

MARKETING CHANNEL ADMINISTRATION BY JAPANESE
MANUFACTURERS: AN EXPLORATORY INVESTIGATION

Dissertation for the Degree of Ph. D.

MICHIGAN STATE UNIVERSITY

MITSUAKI SHIMAGUCHI

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ABSTRACT

MARKETING CHANNEL ADMINISTRATION BY JAPANESE MANUFACTURERS: AN EXPLORATORY INVESTIGATION

By

Mitsuaki Shimaguchi

This study sought to identify the cultural rationale underlying Japanese manufacturers' channel administrative behavior. In particular, it investigated two aspects of this behavior, namely, activity/customary trade practices and business philosophy. Cultural rationale is defined as the measure or unstated premise which underlies manufacturers' administration of their marketing channel members.

The unique characteristics of the Japanese distribution channel's structure, distribution and behavior, and the Japanese management (administration) system were discussed in the context of a proposed conceptual scheme. These characteristics also were examined in a review of the literature. Four hypothetical propositions then were deduced and offered as explanations of the cultural rationale underlying Japanese manufacturers' marketing channel administrative behavior. These hypotheses were pseudo-harmonism, eclecticism, exceptionism, and economic

nonfunctionality. These four abstract propositions then were broken down into twenty-one operational hypotheses.

Eighteen subjects from twelve companies in the pharmaceutical, dentifrice, and detergent industries were interviewed. These interviews were the main source of information for this study. Related data from industry experts and researchers were also used.

Overall, the twenty-one operational hypotheses were fairly well supported, with a few minor exceptions and modifications.

The proposition concerning pseudo-harmonism, that there is an expressed emphasis on harmonious human and social relationships but an implicit use of a cool economic rationale, was well borne out in corporate management mottoes, marketing channel policies, subjects' opinions, and subjects' comments regarding industry practices relating to rebates and other dealer aids. Evidence was found that the economically stronger the wholesaler, the stronger he will be, and that the tendency toward an economic emphasis by channel members is the emerging competitive and social force.

The proposition relating to eclecticism, that there is an equal balance of the economic and the human rationale in channel administration and that neither is extreme, was supported by subjects' opinions and statements about their way of doing business. It was also observed, although not strongly borne out, that some sacrifice of economic

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efficiency in channel administration is considered a cost of doing business, or is a necessary expense in order to maintain harmony in social and human relationships.

The proposition concerning exceptionism, that there is some managerial discretion in manufacturers' administrative practices and activities regarding wholesalers, was well supported. The use of discretion, or failure to adhere to hard-and-fast rules, was observed to an especially strong degree in the actual provision of rebates and dealership and sales contracts, as other sources had led us to expect. Evidence of varying degrees of flexibility was also found in practices related to promissory note payment periods, frequency of delivery, and free goods returns, but those practices seem to be diminishing gradually among larger manufacturers. Evidence of the existence of adaptive and flexible behavior, situational and tactical practices, and a free-style approach also was found. Furthermore, it seems that this flexibility and discretion contribute to overexpectations on the part of wholesalers, which, in turn, help create overcompetition.

The proposition relating to economic nonfunctionality, that manufacturers' channel administrative operations are based more on human than economic considerations, was fairly well supported. An individual manager's name and personality are more important than his organizational position or job function. The human warmth of an

administrator was especially emphasized as an important factor. Many interviewees seem to regard channel administration as a "human affair" rather than a "purely economic matter." This meant they had to participate in many activities other than those strictly related to economics and business.

This was an exploratory investigation intended to clarify Japanese marketing channel administrative behavior. No strict statistical measures or validations were attempted. Future research, therefore, should seek to find more detailed and concrete evidence concerning individual manufacturers' channel administrative behavior. An effort then should be made to determine how to operationalize these overall findings in actual channel administration policies in the future.

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BY JAPANESE MANUFACTURERS:

AN EXPLORATORY INVESTIGATION

By

Mitsuaki Shimaguchi

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CHAPTER I

PROBLEM SETTING

Background of the Problem

Japan's distribution system apparently has been considered an untouchable topic by Western academics. This neglect contrasts sharply with the recent popularity of studies concerning Japanese managerial systems and business behavior. Although work has been done on zaibatsu (traditional Japanese aggregations of large companies), the ringi system (consensus decision-making system), life-long employment, the seniority system, trading companies (the so-called Sogo-Shosha), and Japan, Incorporated (the association of government and business), Japan's distribution system has been ignored almost totally. The subject is attractive to scholars, but Westerners are reluctant to tackle it because the field is so mysterious and complex. The few attempts to describe Japan's distribution system have been conventional and even superficial. General reactions to the subject are suggested by the following quotations:

Those who have encountered the Japanese distribution system say it may well rank as the most inefficient, most complex, and most costly of any of the industrialized world While Japan's well-publicized industrial efficiency grows, its distribution system remains a strange and stubborn anachronism (Hartley, 1973, p. 1).

