process as follows.

### (1) Detour phenomenon of distribution and formation principle of multistage transaction

The feature of the Japanese distribution system is detour phenomenon of the distribution and existence of a lot of small and medium-sized enterprises. This is already a common opinion of the academic society. The distribution system that buries the distance of production and consumption has caused the detour phenomenon.

**Table 1** Engel's Coefficient

Yen

Year	1925	1982	1984	1986	1988	1990	1992
Living expenditure	1,240,000	3,038,024	3,195,829	3,316,493	3,493,468	3,734,084	4,003,931
Food expenditure	410,000	925,164	948,104	961,632	967,003	1,030,125	1,081,188
Engel's coefficient %	33.1	31.5	30.4	29.5	27.9	28	26.8

Year	1994	1996	1998	2000	2001	2002	2003
Living expenditure	4,006,086	3,946,187	3,938,235	3,805,600	3,704,298	3,673,550	3,631,473
Food expenditure	1,057,066	1,016,331	1,027,293	972,424	943,313	940,040	923,295
Engel's coefficient %	26.3	25.9	26.1	25.7	25.5	25.1	25.2

Source : ANNUAL REPORT ON THE FAMILY INCOME EXPENDITURE SURVEY (2003)  
Statistics Bureau, Ministry of Public Management, Home Affairs, Post Telecommunication.

**Table 2** Transition of W/R ratio

Year	68	70	72	74	76	79	82	85	88	91	94	97	99	2002
Ratio	6.1	5.8	5.8	5.3	4.8	4	4	3.7	3.4	3.5	3.5	3.2	3.2	3.1

Making from The Ministry of International Trade and Industry "Commercial, statistical table" 2003.

The one of the causes of the detour phenomenon of the distribution is that there are many wholesaler enterprises. And the function of Japanese wholesaler is divided into three stages for the difference of the company scale and trade area. For instance, the third wholesaler is usually small-scale and the first stage wholesaler is large-scale. The first stage wholesaler has many branches all over the world and they do export and import. And they have the function of developers. First stage wholesaler is called general trade company (SOGOUSYOUSYA) and each company's sales volume is about 20 trillion yen or less per a year. The field of trade of the Second stage wholesaler is chiefly a retailer in the same prefecture. Needless to say, the sales volume of the Second stage wholesaler is fewer than the First stage wholesaler and their sale is about 200 billion yen a year. The Third stage wholesaler sell commodities to small-scale retail store in cities, towns, and villages.

Let's verify this phenomenon by the Table 2 though Japanese distribution structure is three stages like this. We adopt the W/R ratio (wholesaler retailer ratio) that often verifies the detour phenomenon of the distribution.

Table 2 is W/R ratio of 34 years from 1968 to 2002. The W/R ratio is ratio that divides the sales volume of the wholesaling in the sales volume of the retail trade. The detour phenomenon has progressed when the W/R ratio is high. Japanese W/R ratio was 6.1 in 1968. But its ratio decreased gradually and became 3.1 in 2002 years. It became the half in 34 years. However, the W/R ratio of Japan is still high because the W/R ratio of Europe and America is about 1.7.

I want to think about the cause of such a phenomenon.

First of all, the first factor is caused from the uniqueness of Japanese life style. Japanese eating habits are usually composed of the staple diet food and the sub-food. The staple diet food is called "GO-

HAN" and the sub-food is called "OKAZU" as is generally known. Peoples boiled rice with hot water and ate it as the staple diet food. The Japanese cooked the raw fish and made slices of raw fish (SASHIMI). Moreover, the fish and the vegetable were fried in oil and 'TENPURA' was made. So, it needed a large amount of rice, fresh vegetable and fresh fish. To fill such demand a lot of food retail stores were needed in the vicinity. There are 1.3 million retail stores in Japan though the number of retail stores of the U.K is about 400,000 shops.

The number of retail stores in Japan is 3.5 times of the number of retail stores of the U.K. The population of one store in Japan is 150 people. However, the population of one store in U.K is 92 people. Second, the spread of the car in Japan was about 50 years later than the United States of America. The consumer had to go out to the nearby retail stores to buy commodities on foot because the spread of the car was delayed. A lot of retail store was made of the residential area for such reasons. Thirdly, the population concentrated on narrow plains part. Because, 80 percents of the Japanese territory was mountains zone. There was enough demand though a lot of retail stores were born in a narrow region. Fourthly, a lot of small-scale retail stores constructed the shop around the residential area. As for the sales volume in a small-scale retail store, it was few and the amount of purchase was also small. Such a small-scale retail store was not able to have dealings with a large-scale first stage wholesaler. Fifthly, it can be said that 99% of retailer in our country is a small business. Therefore, a small-scale retail trade cannot have dealings with the first stage wholesaler and the second stage wholesaler. The reason is that the amount of commodities is a small amount.

