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Cooperation Among Competitors: The Japanese Super-Premium Cold Chain

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Cooperation among Competitors: The Japanese Super-Premium Cold Chain

Katsumasa Hayashi and James M. Hagen*

March, 2001

I. Introduction

The efficiency of any supply chain, especially that of a perishable product such as ice cream, is highly dependent on trust between the manufacturer and retailer, so that each can be confident of proper handling of the product, reliability of delivery, and fairness in such matters as cooperative promotion campaigns. How the supply chain is optimally structured (e.g., with or without intermediate wholesalers and whether or not direct store delivery is used) is affected in part by how trust is established and maintained between distribution channel partners. In Japan, a unified system of ice cream distribution has recently evolved, offering apparent efficiencies in the transportation and handling aspects of the supply chain. The purpose of this paper is to describe the structure of that system and to pose questions for further inquiry of how channel partner trust is maintained within this structure.

A better understanding of channel partner trust may contribute to and improve the ongoing evolution of supply chains in an era of consolidation in industry. The issue of inter-firm trust is the subject of a growing body of academic literature (e.g., Hagen and Choe, 1998; Zaheer, McEvily, and Perrone, 1998, and an upcoming special issue of *Organization Science* on the topic of inter-organizational trust). The theme of the 1999 Congress of the International Food and Agribusiness Management Association was “trust” with much concern expressed about the need to better understand trust in order to improve the effectiveness of the food supply chain. We focus the present research on the supply chain of super-premium ice cream. The high costs associated with keeping this product frozen during storage and delivery increases the value of

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streamlining distribution while heightening concern that all parties in the supply chain can trust each other in the proper handling of the products. Two reasons for selecting the super-premium segment of the ice cream market are that it is even less tolerant than other ice cream products of temperature variation, and we can cover nearly the entire Japanese national market by investigating just four brands. Also, while in Japan super-premium ice cream is generally distributed through the same channels as other ice cream products, in the United States, super-premium is usually distributed separately from other ice cream products. Focusing on super-premium ice cream in the present study will facilitate future study comparing distribution in Japan and the United States.

The following section of this paper defines super-premium ice cream and describes the structure of ice cream distribution in Japan. This description draws heavily on interviews of industry executives in Japan in late December, 2000, and early January, 2001, in the retail, wholesale, and manufacturing sectors. This is a working paper, so the findings we report are subject to revision after further interviews planned for March 2001. The third section of this paper proposes implications of this structure with respect to inter-firm trust, and it presents specific questions for further research. An appendix provides a brief description of selected manufacturers, trading companies, wholesalers, and retailers that are central to super-premium ice cream manufacturing, wholesaling, and retailing in Japan.

II. Structure of Super-premium Ice Cream Distribution in Japan

The Super-Premium Segment of the Ice Cream Market in Japan:

In Japan, ice cream is part of the food category known as “Rei-ka”, which we loosely translate as frozen desserts. This category also includes ice snacks, milk sugar ice, and ice milk, and it excludes frozen baked goods. Total trading volume for frozen desserts in Japan was 825,700 kl (¥358,500 million) in 1999¹ down from a high of 967,570 kl (¥429,600 million) in 1994, the hottest summer of that decade. At 6.29 kl per capita per year, Japanese consumption of frozen dessert products is 29% that of the United States.

As a major part of the frozen desserts segment, ice cream can be categorized in Japan as “ordinary” ice cream, which must contain 8% or more milk fat and “premium” ice cream, which must contain 12% or more milk fat (Japan Ice Cream Association, 2000). The term “super-premium ice cream” generally applies to premium ice cream with a fat content of approximately 14% and with over-run (air content) at a relatively low 20-40%. Another characteristic of super-

¹ US\$1.00=¥113.22 (1999), ¥117.47 (2000), and ¥116.41(average of January and February, 2001). Data is the average of total monthly average of foreign exchange rate yen to dollar. Data of monthly average foreign exchange rate yen to U.S. dollar from Bank of Japan.

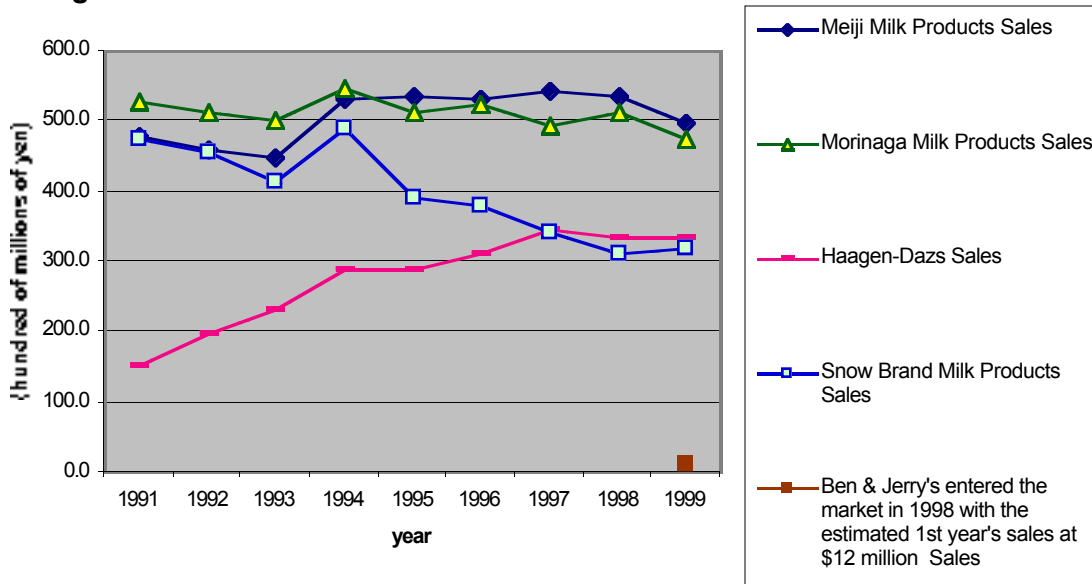
premium ice cream is that it is positioned as a high quality product, sold at a higher price than other ice creams and often in smaller containers. While super-premium ice cream may sell for about ¥250 for a 120 ml cup, the price for standard ice cream in single-serving containers (200ml to 230ml) averages about ¥100 per cup.²