Nobody disagrees that the Japanese distribution system is archaic, old fashioned (Schmuckli and Tajima, 1973).

The Japanese distribution system (or, more accurately, systems) seems by Western standards archaic, inefficient, and wasteful The foreign businessman in Japan, confronted by what he considers a cumbersome and uneconomic distribution system, is eager to "streamline" it, to make it more like the system he is familiar with at home. The result all too often is friction between partners (Adams and Kobayashi, 1969, p. 189).

Whereas direct selling has now become common in developed countries for a wide variety of industrial products and consumer goods, Japan, the world's fourth largest industrial power, still remains an ancient complex distribution system that was evolved for agricultural products (Glazer, 1968, p. 19).

Despite such strong criticism, Japan's distribution systems remain basically unchanged. This raises several questions. Why does such an inefficient system survive when almost everyone believes it to be "archaic"? Exactly which structures, practices, and business customs and manners are inefficient and by what measures? Is the Japanese distribution system uniquely and well adapted to the Japanese cultural environment? These and similar questions require much deeper exploratory study and analysis. The "mysterious" Japanese distribution system needs to be systematically researched and evaluated.

The complexity of the system stems mainly from the uniquely developed sociocultural tradition of Japanese

society and the nature of the general business and distribution systems. Many international specialists in marketing and business as well as anthropologists often have emphasized the inextricable connection between the culture and the distribution channel system. In reality, Japanese distribution channels comprise a small business society. The pattern is strongly imbedded in Japanese beliefs, attitudes, norms, religions, family relations, business customs and manners, as well as other social relationships. Researchers, therefore, must analyze two sets of forces in exploring Japan's distribution channel system. First, an understanding of the people, culture, tradition, business climate, and general social structure surrounding the distribution system must be developed. Second, the system itself must be analyzed.

Western researchers' attitudes toward the Japanese distribution system, as typified in the previous quotations, have been rather ethnocentric. Their opinions have been biased by the Western emphasis on economic measures, and they show little comprehension of the Japanese sociocultural setting. Although the economic measure is an important one, and is more universal, each culture has its own way of rationalizing the social system. An understanding of the relevant sociocultural measures (in this case, Japanese rationales for behavior) is essential to a meaningful evaluation of the system. In this vein, DeBettignies commented upon Japanese organizational behavior as follows:

It seems to me that to blame the Japanese for supposed "nonrationality" is to fall again into the ever-present trap of ethnocentrism. I would prefer to define rational behavior as behavior which is instrumentally functional in achieving a certain objective, and in this case I would think that the Japanese are highly rational within their own environment, with the goals they are pursuing. There are contradictions in the pattern of institutional behavior but they must be accepted and understood as built-in compliance to models of behavior congruent with some kind of upper-ordinate goals (preserve harmony at all costs; do not stick your neck out; respect your seniors, etc.) which might not be perceived by the foreigner at first sight. . . . If we define the work organization as a subculture within a given cultural environment, we realize that the Japanese organizational behavior fits the means-end structure of the work organization, and then deserves to be called "rational" (DeBettignies, 1973, p. 92).

This assertion is perhaps quite correct in the context of the purely scientific exploration of a culture and its organizational behavior. Too much involvement in and emphasis upon culture, however, may result in some loss of reality. The distribution channel system exists mainly in the domain of economics, and economic measures remain important factors. The danger of "polycentricism," which implies "East is East, and West is West," also must be avoided. What is required is a search for fair criteria that include both economic and cultural measures in proper proportions. This suggests a "geocentric" approach to the study of the Japanese distribution channel system (see Perlmutter, 1969, and Henley, 1971), perhaps preceded by an exploration of cultural characteristics and the logic of the system and by an investigation of how cultural adaptation to a more economically efficient system is accomplished.

Overview and Scope of the Problem

As has been pointed out, many people, especially Westerners, view the Japanese distribution system as overly complex and as generally ridiculous. How complex is it? Its uniqueness stems mainly from structural complexity and apparently mysterious human relations and behavior. Some examples of Western opinions follow:

Structural Aspect

In the typical Japanese distribution system as many as five (and sometimes more) middlemen stand between the maker and the consumer. In the United States, it may be noted, as in most other Western countries, there are usually only the wholesaler and the retailer, with in some instances the jobber (Adams and Kobayashi, 1969, p. 189).

Says Mr. Wogsland of Morinaga General Mills: "The problem is you are far away from your consumer when you have to go through so many levels." He says promotion is difficult because manufacturers often can't learn the results of a campaign for many months. Goods get lost in the cycle too. "We're still getting back cake mix that we discontinued two years ago," sighs Mr. Wogsland (Hartley, 1972, p. 12).