The third wholesaler readily responded to a small amount of order from a small retail store.

The background with which the Japanese distribu-

tion system was formed was described above. The Japanese distribution system was formed with a Japanese peculiar gastronomic culture, the means of transport and the transaction system, etc. The detour phenomenon of the distribution that was one of the characteristics of the Japanese distribution system was caused from a Japanese life style. In other words, the distribution system in our country was generated from the best mechanism corresponding to the life style of our country.

## **(2) Formation principle of trade practice in Japan**

We can show the trade practice of Japan as characteristics of the second of the distribution system in Japan. A peculiar trade practice in Japan is that the influence of a Japanese spiritual culture is large. I want to think about Japanese spiritual culture and the causal relation with the trade practice as follows.

### ① Trade practice and Groupism

Peoples established the family and the house, the village and the town. Parents did the work allocated from the village and acquired the income. Work gradually became the work of the house though the allotment of work was decided first in proportion to the individual ability.

The income was decided depending on the quality of labor. And the disparity in wealth has extended gradually. The disparity in wealth has changed into the difference of the position. The village functioned as one group. Such a behavior pattern is called Groupism. People evaluated crowd's behavior from the evaluation of the individual behavior. Long-term transaction between the enterprises produced the confidence and it also has changed the mode of dealing.

That is, the long-term continuance dealing was changed to the dealing on credit. For instance, the commodity of large amount of money is ordered by telephone in the company of the Japan. The company that received the order delivers the commodity at once without being puzzled.

However, the price of the commodity will be paid next month. Sales indenture are exchanged without

fail in the dealings between the enterprises in Europe and America.

Professor Tamura's definition of this phenomenon is "quasi-systematic transaction by long-term continuous will" and "maintenance of the trade practice and the fixation". And the professor is describing the meaning of this phenomenon that is "Bargaining skill of harmoniousness transaction" and "Effect of a decrease of the dealings cost".<sup>1)</sup>

I want to describe my idea about this professor's "quasi-systematic transaction by long-term continuous will". The enterprise has a different management culture and the organizational culture takes a different management behavior. However, the same systematic management behavior is taken under a big umbrella (quasi-systematic transaction).

It is exactly thought that "Crowd" behavior. I want to describe my idea about the description of professor who assumes, "It has a long-term intention". I understand that the meaning of the description "It has long-term continuous will" that this professor is describing is an embodiment of the Groupism. "Crowd" is formed in the relation such as relations or lords and vassal such as parents and children and relative over many years and it can be said that confidence and mutual trust allowed continuous transactions.

### ② The territory system and the culture of habitat segregation

"Culture of habitat segregation" can be recognized as one of the Japanese life styles. The research of this phenomenon "habitat segregation" arose from the research of Dr. Imanishi's aquatic animal. A lot of animals are securing its living place. If the companion invades the place to which they live, they attack and clear out the raider. The same kind of animal secures the place to which it lives. In other words, it can be said that the habitat segregation will be done. Such an idea is in a transaction practice in the Japan. The company of the same type of business decides a trade area each other and defends the trade area mutually. In Japan, there is a custom of homogeneous in the single race and living without interfering mutually. Also in the field of the distribution, the wholesaler and the retailer of the manufac-

turer series act in own given trade area. Other districts do not invade though the enterprise occupies own territory. "Habitat segregation" was allowed as a matter of course.

The Japanese enterprise avoids the competition in the crowd and stability is requested because of catching it the fate of the enterprise in the basis of such a behavior. The enterprise defends the territory under the umbrella of the big enterprise even if it violates Antimonopoly Law and a social criticism is received and hopes for stability. It can be said that the territory system which has been approved is one of transaction practices of our country. Also in the field of the distribution, neither the wholesaler nor the retailer of the maker-series sells the commodity exceeding the range which the maker decided. The Japanese company is thinking that this is natural.

### ③ Rebate system (reward to loyalty)

There is a rebate system as the third trade practices of Japan. The background of the rebate system is formed by the loyalty to a Japanese crowd.

It can be said that the rebate system is the system which expects for the head to give amends to the subordinate who contributed to the crowd and to contribute further. For instance, it is a system etc. by which Matsushita Electric Industrial Co., Ltd. pays the affiliated sales outlet the rebate according to sales.

### ④ The psychology of dependency and long-term credit dealings

There is "AMAЕ" in Japan person's mental climate. It is said that it is impossible to translate "AMAЕ" into English. I dare to translate "AMAЕ" saying that "Dependency".

The Dr. Takeshi Doi who was the psychoanalysis medicine was defined for following AMAЕ. AMAЕ is a behavior that expects other party's goodwill in human relations<sup>2)</sup>. That is, it relies on the other party's goodwill and love. Because the Japan person has mutual trust between other parties of the negotiation, it is thought that the other party of the negotiation is not betrayed.