As of March 2001, there are four nationally distributed super-premium ice cream brands in Japan: *Haagen-Dazs* is the market leader with an estimated 80% of the market. The U.S. firm Haagen-Dazs introduced the super-premium category to Japan in 1984 in partnership with Japanese firms Suntory Limited and Takanshi Milk Products Co., Ltd. The *Aya* brand, accounting for approximately 12% of the market, is produced by Meiji Milk Products Co., Ltd. *Fauchon*, with about 6% of the market, is manufactured by Morinaga Milk Industry Co., Ltd., under license from the French gourmet food company, Fauchon. *Ben & Jerry's* brand, with an estimated 3% of the super-premium market is the newest entry, having been introduced by the American Ben & Jerry's Homemade, Inc in 1998 (Hagen, 2000).

Snow Brand Milk Products, Ltd., was the first Japanese entrant in the super-premium category with the brands Vintage and Ravi, but it withdrew from the category in 1998, reportedly due to the small size of the super-premium market (in comparison to the company's other fluid milk and milk products lines) and the difficulty of competing against the dominant Haagen-Dazs. In Figure One, the growth of the super-premium category is evident in the relatively strong increase in sales of Haagen-Dazs (which only makes a super-premium ice cream) relative to the sales (which include ordinary ice cream) of the other companies. Brief profiles of these four manufacturers are provided in the Appendix.

² Samples for those prices and sizes are from each home page on the Internet of Ben and Jerry's Japan Co., Ltd., Haagen-Dazs Japan, Meiji Milk Products Co., Ltd., Snow Brand Milk Products Co., Ltd., and Morinaga Milk Industry Co., Ltd., as of March 3, 2001.

Figure 1. Annual Sales of Ice Cream for Each Manufacturer



Source: Meiji Milk Products Co., Ltd.: 2000 ICE CREAM DATA PACK: Vol.19.

Distribution systems for Japanese ice cream industry:

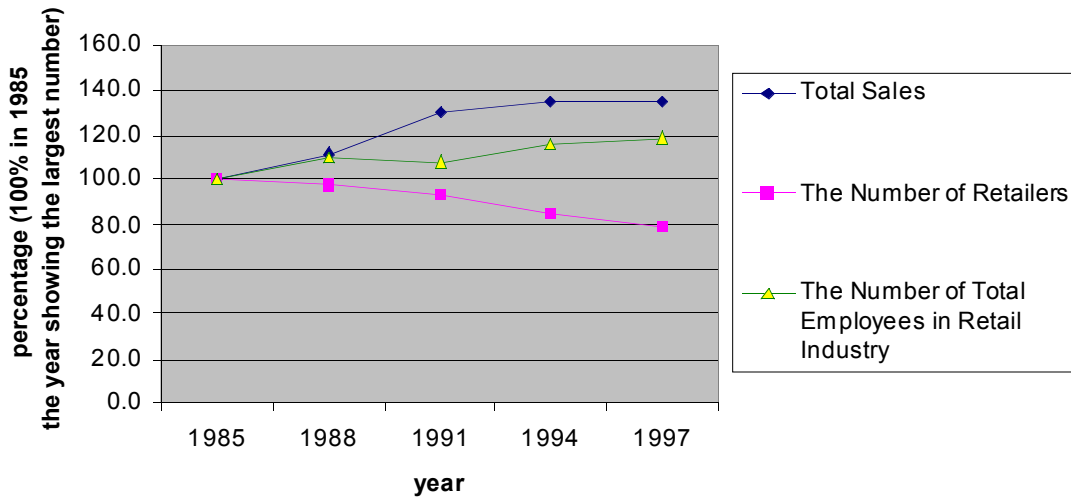
In Japan, there are several dozen frozen dessert manufacturers, As the ice cream industry developed in Japan, each ice cream manufacturer created its own distribution network, which consisted of regional and area wholesalers. Snow Brand Milk Products Co., Ltd., Meiji Milk Products Co., Ltd., Morinaga Milk Industry Co., Ltd., etc., actually owned their own national distribution networks. Under these circumstances, the retailers had to accept several deliveries of ice cream per day, because competing brands would not be shipped together. This was a direct store delivery (DSD) system in which the distributor/drivers would stock the retailers' shelves.

This DSD system was appealing to retailers in that ice cream sales were a very small part of the retailers' sales and profits, and the ice cream shelves were relatively difficult to maintain because of the care needed in partitioning between brands, the need to stock a few number of many varieties, and the actual configuration of the shelves in common use. Delivery by several distributors per day would further complicate the stocking process if the distributors themselves did not do this. The distributors competed vigorously over command of the ice cream category, causing disruption to store customers, and in some cases distributors were reported to have discarded competitor products. Brief profiles of the major distributors of super-premium ice cream are given in the Appendix.