Distribution is multilayered. Products often move through trading companies several times; for example, "wool to yarn to fabric" may go through a trading company three times. Products also go through primary, secondary, and even tertiary wholesalers before they finally reach the retail outlets (Faris, 1969, p. 48).

Behavioral Aspect

If he (the dealer) runs out of stock, he picks up the phone and says: "I need two cartons of so-and-so now." Then it's delivered. So, the next thing the dealer says is "I want 120 days credit. Cash? Forget it. The other company gives me half a year credit. And what's your rebate?" (The

foreign businessman asks:) "What do you mean rebate? I have firm prices. List price." "I know, but from the other company I get a 10 per cent rebate" (Schmuckli and Tajima, 1973-74, p. 102).

Although cash is seldom used, there are many other means by which industrial sellers extend personal favors to buyers: entertainment at restaurants, bars, night-clubs, cabarets, and geisha houses is daily routine. The traditional summer-season and year-end gifts are so common that nobody regards them as special. Golf and Mahjong are used as instruments of building up friendly association rather than of relaxation and, incidentally, justify the acceptance of cash through betting. Whether this kind of business relation seems clean or dirty depends upon the view of the beholder (A. Hanawa, 1971, p. 187).

All these aspects of Japan's distribution channel system and Japanese behavior may appear strange to the Westerner. Although there surely is much room for improvement, the system and related practices are how business is conducted in contemporary Japan.

Although both the structural and behavioral aspects of the Japanese distribution system are complex and mysterious, the structural aspects are relatively more tangible, explicit, and fixed. Behavioral aspects are especially difficult for people, including both Japanese and non-Japanese, to understand because they are intangible, implicit, and profound. The structure of Japan's distribution channel system has been well documented, and the causal relationships explaining its development have been partially explored in several studies. Thus, the most difficult aspect of the distribution channel system to understand remains the behavioral one. Without knowledge of the deeply imbedded, underlying premises or rules of behavior,

no one can view the system without confusion, and no improvement of or entry into the system is possible.

As indicated earlier, a human orientation in business behavior seems to be more dominant in Japan than in the West, where an economic orientation is stronger. If the existing Japanese system could be evaluated and measured only by economic criteria, the problem would be much simpler. Such an approach usually is called "rational," and people, especially Westerners and those educated in the Western tradition, are more accustomed to such explicit criteria.¹ It is when the human orientation is introduced that the system appears to be much more complex; then more vague and variable criteria must be used in addition to the economic ones.

Although not as clear as tangible economic criteria, a human orientation may have some underlying measures which govern daily behavior and thinking within the system. These unwritten and culturally imbedded rules may be difficult for the people living in the culture to understand fully because they are too deeply involved. People from other cultures may have particular difficulty because the system is so foreign to them. As a result, the situation may remain unchanged, no improvements are made, and the ignorance of cultural nuances perpetuates confusion and anger.

¹Glazer terms this "Western rationalism," while calling Japanese attitudes and business practice "Eastern subjectivity" (Glazer, 1968, p. 51).

The challenge is to find some underlying measures, especially human ones, to aid in understanding the Japanese distribution channel system. This is the only course for innovators or those seeking to revolutionize or improve the system. Although they are vague and variable over time, these human-oriented measures usually are based on some stable, underlying premise which has been developed through the long history of the society. The following quotation suggests the nature of the Japanese tradition:

Japan is going through a period of cultural metamorphosis. There has been a massive infusion of Western ideas since 1945 which has left the old and the new coexisting in Japan. Yet through this cultural topsy-turvy the Japanese seem to move easily, for they have become "cultural amphibia." However, they find it hard to live an amphibious business life that would accommodate the Western businessman. Many of my colleagues in Tokyo say the old Japanese way of doing business is vanishing rapidly. But don't believe a word of it; tradition dies hard and it will take generations to change the basic thinking of the Japanese (Adams, 1969, p. 193, emphasis added).

The basic thinking is implicit in the Japanese distribution channel system. These cultural assumptions might not be recognized even by the Japanese unless they are clearly and logically defined. They may be buried deeply and subconsciously in daily behavior and practices, in opinions and philosophies, or in other aspects of the distribution system. The search for these implicit and deep-rooted premises, which hereafter will be called the cultural rationale, as compared to the economic, is the object of this study.

Delimitation of the Problem

The overall purpose of this study has been partially defined: to discover the cultural rationale underlying Japanese distribution channel behavior. In doing so, the nature of the system will be more clearly understood.

Realistically, for operational purposes, this broad and general approach must be delimited to increase operat-
tionality and encompass a feasible sample. The discussion of decisions concerning the selection of subjects within Japan's distribution channel system and the kinds of industries involved follows.

