Changes in the Food Distribution Network in Tokyo, Japan

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The Japanese food distribution network is more complex than other developed nations. This not only makes retail food prices more expensive but can make market entry for foreign companies difficult. In part demographic, cultural, economic, and institutional factors have lead to the development of the existing system, and are playing a role in its change. U.S. businesses are not passive in the outcome of the future system. Japan relies heavily on food imports yet demands a high quality and stable source of supplies. Businesses that meet that demand will be an effective part of the future distribution system.

Existing Distribution Characteristics

A visiting lectureship at Temple University, Japan, allowed for a recent two month stay in Tokyo. During the visit I interviewed U.S. Foreign Agricultural Service personnel, private consultants, food distribution executives, and Japanese academicians about the Tokyo food distribution system. Strong agreement existed that the food distribution network in Japan is undergoing rapid transitions. How this will influence U.S. exports is less clear and depends in part on the response of U.S. food exporters.

Generally, the existing distribution network is more complex compared to other developed nations (Nariu and Flath, 1993). Demographic characteristics partly determine the existing system. Approximately 35 million people live within a 15 mile radius of central Tokyo (14,000 people per square mile, Asahi Shimbun, 1995). The population density when combined with the small amount of arable land require the importing of seven of every 10 days worth of food consumed (Nakamura, 1995). Also, each day roughly 24 million people commute two hours on Tokyo trains (Shuji, 1987). This, plus a small housing space ($25m^2$ per person, pg. 128 Woronoff, 1992), limits food storage at home tending to make Tokyo shoppers purchase daily and hand carry their food home -- considerations that have historically made packaging in small lots important. Being tied to the housing and transportation infrastructure these features are also slow to change.

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Forces of Change

Outweighing forces that act to preserve the characteristics of the present distribution system are three factors pressing change: macro-economic conditions, changes in consumer attitudes, and deregulation (U.S. Agricultural Trade Office, 1995). Since 1990 the typically buoyant Japanese economy has endured persistent hard times. Although macro-economic pressures affect consumer attitudes, more directly a generation is now maturing that expects more convenience and leisure related commodities. Other changes in consumer preferences linked to demographics are an increase in single member households, an aging population, and more working women (Market Makers Inc., 1994). Last, there have been legal revisions allowing retailers greater opportunities (Hajime, 1994; Kazuo 1994).

What will the future distribution system be? In an effort to assess that question it is useful to examine what is happening to the forces driving change in the distribution system. At the macro-economic level the economy of Japan continues to wrestle with a prolonged recession. A broad range of economic indicators show no relief in the immediate future (Japan Times Weekly International Edition. Oct. 2-8, 1995). For the first time since the war, the Japanese consumer is displaying price sensitivity by starting to shop for bargains. Unemployment pressures will also likely be an issue related to food distribution. Japan has nearly 60 percent of its people employed in merchandise distribution or related services (Woronoff, 1992). With unemployment pressures from the recession, there are inevitable tendencies to preserve jobs by protecting an inefficient distribution system. Politically, an obstacle will be the consumer, who is just now finding a voice (Howard, 1995).

Viewed from a longer term perspective, Krugman (Chap. 17, 1994) does not see the historic growth rates Japan has achieved as being sustained, but neither does he portend a serious economic decline. Kennedy (1993) shared a similar perspective noting that structural changes will be required within the Japanese system. These adjustments besides altering business practices will likely require altering cultural habits and institutional rules. The difficulty Japan has had with reconciling agricultural subsidies that encourage inefficiencies (Japan Times, July 4, 1995) and perhaps even more portentous the bad banking loans (Akira, 1994; Washington Post National Weekly Edition, Sept. 18-24, 1995) suggest the changes may be slow and difficult. Clark (1995) echoed these comments. In balance the macroeconomic forces are not likely to be so disruptive to radically alter consumer and business behavior, but the pressures to reduce household expenditures and cut business costs will be steady. Both are forces favoring larger chains that have direct access to suppliers.

Linked with the heightened price consciousness are the changing consumer preferences. Convenience food items and stores will be more important, but not at the sacrifice of quality and appearance. Food processing, co-packaging arrangements between Japanese retailers and U.S. processors, and the food service industry because they can be tied to convenience, quality, and health related factors will also be areas of increased importance (Japan External Trade Organization, 1995; Western U.S. Agri. Trade Assn., 1994). A significant trend in structural change within the food distribution system is towards enhanced efficiency by eliminating distribution middlemen and shifting to larger retail outlets frequently with non-food inventories (Salmon and Stovall, 1995). Not only are lower prices being realized from larger volumes, but also reduced procurement costs from better logistics management is providing larger retail outlets with an edge (Japan External Trade Organization, 1992, Akira, 1994). These changes are in part due to the increased cost consciousness and preferences of the consumer, but also due to institutional revisions in laws that shift price formation from the manufacturer to the retail outlet (Upham, 1993).

Foreign pressure will likely also continue to play a role in institutional change, albeit slowly, which will provide retail opportunities (Kouyoumdjian, 1995; U.S. International Trade Commission, 1990). Related to this is the modernization of import facilities (Japan External Trade Organization, 1993), being driven by Japan's accepted dependence on food imports. U.S. exports are showing slight increases relative to other countries, reaching 27.8 percent in 1994 of the total imported. The People's Republic of China was the second largest food supplier providing 10.4 percent (Asahi Shimbun, 1995b).

The U.S. Presence

How will U.S. agribusiness fare with the changes? Case studies show individual successes (Japan External Trade Organization, 1993), but a commitment to a long term relation will be the key to success. As important as the right commodity promoted effectively at a competitive price, will be the business approach made with the Japanese. USDA, AMS (1995) reported the findings of a joint audit conducted by AMS and the U.S. Meat Export Federation, which showed the top three complaints by the Japanese about U.S. beef supplies were customer service, packaging, and shelf life.

Howard (1995) indicated that all too often U.S. firms treat foreign markets as secondary markets compared to domestic markets. Frequently this is done by diverting supplies or management from the foreign market to the domestic market when the domestic market is strong. Placing the damage that this causes into perspective, despite the abundance of literature about the differences in Japanese capitalism versus Western capitalism (Chalmers, 1995; Aoki, 1994; and Fallows, 1994), the similarities are probably more important (Fukuyama, 1995). Many of the competitive strengths of Japanese business focus on the tendency to develop unwritten social contracts that lead to lower transaction costs (Asanuma, 1994; Fruin, 1994; Japan External Trade Organization, 1994). By treating the Japanese markets as a secondary market, not only do U.S. businesses undermine efforts to reduce transaction costs, they do so in a manner that seems unsophisticated to the Japanese; in retrospect it would to most people. A strong presence in Japan will require a long term commitment to the market. In the near term, a combination of factors will likely continue to have most U.S. merchants supplying commodities, while the Japanese merchant captures the value added by manufacturing, marketing, or distribution.

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