The environment for distribution to retailers changed as the Japanese food industry began to consolidate in a trend that continues worldwide today. Figure 2 shows the trend in sales and the number of retailers and employees in the food retail industry in Japan. While total retail food sales increased from ¥31,818 billion in 1985, to a peak of ¥42,830 billion (35.2%) in 1994, the number of retailers declined 21.6% from 671,190 (1985) to 526,460 (1997). The number of employees increased from 2,350,851 to 2,795,648 (18.9%) during this point.

Over the past fifteen years there has been considerable consolidation in the Japanese food retail sector (Figure 2). As the emerging dominant retailers (e.g. Ito-Yokado, Daiei, and JUSCO) sought greater supply efficiencies, Ito-Yokado, the largest retailer in Japan, initiated “Ichigen-ka Haisou”, a system of "unified distribution” in which access to its stores was restricted to one designated wholesaler for each geographic region for a product category. All ice cream products would have to be distributed by that designated distributor in its region. Other retailers (see Appendix for list of selected retailers) as well as wholesalers and the manufacturers adjusted to this new distribution plan. The four largest nation-wide wholesaling networks in the ice cream industry, Yukijirushi Access Co., Ltd. (Snow Brand group), Meihan group (Meiji Milk Products group), Dairy Foods group and Fujisan Co., Ltd, (both of the Morinaga Milk Products group) became the core of this system. Consequently, ice cream manufacturers would have to distribute their products through their direct competitors’ distribution channels, and there would be need for far fewer distribution companies.

Figure 2. Trend Illustrating consolidation of food retailing in Japan



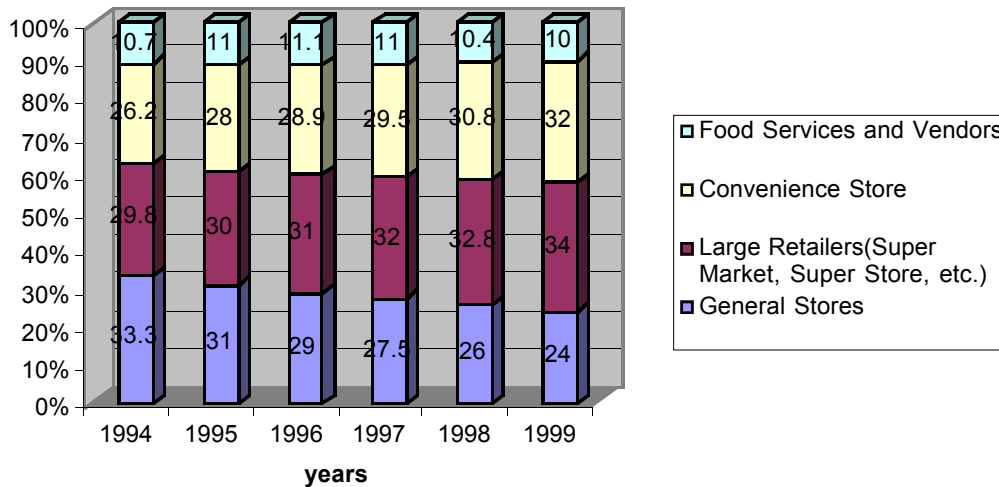
Source: Department of Statistical Information of the Ministry of Agriculture, Forestry, and Fisheries of Japan, 2000. Shokuryou Toukei Heisei 11nendo-ban

Note: Total sales of the retail industry had increased from ¥31,818 billion (1985) to at the peak of ¥42,830 billion (1997) and have moderately decreased to ¥42,830 billion (1997) because of the Japanese economics recession, which started in the beginning of the 1990s and became serious in the mid-1990s.

As consolidation of supermarkets proceeded, many small mom and pop stores sought the protection of joining national chains of convenience stores, including Seven-eleven, LAWSON, and FamilyMart, the three biggest convenience store franchise systems in Japan. The convenience store concept has seen dramatic growth in recent years in Japan, with convenience stores taking a larger share of retail food expenditures. (Figure 3) With the convenience store

format, many stores sell relatively small quantities of each item each day, and they accordingly have their own distribution system, using smaller trucks and picking systems for partial cases. To serve the supermarket and convenience store formats, different types of unified distribution systems emerged: one for supermarkets (including super stores), and one for convenience store chains.

Figure 3. Percentage of Frozen Desert Annual Sales by Store Format



Source: Data from Meiji Milk Products Co., Ltd.: 2000 ICE CREAM DATA PACK: Vol. 19.