Type of Distribution Channel System Selected

Japan's present distribution system takes the form of ryūtsū-keiretsuka (a vertically integrated manufacturer distribution channel that is closely linked with independent wholesalers and retailers). Participation is voluntary, but great cooperation is achieved under the aegis of a dominant parent manufacturer. The system is often characterized by traditional human relationships between a parent manufacturer (administrator) and channel system member. Most of the unique aspects of the Japanese business and distribution system are represented in distribution channel manufacturers' administrative modes.

Yoshino, who made the first comprehensive study of Japan's marketing system, has described its dominance. After

reviewing historical changes in the Japanese distribution system (from wholesalers' to manufacturers' dominance), he wrote:

One of the most significant developments in Japan's postwar marketing scene is the very extensive control attained by large manufacturers of selected consumer goods over their channels of distribution. In a number of consumer goods industries we have witnessed the emergence of centrally coordinated distribution systems under the initiative of large manufacturers This pattern is most commonly found in those that have experienced extraordinarily rapid growth, including the automobile, electric home appliance, pharmaceutical, and cosmetic industries (Yoshino, 1971, pp. 109-110).

Yoshino suggested several factors which accounted for this pattern. Among many, two important ones were the successful establishment by manufacturers of a consumer demand for their products, and inability of the more old-fashioned intermediaries to cope with the new demands of the mass consumer market as well as their traditional, conservative mentality (ibid., p. 110). As a result, several large, innovative manufacturers in certain industries began to make concerted efforts to establish and manage a vertically coordinated distribution system, often called a marketing channel system. Proof of their effective administration lies in the powerful competitive edge they achieved, which led many other manufacturers to make similar efforts.

McVey's often quoted statement that "a manufacturer may not even consider himself as standing at the end or the head of a channel, but only as occupying a link in a

channel that begins with his suppliers" (McVey, 1960) is not necessarily true in Japan. Rather, as strong supporters of other independent channel members and sometimes as protectors of fragile wholesalers' interests, manufacturers affect other channel members, implicitly and explicitly, through various kinds of assistance, actions, or controls. In this sense, it is no exaggeration to say that any improvements or innovations are dependent upon manufacturers' initiatives and are under their control. If the manufacturers' marketing channel administrative behavior and its rationale could be clarified, it would be much easier to suggest necessary actions or policies for improving the complex Japanese distribution system as well as enable foreigners to approach and adapt to the system realistically. This study, therefore, is specifically concerned with the cultural rationale underlying Japanese manufacturers' marketing channel administrative behavior in selected industries. These industries now will be discussed.

Industries Selected

A brief survey to select industries appropriate for this study resulted in the choice of three: the pharmaceutical, dentifrice and toiletry, and soap and detergent industries. The major reasons for their selection and their common characteristics are given below.

1. First, these industries are quite representative of both the traditional Japanese

marketing channel system itself and channel behavior. Second, most Japanese scholars and researchers agree that they exemplify the most peculiarly and typically Japanese distribution channel, namely, the manufacturers' integrated vertically coordinated distribution channel.

2. All these industries distribute products similar in nature (nondurable consumer goods based on chemical materials) and have a similar distribution channel structure (mostly, manufacturer-primary wholesaler-secondary wholesaler-retailer-consumer).
3. As parent companies, all manufacturers in these industries are eagerly concerned with the administration of the distribution channel so as to gain competitive advantage.
4. The most typical distribution channel structure in all these industries is a loosely connected selective one rather than exclusive (for example, automobile, electric appliance) or extensive (for example, foodstuffs) channels. That is, one wholesaler usually carries several manufacturers' product lines, with preference for a few main manufacturers. This pattern is most appropriate for the exploration of channel administration because

the competitive efforts to select and administer channel members delineate Japanese channel behavior more vividly than do the other two forms.

5. The range of channel administration in these industries usually extends down to the level of wholesalers. (There are a few exceptions, such as in a manufacturer's voluntary retail chain system.) This makes the research more direct by focusing on manufacturer-wholesaler relations without losing sight of the essential purpose.

Statement of the Problem

As a logical consequence of the above, the basic purpose of this study is stated as follows:

To determine the underlying cultural rationale in manufacturers' administrative behavior toward wholesale channel members in selected consumer chemical product industries.

More specifically, answers are sought to two questions:

1. What are the unique structural and behavioral characteristics of Japan's distribution channel system in general?
2. What is the underlying cultural rationale (or unwritten rules) which explains Japanese manufacturers' administrative

behavior within vertically integrated distribution channels (especially toward wholesalers) in the pharmaceutical, soap and detergent, and dentifrice and toiletry industries?

Organization

This thesis consists of six chapters. The main purpose, to seek the cultural rationale underlying manufacturers' administrative behavior toward their marketing channel members, is stated in Chapter I.