I think that such a spiritual culture is a starting point of the long-term credit dealings. And the psy-

chology of the dependency in the organization that happened for relative consideration with the Groupism made the credit system. There are two methods of the dealing on credit system of our country. The first method is a method of being pay the price of the commodity with which it stocked in one month in cash next month. Another is a method of writing out a promissory note and the payment after several months. Of course, it decides it by both parties of the term of payment described to the promissory note. The adoption of such a method of payment is approved by believing business contacts. Dealings of the enterprise of the Japan are always maintained by "Dependency and Confidence".

### (3) Time details of Japanese distribution system formation

The distribution system in our country has been changed according to the situation of the living of Japanese peoples. The Japanese distribution system changed very much for 50 years that were from 1955 to present. It is possible to divide in about three ages when these 50 years are classified from the side of the change in the economic situation. That is, the first stage is called "High economic growth period" and the period is 20 years from 1955 to 1974. Moreover, the second stage is called "Stable growth period" and the period is 15 years from 1976 to 1980. The third stage is 23 years from 1981 to present. The third stage can classify the first term and latter term further. It will be able to be called the first term is "Age of the bubble economy" and the latter term is called "Age of a bursting of the bubble economy and economic restructuring". The first stage is the age when economy in the state of annihilation by the defeat recovered to the level of prewar days by the special procurement boom of the Korean War of 55 years. The distribution structure to sell those commodities was not developed though industrial production developed rapidly after Korean War. The second age is an age that started the distribution revolution of our country and was completed. Moreover, it grew up as economy was rapid in this age and our country became the economic powers of the second in

the world. The third age is an age that the high economic growth of our country was finished by "oil crisis and dollar shock" and shifted in the age of stable growth. Moreover, the public investment of 500 trillion yen and the deregulation policy had been decided by Japan-U. S. structural negotiation. The land investment has increased in a huge public investment. The price of land soared rapidly and there was a region that had become ten times or more the first price, too.

The central bank financed large amount of capital concerning the real estate investment to the city bank. However, such an economic situation did not continue long.

The central bank began to restrict the financing to the city bank concerning the real estate investment suddenly in March 1990. As a result, the bubble economy collapsed and the price of land fell greatly. And bankruptcy of real estate agent continued. Moreover, the bankruptcy of the bank that had financed it to the real estate agent continued.

An economic transition of our country of postwar days was easily described above. Next, I want to describe the progress of the distribution system of our country of postwar days.

① The activity of the department store was greatly limited by approving the department store law that had been enacted in 1956.

② Birth of supermarket and the rapid growth.

The supermarket where a large amount of commodities are sold by the self-service opened a store in Fukuoka City in around 1950. The Kinokuniya opened a store by Aoyama in Tokyo in 1953. The opening of supermarket in Japan was delayed 20 years than the United States. The supermarket that had opened a store in Kyushu and Tokyo was both small-scale. A real supermarket opened a store in Osaka in 1956. It was the Daiei.

③ Vertical control of distribution by huge manufacturer.

After the war, a huge manufacturer clearly achieved the vertical distribution control. For instance, the Matsushita Electric Company ruled the wholesaler and the retailer. All electric products nec-

essary for the consumer are stored in the National Shop.

It is necessary to produce all commodities for consumer's vertical distribution control by the house brand. A vertical control by the manufacturer is called vertical marketing system (VMS). Davidson and W.R and Doody defines VMS as follows<sup>3)</sup>. The vertical marketing system is "Group of business unit that relates to production or distribution of specific product or products concerned". The vertical distribution control of the manufacturing industry is limited to a usually specific product like the definition of Davidson. In other words, it can be said that the vertical distribution control will become possible in distribution of specific commodities such as cars, home electric products and cameras.

④ Appearance and growth of various business companies

The sales volume of the general trade company of one year is 70 trillion yen. The sales volume of the general trade company accounts for 25% of the sales volume of all wholesalers of the Japan. Needless to say, the main business of the general trade company is the buying and selling with a domestic and foreign enterprise. However, the general trade company developed a large-scale residential quarter after the war and participated in a large-scale overseas development work. And, the general trade company grew up rapidly, and the sales volume of one company average became 20 trillion yen. Moreover, a new store that did not exist in our country in the field in the retail store and the eating house appeared. For instance, it is the convenience store, the drugstore, and the family restaurant, etc.

⑤ Approval and big store restriction of the large-scale retail store law

The big store in the supermarket etc. started the chain expansion in the whole country.

The branch shop of the big store had a large influence on a lot of small and medium retail stores. The protest campaign to the management activities of the big store was done in the whole country. To restrict the management activities of the big store reluctantly, the government made a law (1973). The

large-scale retail store law was continued until 1990. The purpose of this law tries to have protected a small and medium retailer by restricting the management activities of the big store. However, the number of 1.7 million shop retail stores decreased up to till 1.3 million shops 20 years later. Progress of the distribution revolution of our country was delayed though the effect of this law was temporarily steady of the management of a small and medium retailer certainly.