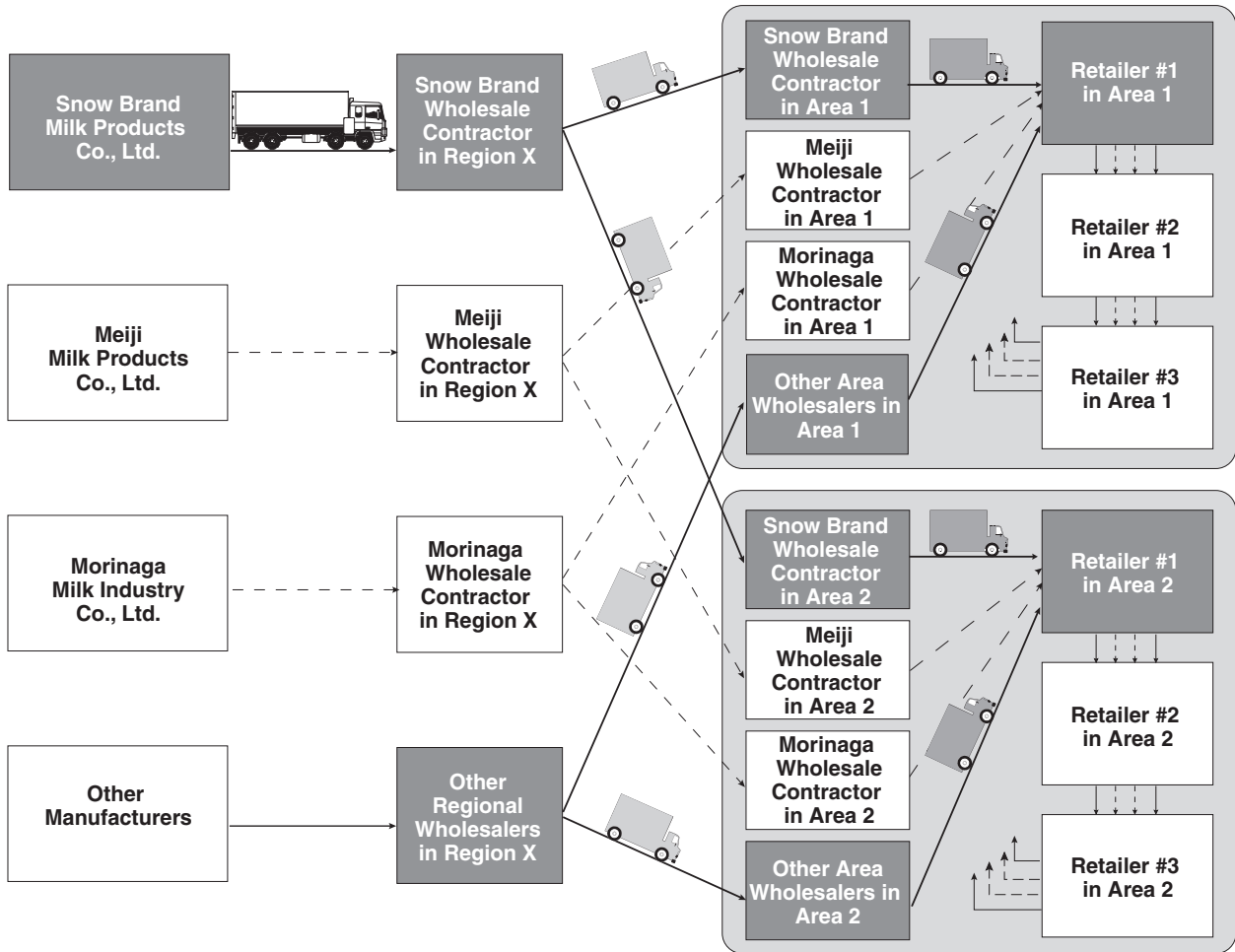
Manufacturer-Wholesaler-Retailer Supply chains for ice cream in Japan:

In the previous section we were introduced to three systems of ice cream distribution: the traditional system, a unified system for supermarkets, and a unified system for convenience stores. All three systems are currently in use, and we explain them in greater detail in this section.

In the traditional distribution system (Figure 4), each manufacturer selects one wholesaler (usually a small regional firm) to handle its products (and only its products) in each region of trade. Consequently, each retailer receives a separate delivery from each manufacturer.

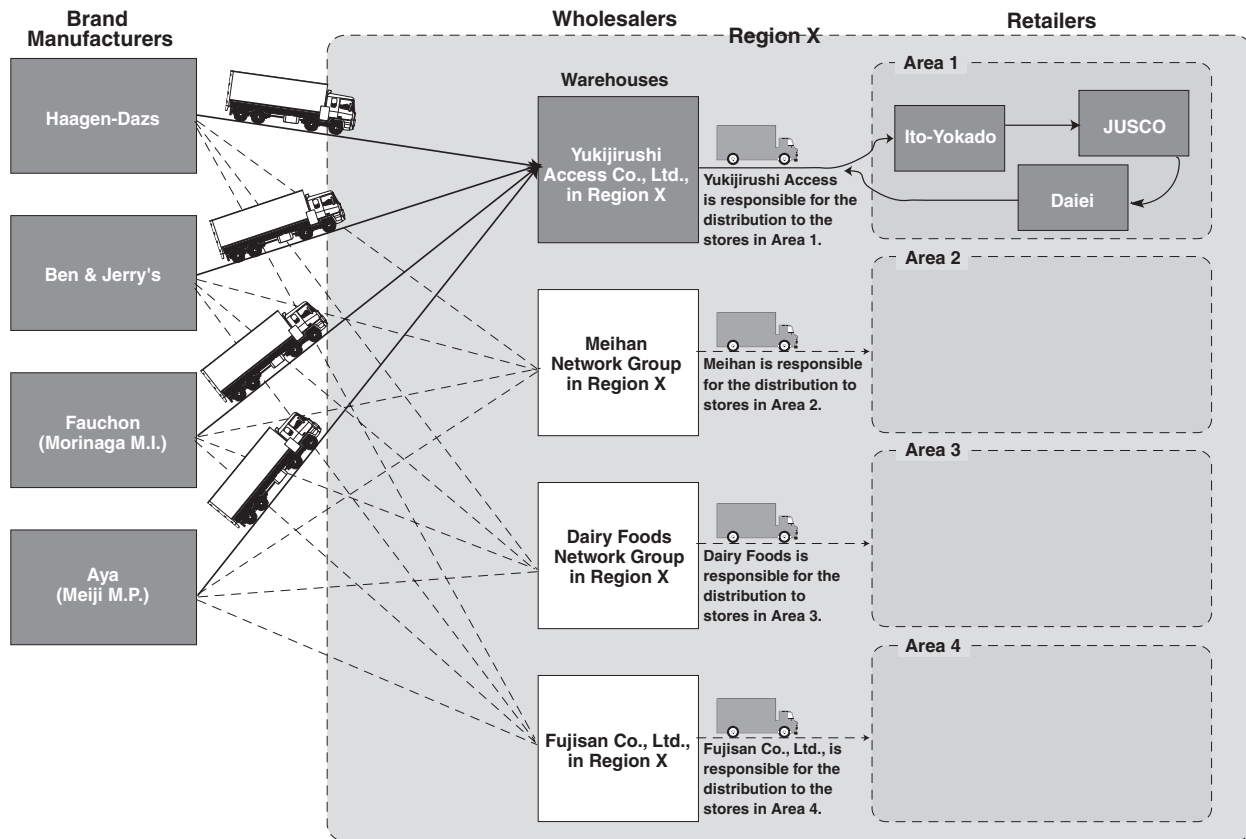
For the large chain retailers, this traditional distribution system is very seldom in use, however the system continues to be in use with respect to small mom and pop stores and any remaining independent retailers. The total sales of small independent mom and pop stores is estimated at about 12% of the total sales of ice cream at the retail level. (Department of Statistical Information of the Ministry of Agriculture, Forestry and Fisheries of Japan. Shokuhin Toukei Heisei 11 nendo-ban, 2000)