Chapter II deals with the problem setting and examines and analyzes Japan's distribution channel system. After providing a conceptual scheme and operational definitions of terms used in the research, a brief survey of the literature is presented. Based on the literature and available statistical data, structural characteristics of Japan's distribution channel system then are examined, followed by an explanation of the development of this unique structure.

Chapter III explores two other components of Japan's business system: distribution channel behavior and the management system. These two aspects are directly related to Japan's marketing channel administrative behavior, as will be indicated in the proposed conceptual scheme. Based on the study of unique characteristics of Japan's

distribution channel behavior and management system, four abstracted core rationales are hypothesized.

In Chapter IV, the four hypotheses are tested. The research methodology is described, including sample design, subjects chosen, and the interview method. Several operational hypotheses are then formulated, and the interview guide is explained. The limitations of the research are stated briefly at the end of Chapter IV.

Chapter V presents the main findings of the research for each of the four main hypotheses and the general operational hypotheses. These findings are based primarily on subjects' opinions, acquired through a supported-unsupported interview guide measure. Related data also are documented occasionally for each of the main hypotheses.

In Chapter VI, the findings of the research are summarized and synthesized. Based on the knowledge gained, some interpretations and implications are suggested for future improvements and developments in system behavior.

CHAPTER II

JAPAN'S MANAGEMENT AND DISTRIBUTION CHANNEL SYSTEM: LITERATURE SURVEY AND CONCEPTUAL FOUNDATION

The purpose of this chapter is twofold: to propose a conceptual scheme to guide and direct this research and to review Japan's distribution channel structure based on past studies. First, operational definitions and a proposed conceptual scheme are presented, followed by some detailed explanations. Based on these, an overall literature survey is attempted of three systems relevant to this research: distribution channel structure; distribution channel behavior; and the management system. Following this overall review, distribution channel structure is then discussed in detail, emphasizing its unique characteristics and the rationale for the development of this uniqueness. The two other systems, distribution channel behavior and the management system, will be discussed in Chapter III.

Conceptual Scheme and Operational Definitions

In the pursuit of the objectives stated in Chapter I, some simplified conceptual scheme as well as operational definitions of relevant terms will help clarify the Japanese distribution system and direct the study to follow. Operational definitions of each component of the conceptual scheme first will be presented. The proposed conceptual scheme and its structural relationships then will be explained based on the operational definitions.

Operational Definitions

The nine terms defined below are components of the conceptual scheme.

The cultural rationale in marketing channel administration refers to the underlying measures or unstated premises which rule the manufacturers' administration of their marketing channel. These are abstract or generalized concepts, unique to Japanese marketing channel administration.

Marketing channel and administrative behavior refers to the activity, customary trade practice, and business philosophy consciously or unconsciously expressed by a manufacturer in administering his entire marketing channel as one aspect of marketing mix. This term specifically refers to a manufacturer's attitude and action toward his marketing channel members.

Marketing channel structure refers to the tangible, physical arrangement of a manufacturer's marketing channel organization. The skeletal framework as shown in a manufacturer's channel organization chart and the number of member wholesalers and retailers under a manufacturer are examples.

Marketing channel behavior refers to the activity, customary trade practices, and business philosophy consciously or unconsciously expressed by a manufacturer in business and trade relations with another channel member.

Manufacturer's management system refers to the unique methods or approaches used in a Japanese manufacturer's administration of his own organization.

Distribution channel structure refers to the tangible, physical arrangement of channel members in an industry as well as their physical characteristics, such as the financial composition of a channel member. This is shown as a sum total of each manufacturer's marketing channel structure in an industry.

Distribution channel behavior refers to the activity, customary trade practices, and business philosophy consciously or unconsciously expressed by any channel member in business and trade relations with others in an industry. This is an aggregation of every channel member's

behavior, including wholesalers, retailers, and manufacturers in an industry.

Industry's management system refers to an aggregation of every manufacturer's management (administrative) system in an industry. (See manufacturer's management system.)

Japan's marketing and management system refers to the behavioral and structural characteristics unique to and inherent in Japanese business practice.

In the operational definitions presented above, two emphases should be noted as important.

The first is the distinction between the marketing channel and the distribution channel system. The former term, as defined above and used here, refers to a parent manufacturer's point of view and his channel relationships. In contrast, the latter term does not specify any individual channel member's view but refers to the total industry's point of view. Such a distinction is shown in Figure 2.1.