The Ministry of International Trade and Industry did not think a new branch shop of the large-scale retail store to have been controlled by strengthening enforcement and the restriction of the large-scale retail store law. And, the big store had a large influence on the management of the small and medium retail store. The government revised the law in 1978, and changed the floor space limitation from 1,500 m<sup>2</sup> into 500 m<sup>2</sup>. The government divided the standard of the floor space of the large-scale retail store into two. The government called a large-scale store with the area of the store from 500 to 1500 m<sup>2</sup> the second kind large scale retail store. Moreover, a large-scale store with the area of the store of 1,500 m<sup>2</sup> or more was called the first kind large scale retail store. The purpose of this law was to have strengthened the protection of the small and medium retail store. In addition, the restriction of the large-scale retail store was strengthened in a part of cities, towns, and villages. For instance, when the minimum standard of the floor space was assumed to be 300 m<sup>2</sup>, and the retail store constructed a new store exceeding the minimum standard, Sakai City obligated to deliver it to the city office beforehand. The restriction to a large-scale retail store continued for a while. However, the United States strongly demanded deregulation from Japan. The government was not able to refuse the deregulation demand of the inside and outside, and abolished the large-scale retail store law in June, 1998. The government enacted Large-Scale Retail Stores Location Law instead of the large-scale retail store law.

This law aimed at the solution of the environmental issue around a large-scale retail store. The

deregulation policy of the large-scale retail store lasting for 25 years of the government ended, and the age of a new distribution came.

Well, the first problem recorded was an additional explanation concerning a peculiar life style and behavior pattern to the Japanese. The transition of an economic situation of Japan after the war and the change in the distribution system were described in the second eyes.

Next, I think that I want to analyze it of the current state of the change in the Japanese distribution system. Especially, I want to analyze it by using a lot of statistical dates.

## 2. Current analysis of distribution system of our country

The distribution system in Japan has progressed in shape that suits a Japanese life style well. As a result, an original Japanese distribution system was approved. Even if the distribution system is irrational, it has suited a Japanese life environment. The Japanese distribution system was maintained by the mandatory control. However, the United States of America demanded deregulation to the Japanese Government afterwards.

Next, I want to analyze the transition and the current state of the distribution system in the Japan.

### (1) Change in wholesale structure

The producer & retailer influence the wholesaler that is the middleman of the both. When the wholesaler achieves cooperation with the producer, the following two methods are devised. When the buying power of the wholesaler is very large, the wholesaler will rule the producer. The producer makes the wholesaler a series when there are producers oppositely more dominant than wholesalers. In many cases, either of form will be taken. "Crowd" culture can be a system that acts around the length of the crowd as a whole. Either of the producer or the wholesaler similarly takes leadership. The relation between the wholesaler and the retailer is also almost similar. A large-scale retail store rules a small

wholesaler. Moreover, a large-scale wholesaler will rule the retailer oppositely. The general trade company can be enumerated as a wholesaler that takes a peculiar behavior. The general trade company has a large buying power. And, they have dealings with the enterprise in all fields and make other enterprises a series by the huge capital power. Moreover, the general trade company participates in a large-scale development work as a global company. And there are 20 trillion yen or more enterprise in the sales volume. I think the general trade company to be existence different from other wholesalers though one of the wholesalers.

I want to add the study in the structural change in such a wholesaler. Next table is the data made from The Commercial Statistical. (Publisher : The Ministry of Economics, Trade and Industry). The W/R dealing ratio is an index designed as I learn the conformational change of the wholesaler. The W/R ratio is a figure that divides the sales volume of the entire whole wholesaler in the sales volume of the entire retailer. This W/R dealing ratio is a figure into which the total of the retailer is divided by the total of the wholesaler. (Table 3)

W/R dealing ratio is a comparison of corporate

numbers of both though the W/R ratio described with Table 2 is the one that the ratio in the sales volume of the wholesaler and the retailer was shown. The comparison of two ratios was shown with Table 5. It is thought that these two ratios become important indices to know the distribution structure change in Japan though it describes later.

The W/R dealing ratio is an index that shows number of the average dealings enterprises of wholesaler. It was at 1968 that this ratio was the highest and it's ratio was 6.1. In other words, number of the average dealing enterprises of one wholesaler's company was 6.1 companies. This ratio decreased every year after 1968 and it became 3.4 on 2002 fiscal year. That is, it can be said that 3.4 retail stores is dealings with one wholesaler's company on the average now.