Figure 4. Traditional Distribution System for Ice Cream



In the case of the unified system for supermarkets (Figure 5), wholesalers have been given specific areas by the retailer. For example, regional wholesaler A is responsible for delivery to all retail stores in Area 1 in Region X. All ice cream products to be sold in Area 1 are delivered to the warehouse of Wholesaler A by each manufacturer. In same case, wholesalers go to the manufacturers' warehouses to pick up the product being compensated with a discount from the normal product cost, which includes the transportation cost from manufacturers' warehouses to wholesalers' warehouses. Then wholesaler A distributes all the brands according to orders from each store. This model was developed and established by Ito-Yokado in order to cut the number of times per day that distributors brought products of their groups into Ito-Yokado stores.

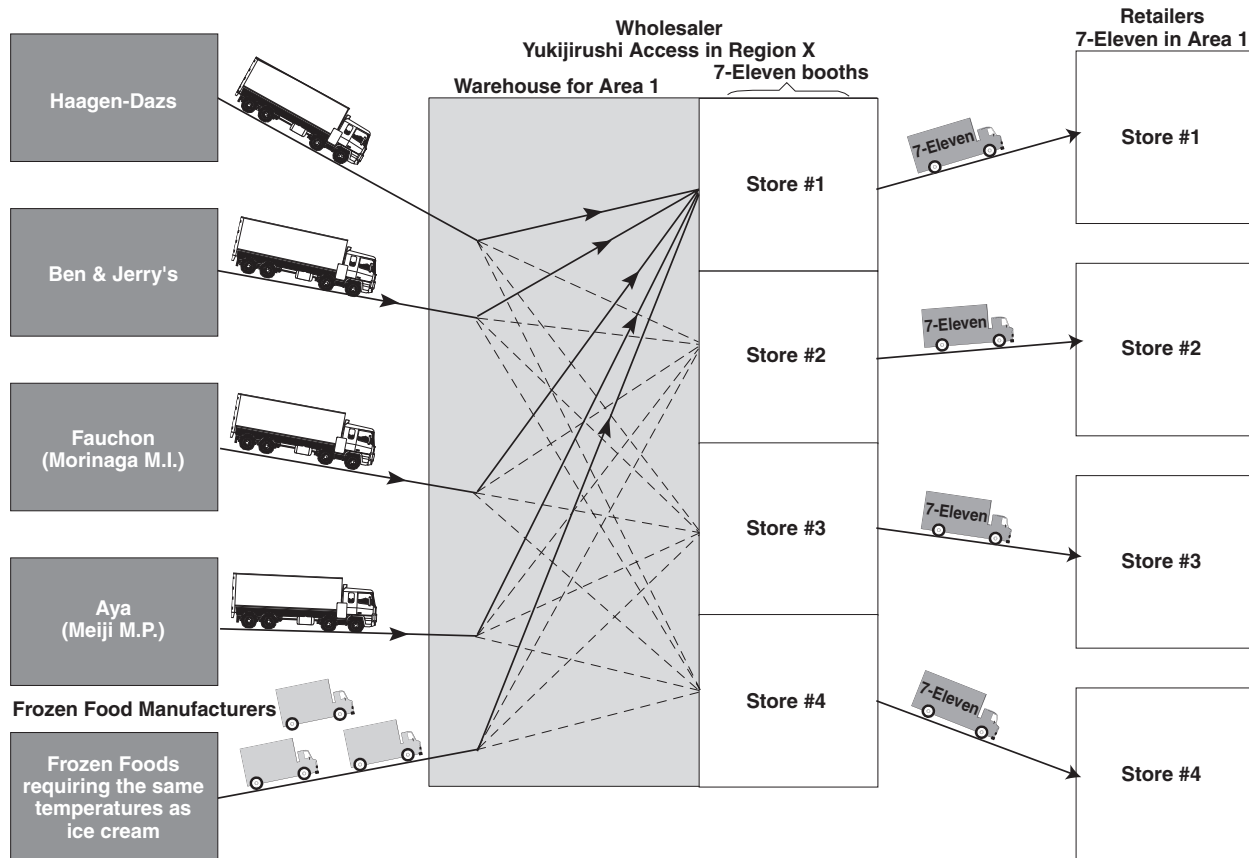
Figure 5. Unified System of Ice Cream Distribution for Supermarkets (including Superstores)



Finally, in the case of the unified system for convenience store chains (Figure 6), wholesalers have been given their specific distribution areas in Region X by convenience franchise chains. For example, wholesaler A in Region X is responsible for all the convenience stores of one chain in Area 1 in Region X. Therefore, wholesaler A maintains separate booths within its warehouse for each store. Ice cream products and other frozen foods to be sold in the Area 1 are delivered to the warehouse of wholesaler A in Region X by each manufacturer. Wholesaler A divides up the products for the booths of all stores of the franchise convenience chain in Area 1 in the warehouse. (In this point, products are already packed in particular way by manufacturers to wholesalers sorting. Trucks chartered by the convenience franchise chain deliver all the ice cream products, together with those other frozen products, to each store.