The second important emphasis is on the careful distinction between structure and behavior. As was indicated in the definition, structure is the "hard" aspect of a system. It refers to the interrelationships between the parts and may be depicted by organization charts, the number of primary wholesalers handling the manufacturers' product, and so forth. It is often visible or defined by statistical

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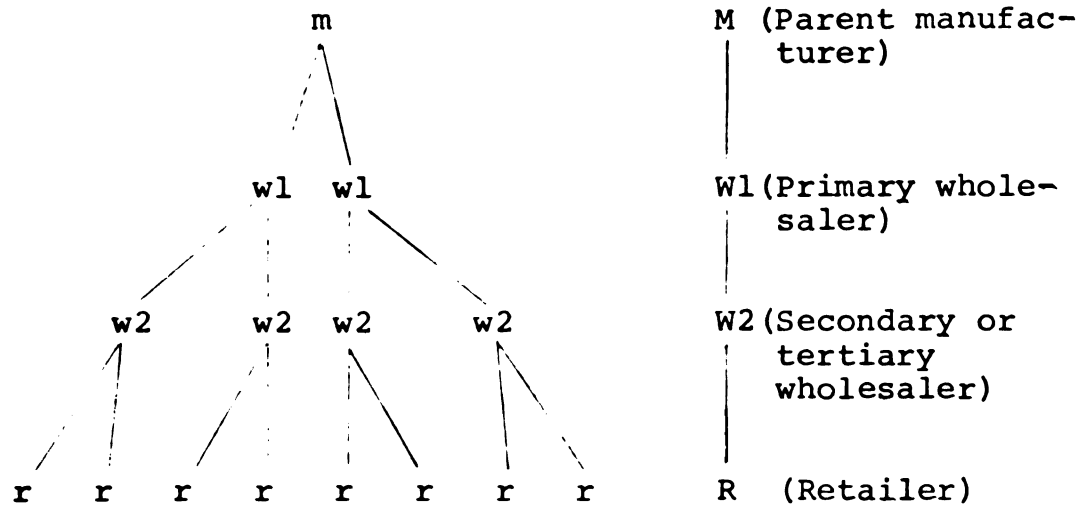
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Figure

- (1) Marketing channel system:
A parent manufacturer's point of view



- (2) Distribution channel system:
No specific agent's point of view
(an aggregation of all channel members in an industry)

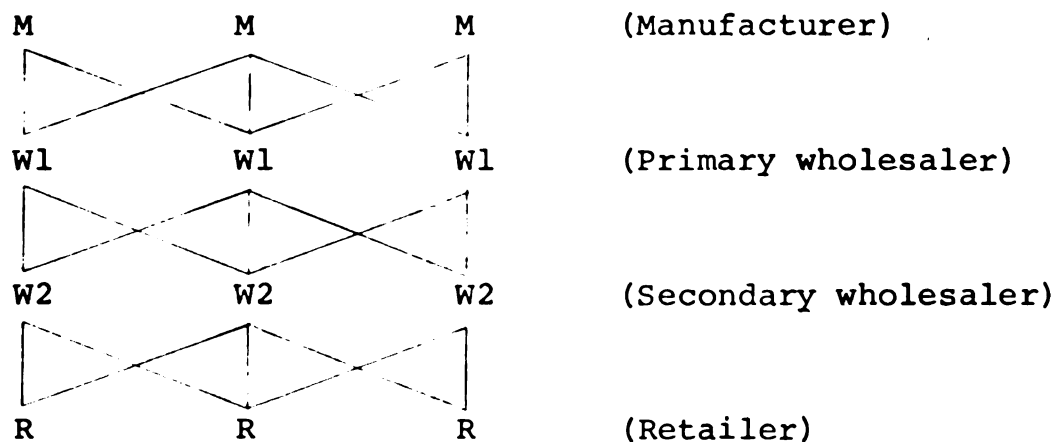


Figure 2.1.--Marketing Channel and Distribution Channel System.

figures and other tangible, physical data. Behavior, on the other hand, is regarded as the "soft" aspect of the system. It may be identified but is less tangible and quantifiable and may be quite subtle. For convenience, in the subsequent discussion, behavior is conceptually divided into two dimensions: activity/customary trade practice and business philosophy.

Conceptual Scheme

Based on the terms defined above, the relationships of each component in Japan's marketing and management system will be explained below. (See Figure 2.2.)

As was partly explained in the section on operational definitions, the relationship of each component of the system is divided primarily into three levels: economy, industry, and individual manufacturer. Japan's marketing and management system at the level of economy is broken down into three subsystems at the industry level: distribution channel structure, distribution channel behavior, and industry's management (administrative) system. These three industry level systems are directly derived from Japan's marketing and management system and, in turn, influence it. This interdependence is shown by two-way arrows in Figure 2.2.