The increase's ratio of the wholesaler's sales amount is higher than the wholesaler's increase's ratio. And this fact gives a valuable hint to know a structural change in the wholesaler industry. Next, I examined the ratio of an individual enterprise and the corporation enterprise by thinking whether the difference of the enterprise scale is related as the factor of this phenomenon. (Table 4) The ratio of the

**Table 3** W/R dealing ratio one million Yen

Fiscal year	Number of wholesalers	Amount of sales	Number of retailers	W/R dealings ratio
64	223,849	38,830,071	1,304,536	5.83
66	279,707	52,082,304	1,375,394	4.92
68	234,982	62,816,763	1,432,436	6.10
70	251,790	88,330,893	1,471,297	5.84
72	255,847	106,780,082	1,495,510	5.85
74	289,506	173,113,132	1,548,184	5.35
76	338,169	222,315,445	1,614,067	4.77
79	366,949	274,545,131	1,673,667	4.56
82	426,722	398,536,234	1,721,465	4.03
85	411,498	427,750,891	1,628,644	3.96
88	435,492	446,483,972	1,619,752	3.72
91	474,766	573,164,698	1,591,223	3.35
94	428,668	514,316,863	1,499,948	3.50
97	390,929	479,813,295	1,419,696	3.63
99	425,850	495,452,580	1,406,884	3.30
2002	379,549	413,354,831	1,300,057	3.43

source : Commercial statistical table, The Ministry of International Trade and Industry. 2003.



**Table 4** Transition of wholesaler according to fiscal year %

Fiscal year	Number of individual enterprises	Number of corporation enterprises	Total	Rate of corporation enterprises
64	102,565	126,683	229,248	55.3
66	131,908	155,300	287,208	54.1
68	100,736	138,771	239,507	57.9
70	101,863	154,111	255,974	60.2
72	97,420	161,743	259,163	62.4
74	103,750	188,405	292,155	64.5
76	115,426	224,823	340,249	66.1
79	118,229	250,379	368,608	67.9
82	131,463	297,395	428,858	69.3
85	118,817	294,199	413,016	71.2
88	118,545	317,876	436,421	72.8
91	114,369	361,614	475,983	76.0
94	92,129	337,173	429,302	78.5
97	78,438	313,136	391,574	80.0
99	85,873	339,977	425,850	79.8
2002	72,290	307,259	379,549	81.0

Making from The Ministry of Economics, Trade and Industry 'Commercial Statistical Table' 2003.

individual enterprise decreased up to 20% in 2002 fiscal year as understood from Table 4. However, 45% of the wholesaler of our country in fiscal year 1964 was a private company. But 81% of the wholesaler enterprise in our country became to juridical person enterprise by 2002 fiscal year. Wholesalers of our country of 40 years ago were about 230,000 companies. The number of private companies was about 100,000 companies and 45% of all wholesalers were private companies. The number of wholesalers became to about 380,000 companies in 2002. It was 1.6 times of 40 years ago.

The number of private companies maintained about 100,000 companies from 64 to 91 years without changing too much among those. The number of private companies became to 72,000 companies by decreasing from 94 years to 2002 in the bursting of the bubble economy. 80% of the wholesaler is corporation enterprise now. However, the number of wholesaler enterprise keeps decreasing after the peak of 475,000 companies with every year.

The number of the wholesaler enterprises increased for 40 years. As for the cause, the wholesaler of a new type has increased rapidly though the small and medium wholesaler on which it acted for a long

time in small cities, towns, and villages decreased. The number of the entire wholesalers has increased because there were a lot of numbers of wholesalers of a new type as a result.

## (2) Various factors of decline of small and medium wholesaler

A lot of grocery stores appeared to fill the wants of the Japan person who liked perishable foods as already explained. Grocery stores of large majority were small-scale and managed in the family. In it, it was a small and medium wholesaler of the town that supplied the commodity to such a grocery store. Such a small and medium wholesaler decreases now. That is, the large-scale retail store had a big influence on the management of the small and medium retailer. As a result, the small and medium wholesaler that loses an account has decreased. It seems that the multistage transaction that is one of the features of the distribution system in our country has collapsed under such a situation. Next, to know the reality of the multistage transaction more in detail, I want to examine the change in the number of shops of the small and medium wholesaler and the small and medium retailer. To confirm these, the situation of the

**Table 5** Transition and W/R dealings ratio

year	Number of wholesaler individual enterprises	Number of retail individual enterprises	W/R dealings ratio
64	102,565	1,148,103	11.2
66	131,908	1,200,767	9.1
68	100,736	1,220,507	12.1
70	101,863	1,233,834	12.1
72	97,420	1,229,824	12.6
74	103,750	1,254,261	12.1
76	115,426	1,281,829	11.1
79	118,229	1,292,694	10.9
82	131,463	1,285,643	9.8
85	118,817	1,179,335	9.9
88	118,545	1,116,024	9.4
91	114,369	1,026,581	9.0
94	92,129	918,741	10.0
97	78,438	833,069	10.6
99	85,873	799,483	9.3
2002	72,290	716,158	9.9