This last distribution model was developed and established by Seven-eleven Japan, Co., Ltd., (the parent company of which is Ito-Yokado Co., Ltd.), to reduce the number of trucks bringing products to their stores each day. Seven-eleven Japan, Co., Ltd., has reduced the number of trucks per store per day from 70 (1974) to 7 (1999).

Figure 6. Unified System of Ice Cream Distribution for Convenience Store



While the above models apply to the broad category of ice cream distribution in Japan, there appears to be slight variation in the case of the super-premium part of the category. Super-premium products are distributed through the two unified distribution systems, but seldom through the traditional model. Apparently the four main wholesaler networks serving the unified systems are generally not available for the mom and pop stores, which must then rely on smaller independent wholesalers for supply by way of the traditional model. An industry informant suggested that the manufacturers lack confidence in those independents to properly handle super-premium products, which are more sensitive to handling abuse than are other ice cream products.

Of the four unified super-premium distributors, all but Yukijurishi Access belong to business families that also produce super-premium ice cream. Similarly, all four of the super-premium brands are manufactured by companies affiliated with one of the major wholesale operators except for Ben & Jerry's. Thus there is considerable shipping of product by competitor-affiliated wholesalers. Accordingly the efficiency gains that result from the unified system depend on each manufacturer trusting that its competitor-wholesaler will treat its products properly, display them appropriately, and handle issues such as damaged goods and other discrepancies fairly. In most cases the unified wholesalers continue to stock the

supermarket shelves as opposed to shipping the product to the retailer's dock. Questions remain of how that trust is maintained between the manufacturer and the wholesaler, an issue we address in the next section.

III. Implications and Directions for Further Study

The unified distribution system for supermarkets appears to offer significant advantages for retailers by reducing disruption in the stores and at their loading docks. Manufacturers could also be expected to benefit, in that the inefficiencies of each manufacturer, through its exclusive distributor, rearranging retail shelves to its advantage and its competitor's disadvantage should be eliminated. There is also benefit to the community in that there are fewer trucks on the already congested roads. The fact that the main wholesalers are affiliated by ownership with the lead manufacturers, however, raises the question of what mechanisms prevent wholesalers from favoring their group's product over a competitor's product. In other words, how are the parties able to achieve cooperation given the conflict of interest? This will be the subject of the second phase of this study as we visit facilities and interview industry executives in Japan. To guide this inquiry, we consider how we would expect trust to be facilitated in a general sense, and ask if that is occurring in Japan. This may unveil other mechanisms used in Japan that could be considered in other industries and countries. We consider four categories of trust inducing mechanisms that may or may not be operative in Japan.

Reciprocity:

In the unified system where, for example, manufacturer "A" must rely on competitor/partner "B" who in turn must rely on its competitor/partner "C", a wholesaler has incentive to not favor its own products over those of its competitors, because its competitor could easily retaliate. This type of reciprocal dependence has been observed in many industries and is frequently described as an "exchange of hostages." Does the reciprocal nature of relationships between manufacturers and wholesalers in the Japanese unified system of distribution facilitate a stable cooperative relationship between the parties? Companies (such as Ben and Jerry's and Haagen-Dazs) that rely on distribution from competitors, but do not themselves provide distribution, would be expected to need other mechanisms to assure their fair treatment. That Haagen-Dazs Japan is owned in part (40%) by a very strong Japanese beverage firm, Suntory, may be such a mechanism. In effect there may be opportunities for Suntory to apply indirect leverage toward the wholesalers, in a manner of indirect reciprocity.

Alternatively, there may be pressure for independent manufacturers to affiliate with one of the large manufacturer/wholesaler groups. Long-term viability of a brand requires the introduction of new products and flexible distribution capacity for promotions, both requiring facilitation from the distributor. Independents may be at an inherent disadvantage in this respect.

Third Party Strength:

Throughout much of the world, there has been a shift in power from the manufacturing sector to the retail sector (from the production end of the supply chain to the consumption end). The major retailers may thus be able to exert discipline on wholesalers to enforce that the deliveries and service they provide to manufacturers not be prejudicial toward competitors. To what extent is this a contributing factor in Japanese ice cream distribution? As self-distribution becomes more common in the consolidating retail sector, the wholesale function is being eliminated in many cases or is becoming increasingly under the control of the retailers. Is there reason to expect that the ice cream wholesalers in Japan will become exclusive with respect to serving only one family of retailers?

Effective Monitoring Methods:

Scoring and penalty mechanisms can be used to monitor and enforce agreements in cases with potential conflicts of interest. One informed source explained that manufacturing firms have sales and promotion staff that also fill a monitoring function to assure that their products are handling appropriately. Insistence on ISO 9000 or other third party certification programs could also give manufactures confidence of wholesalers and vice versa.

De-integration of Manufacturing and Wholesaling.