Of these three industry level subsystems, distribution channel behavior and distribution channel structure have an especially strong interdependence. These two, in

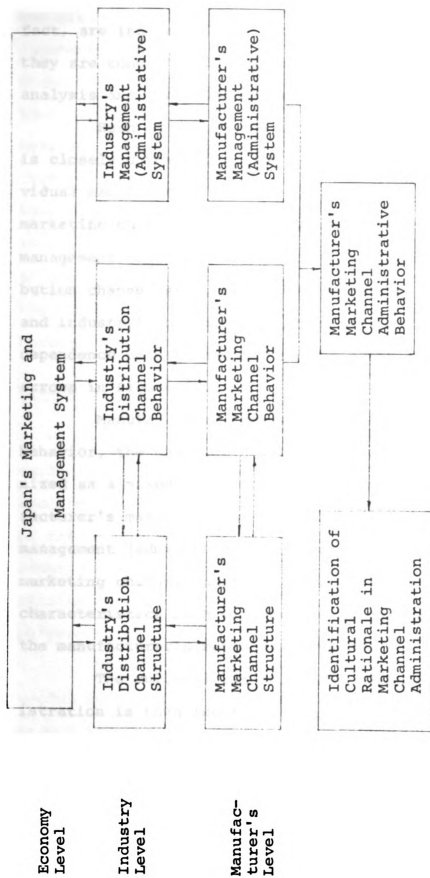


Figure 2.2.--A Conceptual Scheme: Relationship of Each Component in Japan's Marketing and Management System.

fact, are inseparable in actual business operations, but they are conceptually separated here for the purpose of analysis and the examination to follow.

Each of the three subsystems at the industry level is closely connected to the relevant systems at the individual manufacturer level. Marketing channel structure, marketing channel behavior, and each manufacturer's management system are aligned in the figure under distribution channel structure, distribution channel behavior, and industry's management system, respectively. The interdependence between each component again is shown by two-way arrows in Figure 2.2.

Manufacturer's marketing channel administrative behavior, the main subject of this study, is then recognized as a mixed result or a subsystem of both the manufacturer's marketing channel behavior and the manufacturer's management (administrative) system. This indicates that marketing channel administrative behavior shares common characteristics both with marketing channel behavior and the manufacturer's management system.

The cultural rationale for marketing channel administration is then identified directly from the manufacturer's marketing channel administrative behavior.

As the operational definition indicates, the cultural rationale for marketing channel administration, identification of which is the main purpose of this research, is an abstract (or generalized) concept which

explains the unique sociocultural characteristics of Japanese marketing channel administrative behavior. In pursuing this main objective, it is useful to examine two higher systems of marketing channel administrative behavior: marketing channel behavior and the manufacturer's management (administrative) system, given our knowledge of the marketing channel structure. These three systems, including the marketing channel structure, at the level of the individual manufacturer are the means through which we can identify the cultural rationale of marketing channel administrative behavior.

Procedures for the Study

These subsystems at the manufacturer level, namely, marketing channel structure, marketing channel behavior, and the manufacturer's management system, have been noted as the most important aspects in this exploration. Knowledge about these three subsystems, however, is not easily attainable without direct investigation, which is the purpose of this study.

The construction of hypothetical propositions is useful in guiding the exploratory investigation. To construct them, a knowledge of distribution channel structure, distribution channel behavior, and industry's management system is quite helpful, because each of these areas represents an aggregation of each manufacturer's relevant systems. A knowledge of the systems is also more easily

attainable through secondary data sources at the industry level rather than at the individual manufacturer level.

Therefore, this chapter first examines distribution channel structure as the basis of marketing channel administrative behavior, followed by an analysis of its characteristics and rationale for development. Then, distribution channel behavior and the management (administrative) system are examined and analyzed, based on past studies, both to provide knowledge and to enable us to hypothesize the cultural rationale underlying marketing channel administrative behavior (Chapter III). These efforts do not concentrate on any specific industries. The distribution channel structure of and distribution channel behavior in the pharmaceutical, dentifrice and toiletry, and soap and detergent industries are briefly presented in Chapter IV.

After offering propositions, a direct investigation is made of marketing channel administrative behavior of manufacturers. Then, the cultural rationale underlying this behavior is identified and examined in Chapter V.

The procedure for the study is shown in Figure 2.3.