Making from Ministry of Economics, Trade and Industry "Commercial statistical table" 2003.

private company was examined. (Table 5)

Table 5 is a table where the number of wholesalers of the private company and the number of retailers of the private company were shown. The W/R dealing ratio is a figure into which the number of retailers is divided by the number of wholesalers. In other words, this table is the one that the dealings situation of the small and medium wholesaler and the small and medium retailer was shown. One million companies or more of small and medium retailers existed between 1964 and 1991 according to the investigation result. However, the small and medium retailer of about 300,000 companies smashed up their business till now. Moreover, the situation of the small and medium wholesaler was also quite similar. Two interesting results were obtained from this analysis. First, the number of wholesalers of the private company and the number of retail stores decreased surely. The decrease rate of both parties is almost the same secondarily. The distribution structure of Japan was clearly proven to be three stages from this analysis result. Moreover, it turned out that the Third stage wholesaler tended to the decline according to the decline of the small and medium retailer.

It is thought that the decline of a small and medium retailer brought the decline cause of the small and medium wholesaler from the analysis result of the above description.

### (3) Changing in quality of detour phenomenon

The decrease in the small and medium wholesaler is done proportion to the decrease of the small and medium retailer and progresses surely. If 716,158 petty retailers (2002) will give up their business in the future, the petty wholesaler becomes 0 in the calculation though it is an extreme inference. As a result, the number of wholesaler becomes about 300,000 companies and the number of retailer becomes 700,000 or less. In this case, the W/R dealings ratio becomes about 2.3 and the one wholesaler company per the retailer 2.3 companies will exist. Next, confirm the situation of such a change by another data.

Table 6 is a display of the difference between W/R ratio and W/R dealing ratio according to the fiscal year. W/R ratio is a ratio of the sales volume of the wholesaler and the sales volume of the retailer. Moreover, W/R dealing ratio is that the ratio of corporate numbers of the wholesaler and retailer was

**Table 6** Transition of W/R ratio and Distribution structure ratio

year	W/R Dealing ratio	W/R ratio	Distribution Structure ratio
68	6.1	3.8	2.3
70	5.8	4.1	1.7
72	5.8	3.8	2.0
74	5.3	4.3	1.0
76	4.8	4.0	0.8
79	4.6	3.7	0.9
82	4.0	4.2	0.2
85	4.0	4.2	0.2
88	3.7	3.9	-0.2
91	3.4	4.1	-0.7
94	3.5	3.6	-0.1
97	3.6	3.2	-0.4
99	3.3	3.4	-0.1
2002	3.4	3.1	0.3

Making from Ministry of Economic, Trade and Industry "Commercial statistical table" each fiscal year. 2003.

shown. I named the difference of these two ratios Distribution Structure ratio (D/S ratio). It is meant that a lot of small and medium wholesalers exist when D/S ratio is high and the dealings daily life is done the small scale. D/S ratio in 1968 was 2.3 and its high index. However, the index decreased gradually and was subtracted in 1988. It is understood that the conformational change of the wholesaler has progressed obviously from this index. I want to examine the content closely a little more in detail. The W/R dealing ratio in 1968 was 6.1. That is, the ratio of the number of retailers and the number of wholesalers is 6.1 vs. 1. This index decreased every year and became 3.4 in 2002 years.

The number of customers (retail store etc.) of the wholesaler was reduced by half. On the other hand, W/R ratio that is the ratio of the sales volumes of both doesn't change too much. This index in 2002 was 3.1 though W/R ratio in 1968 was 3.8. The difference was 0.7. Well, how should be thought about this change. The sales volume of the wholesaler is too changeless though the number of retail stores decreased certainly. The wholesaler increased transactions of small number of large-scale retail stores. And, the competition between the wholesaler enterprises that decrease the number of customers has intensified. Moreover, the wholesaler enterprise aimed

at the expansion of the size of a firm repeating M & A. Needless to say, it is necessary to try the expansion of the function for the wholesaler to maintain the management, and to expand the management. The general trade company that it is made to decline temporarily aimed at the expansion of the function. It participated in a lot of large-scale businesses besides dealings with the alien company for that. It can be guessed that the distribution structure of our country has changed from a decrease of W/R ratio and W/R dealing ratio. That is, it can be said that the detour phenomenon of the distribution is being improved. However, it cannot be said enough yet by the comparison with America and European countries. The small and medium wholesaler declines and the detour phenomenon are being improved. However, W/R ratio is not so improved.