If mechanisms are lacking to prevent the alleviation of concern about potential conflicts of interest between manufacturers and wholesalers, a solution may be to de-integrate the functions. That is the wholesalers could become independent entities. Press accounts have already suggested that Snow Brand Milk Products is considering the conversion of Yukijirushi Access into a separate, publicly traded corporation. This would be an example of reducing the impression of conflict of interest, even if that is not the motivation for the conversion.

Conclusion:

The unified system of ice cream distribution in Japan has demonstrated apparent effectiveness in an era characterized by industry consolidation and demands for greater efficiency. By analyzing how the system evolved and how it accommodates the need for trust between channel partners is of interest as industries around the world seek out solutions to their supply chain challenges. We have described our understanding of the basic structure of this ice cream supply chain, focusing especially on super-premium ice cream. We have also raised questions about how this system has successfully addressed the conflicts of interest that would seem to be

inherent to the system, and we have identified possible directions for further evolution of such a system when the apparent conflicts cannot be allayed.

This paper is a working paper that prepares us for a second phase of study, which includes further interviews of industry experts and observation of distribution operations in Japan. The goal of this second phase is clarify or revise, as necessary, our understandings expressed in this paper and to more clearly identify the mechanisms used for trust creation in the supply chain.

Appendix

Select Manufacturers, Wholesalers and Retailers and Trading Companies*

Manufacturer:

The four brands below are regarded as direct competitors in the super-premium ice cream category in Japan

Haagen-Dazs:

This is the brand of Haagen-Dazs Japan, Co., Ltd., which is a joint venture between Pillsbury (50%), Suntory (40%), and Takanashi Milk Industry (10%). Introduced into Japan in 1984, it has expanded its market share in the premium ice cream category and vigorously increased its sales to ¥34.5 billion by 1997. Its estimated total sales in 1999 were ¥33.4 billion. Its products are both imported and domestically manufactured.

Ben & Jerry's:

This is the brand of Ben & Jerry's Japan, which imports its product from the U.S. It was introduced into Japan in 1998 by Ben & Jerry's Homemade, Inc. of the U.S. Its total sales in year 2000 was estimated at more than ¥1,409 million. Ben & Jerry's subcontracts warehousing to Itochu Warehouse.

Fauchon:

The product is licensed by Fauchon (Paris, France), and manufactured by Morinaga Milk Industry, Co., Ltd. Morinaga Milk Industry is Japan's third largest dairy company and its second largest ice cream company.

Aya:

This brand was created and is produced in Japan by Meiji Milk Products Co., Ltd., the ice cream manufacturer with the largest market share in Japan. Meiji Milk Products introduced

* The information in this appendix comes from the following resources listed in the reference section, which are: Asano, 1999 and 2000; Kouno, 2000; Nikkei Goo, 2001, and website of the listed companies as of February 2001. Sougou: Business Search: Kigyuu Perfect Guide.

Aya to the Japanese premium ice cream market in 1990. Its sales peaked at ¥5 billion in 1994, and its sales in 1999 were an estimated ¥3 billion. According to Meiji Milk Products Co., Ltd., Aya's share in the super-premium ice cream market is estimated at 12%. (Takashi Hiromatsu, Tsuneaki Saitou, and Takahiro Hosoda, Nikkei Business, 2000) Meiji Milk Products is the second largest in the Japanese dairy industry and the top selling company among all ice cream manufacturers in Japan.

Note: Snow Brand Milk Products Co., Ltd. has been the largest dairy company in Japan. Although this company used to produce its own premium ice cream brands, "Ravi" and "Vintage", by 1998, it quit producing them. It holds 89.01% of stock of Snow Brand Access.

Wholesalers:

These intermediaries formerly had a powerful role in both the distribution and financial aspects of food distribution channels. As the food retailing industry has consolidated, this power has greatly diminished. In the past the wholesale sector had relatively greater strength over the manufacturing and retailing sectors, and now the sector is often regarded as the weakest of these three sectors.

Fujisan Co., Ltd.:

This is the oldest independent ice cream wholesaler in Japan. Its sales are at the top of the ice cream distribution industry (¥58 billion in 1999). Its headquarters are located in Kyoto, and it has had strong distribution and sales in the western region of Japan. The company's chairman and Morinaga Milk Industry, Co., Ltd., are the major stockholders, with 26% and 20% ownership respectively. Currently, Itochu Co., Ltd. and Itochu Soko Co., Ltd. also participate as shareholders with 13.6% and 8.3% ownership. The company was established in 1953. Its capital is ¥600 million. The number of employees as of 1999 was 1,291.

Yukijirushi Access Co., Ltd.:

This company is the result of the 1993 merger of five wholesalers for Snow Brand Milk Products. Its sales are the second largest in the Japanese wholesale food industry. (Kokubu & Co., Ltd. is the largest food and beverage wholesaler in Japan.) Yukijirushi Access has two hundred distribution centers throughout the country, and most of these are able to handle frozen products. It serves as Ito-Yokado's chilled distribution center in Tokyo and Kanagawa.

The major stockholders of Yukijirushi Access are Snow Brand Milk Products (89.01%), Yukijirushi Access Employees stockholding organization (5.18%), Asahi Denka Kougyo K.K. A decreasing percentage of its sales rely on its parent, Snow Brand Milk Products. As of 1999, its capital was ¥2.62 billion, the number of employees was 3,066, and total sales were ¥739 billion, including an estimated ¥39.4 billion for ice cream and an estimated ¥80.5 billion for other frozen food sales. Up until 1998, Snow Brand Milk Products manufactured the super-premium ice cream brands: "Vintage" and "Ravi."

