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Japanese distribution system: The impact of newly designed collaborations on wholesalers' performance

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Abstract

In January 1995, the Kobe earthquake devastated a major part of Kobe's distribution infrastructure. Apart from the expected complaints about lost sales, wholesalers reported some surprising comments after the reopening. Wholesalers stressed the advantages of newly designed distribution channels, especially the opportunity to end longstanding business relationships known as keiretsu. This study is concerned with the recent development of vertical collaboration in the Japanese distribution channel. Multiple regression analysis revealed that the supplier's service to wholesaler, the supplier's offerings to the wholesaler, and buyer's service to the wholesaler did contribute to the enhancement of the performance of the wholesaler. The three factors explained 16% of the wholesaler's performance. The regression analysis also showed that the wholesaler's intra-logistics activities contributed to the improvement of the performance of the wholesaler and explained 5% of its performance.

Keywords: Distribution; Japan; Wholesalers; Performance; Keiretsu; New collaborations

In January 1995, the Kobe earthquake devastated a major part of Hyogo prefecture's distribution infrastructure. Apart from the expected complaints about lost sales, wholesalers reported some surprising comments after the reopening. They stressed the advantages of newly designed distribution channels, especially the opportunity to end longstanding business keiretsu relationships. Newly designed distribution channel is defined as collaborations in which channel members, in contrast to a keiretsu, have the right and autonomy to shift to a new marketing channel when an existing one becomes uncompetitive.

The Japanese distribution system has been described by many researchers as labyrinthine as a Shogun's palace because of its old-fashioned, inefficient, wasteful and complex operating system (Czinkota, 1985; Heshiki, Rosenbloom, & Larsen, 2000; Tajima, 1984). While western firms understand integration as ownership of other suppliers and/or buyers, Japanese firms forge tight collaborations, known as "keiretsu," instead of buying channel members. These alliances are not contractual, but consist of strong links among channel members that originate from personnel exchanges and trust to giving long-term supply agreements and technology, sharing vital information, and managing resources into developing new products and processes. Accordingly, wholesalers and retailers push the products of one manufacturer, and extensively share information. These collaborative companies behave as if they were one company in which it becomes very difficult for channel firms to refuse to buy from keiretsu members, even when the price is far from being competitive (Rooney, 2000). The purpose of this manuscript is to identify some of the elements of the newly designed collaborations that are associated with the enhancement of the performance of the wholesalers in Osaka and Hyogo prefectures in Japan. Osaka and Hyogo prefectures are both part

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of the Kinki region on Honshu island. The capital of Osaka prefecture is Osaka city and the one of Hyogo prefecture is Kobe city.

Japanese researchers have long recognized the need for changes in the composition of Japanese distribution channels. For example, Uno (1994) asserts the need for a new view on relationships that is different from the traditional one, in which dominant channel members forge new kinds of ties among manufacturers, wholesalers, and retailers focusing on the creation of benefits for all members. Ishihara and Ishii (1996, pp. 3–4), too, stress the importance of new relationships in the ongoing change in Japanese distribution in which a "soft integration" is created and factors such as information exchange and long-term investment are well managed. The Research Group on Distribution Problems (Ryutsu, 1976, p.79) has emphasized the emergence of new vertical collaboration among channel members as the most notable effort in the recent endeavors of companies to raise profitability and productivity.

Vertical collaboration is defined as "a collaboration process whereby supply chain trading partners can jointly plan key supply chain activities from production and delivery of raw materials to production and delivery of final products to end customers" (Wisner, Leong, & Tan, 2005, p.143). It is a long-term relationship between two or more firms on different levels of the distribution system, which requires specific investments and continuous exchange between the members and includes business planning, sales forecasting, and all operations required to replenish raw materials and finished goods. Forecasting a more intensive competition and the need for companies to develop new competitive advantages, the new collaboration is one fundamental way by which major companies on all levels of the distribution system try to strengthen their competitive positions by redesigning the distribution channel from manufacturer to consumer.

The objective of an ideal collaboration is to optimize the supply chain by delivering the right product at the right time to the right location at the right price, minimizing inventories yet maintaining adequate materials and finished goods across the supply chain, and improving customer service. This can be achieved by developing a system in which a full disclosure of information is shared among trading partners to create seamless operation. Competition among trading members is encouraged in order to obtain quality products at competitive prices.

However, the tight-knit keiretsu and intimate grouping among affiliated Japanese producers, wholesalers, and retailers attempt to form one company by buying high-priced goods and services of group members, rather than acquiring them competitively from non-group members. For example, Matsushita, a leading manufacturer in Japan, formed a keiretsu with hundreds of wholesalers and thousands of retailers nationwide (Rapoport, 1991). By buying goods and services only from group members, Matsushita keiretsu tries to avoid competition among its member firms that helps keep prices high, since they are able to securely control the price and distribution of goods and services from the supplier to the consumer (Cutts, 1992).

Based on the imperative need for newly designed collaborations among Japanese channel members and the conspicuous manifestation of the change after the 1995 Kobe earthquake, the objective of this exploratory study is to identify the factors of the newly designed collaborations contributing to the enhancement of the performance of the wholesalers in Osaka and Hyogo prefectures in Japan.

1. Hypotheses development

The traditional marketing theory stated that wholesalers and retailers existed between producers and consumers because they expedited the exchange process, adjusted the discrepancy in assortment and quantity through a sorting out process, standardized transactions and facilitated both the buyer's and seller's search (Coyle & Andraski, 1990). In fact, the role of wholesalers are crucial for the successful performance of all members in the marketing channel as illustrated by the principle of Minimum Total Transactions of Hall (1949) which states that "the total number of transactions involved in marketing a given volume of goods is reduced by the interposition of trade at the wholesale level in so far as a few large shipments by manufacturers to wholesalers take the place of hundreds of small shipments which the manufacturer would otherwise make direct to retail shopkeepers" (p 80).

According to supply chain management, a high performance level in the marketing channel is achieved when a series of firms realize that there is only one source of income for the whole chain of organizations—the end consumer. Any sub-optimization only transfers costs and additional waiting time along the supply chain, ultimately leading to lower performance of all channel members. When a wholesaler, its customers, and its suppliers all work efficiently or collaborate with each other, the planning process and delivery of goods and services to end customers is less costly, more accurate and timely (Wisner et al., 2005). Effective collaboration that has an impact on wholesalers' performance can be divided into relationships that are concerned with the "development of services and goods" and those that focus on the reorganization of processes or "operative logistics systems" (Laurent, 1996, p.145). The first type of collaboration is regarded as strategic because wholesalers attempt to build successful, trusting relationships with top-performing suppliers and buyers who have similar goals and ambitions. The second type of collaboration, which focuses on the introduction of new systems of logistics, is often characterized as operative, because it "improves the current position of the involved parties" (Sheth & Parvatiyar, 1992, p. 75), helps wholesalers respond with agility to unexpected service measures and responds to the changing needs of buyers (Maltz & Maltz, 1998).

1.1. Strategic development of services and goods

Transaction cost theory contends that when the costs of transacting business with outsiders are too high relative to those of performing the activity in-house through vertical integration, firms will prefer to "make" these activities rather than "buying"