The existence of the general trade company can be given as one of the causes of this contradiction. It was at prewar days that a huge general trade company was born. To support the industry of our country where the resource was a little, the general trade company was made from the financial combine at prewar days. Nine large general trade companies exist in our country now. There are Mitsubishi Corp., Mitsui Co., Ltd., and Sumitomo Corporation as a general trade company established by the financial

**Table 7** Transition of number of producer's goods wholesaler

Distribution stage and marketing channel	85	97
① It has sold it from its company to a stocking industrial user.	353	355
② It has sold it from this its own branch to a stocking industrial user.	16,727	18,670
③ It has sold it from the wholesaler to a stocking industrial user.	44,909	47,440
④ It imports the product from foreign countries and it has sold it to an industrial user.	883	1,328
⑤ It has sold it from the producer to a stocking industrial user.	29,822	37,002
Total	92,694	104,795

Making from The Ministry of Economics, Trade and Industry "Commercial Statistical Table" 1999.

combine in that. The home in six companies of the remainder is the Kansai areas. For instance, Itocyu Co., Ltd., and the Marubeni -Syouji etc. are companies that the merchant in the Omi provinces established. The sales volume of fiscal year 2003 of such a general trade company becomes 71 trillion yen. The general trade company imports the raw material and the commodity from every country in the world and sells a Japanese product. The buying power of the general trade company is powerful. Imported raw material and commodity are sold through a domestic wholesaler. When the general trade company is excluded from the classification of the wholesaler, W/R ratio approaches W/R ratio of Europe and America. The sales volume of nine large general trade companies at the bubble economy was about 140 trillion yen. W/R ratio of Japan will rise if business recovers, and the sales volume of the general trade company increases though a present sales volume is 71 trillion yen and almost a half. W/R ratio is established as the index to explain the detour phenomenon of the distribution and the situation of the multistage transaction. I think that it is suitable and positive to use W/R ratio as an index to explain the distribution structure of Japan. If D/S ratio that I designed is used it will be able to explain the change in the distribution structure of Japan clearly.

Table 7 is the one that it showed the situation of the producer goods wholesaler. The producer goods wholesalers buy the raw material and the products from the foreign countries. And table 7 is data of 85 years and 97 years of the producer goods wholesaler that sells it to the industrial user again. I thought that the comparison of the data of 85 years and 97 years was necessary because I had begun to see the

data of 88 years to know the change in the distribution system. I want to see Table 7 a little more in detail. The wholesaler can be divided into the producer goods wholesaler and the consumer goods wholesaler as is generally known. Our concern is often turned to the consumer goods wholesaler. The sales volume of the entire wholesaler is about 413 trillion yen. Naturally, the sales volume of the producer goods wholesaler is included in this figure. The detour phenomenon and the multistage transaction of the distribution are chiefly examined from the side of the consumer goods distribution. ① and ② of Table 7 are the numbers of companies that sell the in-house product directly to an industrial user. We are calling direct marketing. Such a company is accounting for about 18% of the producer goods wholesaler. ③ is a number of wholesalers that bought commodities from the wholesaler and sold to an industrial user. We are often calling such a wholesaler that is named the Second stage wholesaler. The Second stage wholesaler accounts for 45.3% of all producer goods wholesalers. ⑤ is the wholesaler that bought from the producer and sold to an industrial user. These wholesalers are called the First stage wholesaler and account for 35.3% of the whole. It can be said that the producer goods wholesaler of Japan will be composed of the First stage wholesaler and the Second stage wholesaler as explained above. However, it is a problem that the Second stage wholesalers is more than the First stage wholesalers. The detour phenomenon is not so admitted in the producer goods distribution. However, there are a lot of numbers of small and medium wholesalers.

### 3. The new paradigm of the distribution (research topic and view in the future)

I think that the distribution of our country changed greatly after 1988 as pre-recorded. Especially, the decline of the small and medium retailer was caused. The small and medium wholesaler has decreased as a result, too. Such a change influenced the detour phenomenon.

Up to now a lot of Japanese went shopping on foot. What influence does it give to our life if the nearby small and medium retailer decreases? In many cases, the shopping street and the retail market were around the house. For instance, it decreased in the shopping street of about 500 now though there was a shopping street of 850 in Osaka. And the retail market of 750 became 450. It is not possible to go shopping by walking though the supermarket was built a lot. A lot of elderly persons lost the shopping place while aging society progressed. The decline situation of an individual shop was brought together. (Refer to Table 8.)

All private companies of the distribution level were reduced by half in these 20 years. The purpose of the principle of competition and deregulation was the enhancements of comfortable consumption life. However, a lot of retail stores in the vicinity gave up his business. And the shopping place of the elderly person who was not able to drive the car was lost. How is it thought about this situation when people who executed such a policy become the elderly persons?

The life of the Japanese is built in the climate and the culture of Japan. Japanese eating habits have changed certainly. Enhancing the retort pouch and the frozen food, going shopping every day, and buying perishable foods will decrease. What influence

does the decline of small and medium-sized commerce give to the distribution system?