Meihan (Network Group):

This distribution network group consists of wholesalers of Meiji Milk Products Co., Ltd. This network group consists of at least 7 regional independent wholesalers. Another member is Tokyo Meihan, which has branches in the Tokyo area and manages distribution centers for convenience franchise store chains and supermarkets. The stock of these independent companies is totally or largely held by Meiji Milk products. The network serves the entire country. The total sales of the independent regional wholesalers are estimated at ¥40.3 billion, and the total number of employees is estimated at 885. The total sales of the network group including Tokyo Meihan and the others are estimated to be close to or in excess of those of Dairy Foods Network Group.

Dairy Foods (Network Group):

This distribution network group consists of at least 9 regional wholesalers, each of which has Morinaga Milk Industry as a major shareholder. The network covers the entire country. The total group annual sales are estimated at ¥79.0 billion.

RETAILERS:

In recent years, the retail food sector has undergone considerable consolidation. For the convenience store sector, in particular, the consolidated companies have often called on trading companies to build exclusive distribution centers to be run by a third party wholesaler.

SUPERMARKETS AND SUPER STORES:

Ito-Yokado Co., Ltd.:

This is the leading company in the Japanese retail industry. It has 178 super stores in Japan. It is the parent company of Seven-eleven Japan Co., Ltd., which is a franchise convenience chain of about 8,000 stores. This is one of the most profitable companies in the

Japanese supermarket-industry. This is the company that led the unified distribution systems for ice cream. Its capital is ¥46.7 billion; the number of employees is 16,514. Its total annual sales were ¥3,224 billion, and its annual ordinary profit was ¥170 billion in year 2000.

The Daiei, Inc.:

This company has been one of the leading Japanese food retailers, but it is currently undergoing reorganization. The head of Daiei group is parent to Lawson Inc., the second largest convenience store chain in Japan. Its capital is ¥52 billion; the number of employees is 13,776. Its total annual sales were ¥2,847 billion, and its annual ordinary profit was -¥33.2 billion in year 2000.

JUSCO Co., Ltd.:

This is the core company of Aeon group, which is a consolidated retailers group. Although its sales are the third among these three supermarket and/or superstore retailers, its sale floor is the largest in the Japanese retail industry. Ministop Co., Ltd., a convenience franchise chain company, whose sales is the sixth in the convenience store format category, belongs to Aeon group. JUSCO's capital is ¥44.1 billion; the number of employees is 17,288. Its total annual sales were ¥ 2,522 billion, and its annual ordinary profit was ¥ 64.7 billion in year 2000.

CONVENIENCE STORES:

Seven-eleven Japan Co., Ltd.:

This company has the greatest sales of all the convenience store chains in Japan. Seven-eleven Japan, Co., Ltd. had 8,602 stores by the end of February 2001. It belongs to the Ito-Yokado group. Its capital is ¥17.2 billion; the number of employees is 3,663. Its total annual sales were ¥337.3 billion and its annual ordinary profit was ¥141.7 billion in year 2000.

Lawson, Inc.

This company is the second largest franchise convenience store chain in Japan. It has 7,378 stores (end of February 2001). Although it belongs to The Daiei group, currently 28% of its stock is owned by Mitsubishi Corp., which is a core business-trading group in the Mitsubishi group and which is now the top shareholder of Lawson Inc. Its capital is ¥58.5 billion; the number of employees is 4,067. Its total annual sales were ¥291.8billion, and its annual ordinary profit was ¥37.6 billion in year 2000.

FamilyMart Co., Ltd.

This company used to belong to SAISON group, but it was sold to Itochu group. It is the third largest franchised convenience chain in Japan. Its capital is ¥16.7 billion; the number of employee is 1,924. Its total annual sales were ¥147.3 billion, and its annual ordinary profit was ¥29.5 billion in year 2000.

Ministop Co., Ltd.

This company belongs to the AEON group whose core company is JUSCO Co., Ltd. The chain's stores are known for their fast food offerings. The number of stores was 1,270 by the end of 1999. Its capital is ¥7.5 billion; the number of employee is 572. Its total annual sales were ¥49.3 billion, and its annual ordinary profit was ¥8.4 billion in year 2000.

BUSINESS TRADERS:

Business traders (Shousha) play a financial role in Japanese food distribution. play an important role in the consolidation of wholesalers as well as the expansion of convenience franchise chains. Business traders have invested in distribution centers for large retailers as well as for convenience franchise chain.

Itochu Corp.:

This company is the core company of the Itochu group, to which FamilyMart Co., Ltd. belongs. It is regarded as the leading company of e-business. Its capital is ¥175 billion; the number of employee is 7,454. Its total annual sales were ¥12,144 billion, and its annual ordinary profit was ¥52.6 billion in year 2000.

Mitsui & Co., Ltd.:

This is the core company of the Mitsui group. Its capital is ¥192,487 million, and the number of employee is 10,545. Its total annual sales were ¥13,201 billion, and its annual ordinary profit was ¥52.6 billion in year 2000. It established 7dream.com with Seven-eleven Japan Co., Ltd., Sony Corp., NEC Corp., Nomura Research Institute Ltd., and others. 7dream.com is an e-trading company and a virtual retail shop on the Internet. Through this virtual retail shop,

customers can order more than 100,000 products and services. They can receive products either at the Seven-eleven stores near their homes without shipping fee or at home by ordinary delivery system. Mitsui Bussan also practices B2B e-trading of materials such as iron with Mitsubishi Corp.

Mitsubishi Corp.:

This is the core company of the Mitsubishi group. Its capital is ¥126,609 million and the number of employee is 9,115. Mitsui & Co. Ltd. is the rival company. Its total annual sales were ¥13,109 billion, and its annual ordinary profit was ¥118 billion in year 2000. This company recently became a top shareholder of Lawson Inc.

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