It can be said that the enhancement of the shopping facilities in the vicinity is necessary to aging society progresses when seeing from consumer's eyes.

The decline of the small and medium commerce decreases the discussion concerning the detour phenomenon and the multistage transaction. The distribution cost is sure to be reduced as a result of the cancellation of the multistage transaction and to fall also prices of merchandise. I think that it certainly brings the reduction in the distribution cost by the expansion of the scale of the wholesale enterprise and the retail enterprise. However, even if the big enterprise obtains heavy profits by rationalizing the distribution the full amount is not reduced to the consumer. A part of the profit that the big enterprise obtained makes the stockholder divide. There is no idea of dividend in the private company. They use it to allot the cost of living the obtained profit and to maintain the store. A decrease in small and medium-sized commerce brought a decrease of the employee who worked by small and medium-sized commerce. The working force of the small and medium wholesaler will decrease by 45% in these 20 years and it has decreased by 30% in a small and medium-sized retailer. The working force of the corporation enterprise increases oppositely, it increases by 4.1% in the wholesaler, and it has increased by 17.4% in the retailer.

It can be said that there is a distribution system in our country like the description in the above on the way of a structural change by the decline of small and medium-sized commerce. The big enterprise had a big influence on the small and medium-sized enterprise. As a result, the working force of the entire commerce has increased though a corporate number and the working force of small and medium-sized commerce decreased.

#### (1) For a new conception of the distribution

It can be said the purpose of the distribution system is to offer the consumer a high-quality, cheap commodity. It is necessary to think about the follow-

**Table 8** Decline of private company

	Rate of change (2002/1982) %
Individual retailer	-44.3
Individual wholesaler	-45.1

Source: Making from Ministry of Economics, Trade and Industry  
"Commercial, Statistical Table" each fiscal year version

ing two phases to achieve the purpose. Food where electronic commerce goes it is forecast that the transaction in which it uses the Internet expands from the enterprise level to the consumer level by popularizing the personal computer and the diversification of the dealings form progresses more and more. The sales volume by electronic dealings through internet is about 160 billion yen. It cannot necessarily be said that it is a lot of because about 1% of the sales volume of the entire retailer. However, it can be said that the bigness and smallness of volume of information concerning the consumer will be deeply related to bigness and smallness in the sales volume. It is possible to control corporate profits as dealings with a consumer increase. Moreover, it can be said that the advancement of electronic dealings through internet is one cause of the decline of the small and medium retail store. It is thought that the home shopping and the home banking increase by the spread of the personal computer. I think consumer's shopping behavior to be divided in two.

I think that the following case where the consumer buys the commodity, especially two methods exists. The one is a so-called home shopping in which it receives intelligence from the television and the computer and it shops at home. Other one is a method of going out to the retail store and shopping. In a present forecast, it is thought that the home shopping becomes 20% of the consumer spending.

## **(2) Transformation of physical distribution**

An international physical distribution system will be greatly changed by the advancement of electronic dealings through internet. I think that "Kuroneko Yamato" completed the courier service. The parcel post of Japan was started by Ministry of Posts and Telecommunications at the Meiji era. At that time, the parcel post was used to deliver the vegetable seed that had been imported from the United States. The package business that receives the restriction of the law has not progressed too much. A private freight company of "Kuroneko Yamato" etc. started the courier service by deregulation. "Kuroneko Yamato" completed networks earliest in these freight

companies. Of course, the acceptance place of a small freight will be likely to be few, and limited to the use of the home delivery service as the postal service in which it uses the post office in local cities, towns, and villages. On the other hand, I can do nothing but say that such service is undermanned as for dealings of the small freight between international. In many cases, it will rely on the postal service and it requires a lot of days. Even if it instantaneously approves the dealings between international by the Internet a lot of problems remain as for the delivery of the ordered commodity. It can be said that it is an insignificant quantitative thing still though it realizes the rise to the menu of the supper on the day by perishable foods' arriving from south east Asia at the airport by service. For example Kansai International Airport is opening 24 hour airport and we can use it in midnight. When it completes the internationalization of the physical distribution as a system, it can say more than now our consumption life becoming abundance.

## **(3) Distribution and environmental problems**

To reduce the store stock as much as possible, the retail store demands the delivery from the wholesaler in a small amount and multi frequency. The consumption of oil by an increase in the delivery frequency and an increase of the automotive emission has a big influence on the environment. The management activities always prioritize efficiency. However, the harmony of the environmental issue and the management strategy will become an important problem of the management in the future. The enterprise that disregards the environmental issue cannot survive.

It explained the distribution problem in the present age and the future. It can be said that there is a Japanese distribution system on the way of a large change now. It can be said that the target of new Japanese distribution system is a harmony with the environment and agreement with aging society. We will have to keep researching the distribution problem by such an aspect in the future.

**Note**

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