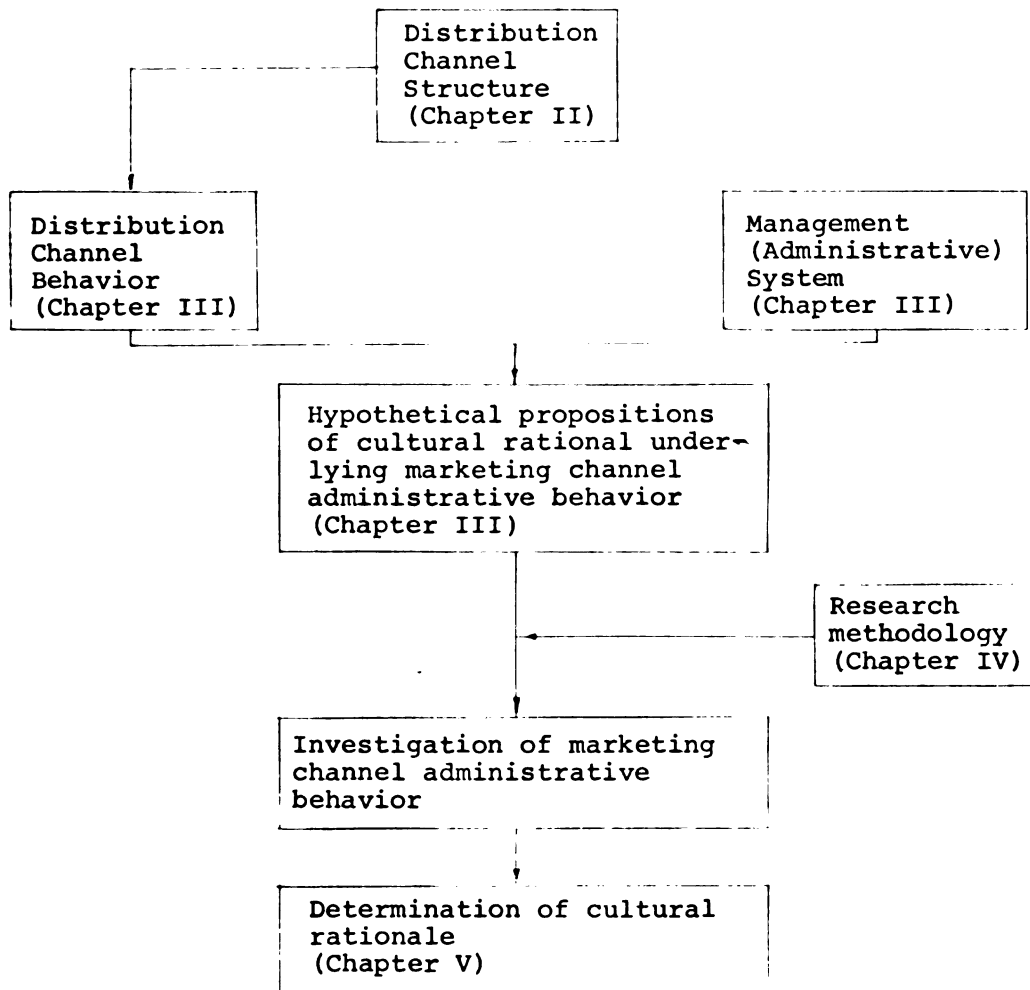


Figure 2.3.--Procedure for the Study.

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Characteristics of Japan's Business and
Distribution Channel System:
Survey of the Literature

An Overview¹

As indicated in the proposed conceptual scheme, identification of the underlying rationales of marketing channel administrative behavior could be accomplished through studies of each subsystem of Japan's management and distribution channel system. Therefore, each of these subsystems will be examined briefly on the basis of the past literature and factual data. Detailed descriptions and analyses of each subsystem then will be developed in successive sections.

Japanese Distribution Channel Structure.--There are a great deal of well-documented literature and statistical data concerning the Japanese distribution channel's structure. As noted earlier, the structural aspect of the distribution system is rather easy to understand, mainly because of its tangibility and stability. In fact, the various books and articles relating to the Japanese distribution channel system have more or less covered and described its structural characteristics, using exhibits, charts, and statistical data. Some studies have attempted to compare

¹In this section, specific literature will not be quoted. Relevant literature for each of the following fields is classified and summarized in Appendix 1.

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the Japanese system with Western systems, statistically or descriptively.

Among several structural characteristics, the most important are the lengthy multiple distribution channel and the large number and low productivity of distributors who are predominantly small scale. Other minor characteristics, such as family participation in dominant retailing operations and the large sales share of interwholesaler trade, could be explained in relation to the three characteristics noted above.

These unique structural characteristics have been described, compared, and explained relatively well, not only in Japanese but also in English studies. The literature includes both general descriptions and detailed industry-by-industry analyses.

Although many works do not analyze why the system has developed as it has, some have attempted to "interpret" its uniqueness. No rigidly empirical and systematic explanations have yet appeared, but a few probable and insightful analyses have been made.

Japanese Management System.---There is a large body of literature, written by Westerners as well as Japanese, concerning the Japanese business and management system. This abundance apparently is the result of Japan's great world-wide economic success, especially after the late 1950s. Several Western scholars and practitioners

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researched and evaluated the traditional Japanese business and management system to discover why Japan could achieve such a high economic performance. The long-criticized Japanese management system subsequently was praised and honored as being "well-suited" or "distinguished" because of its success. Such topics as the close association of government and business, the role of Sōgō-shōsha (trading companies), the unique financial structure of the firm, lifetime employment, the seniority and ringi system (consensus decision making), and group-oriented management (paternalism) were investigated first by Westerners and have become popular subjects among Japanese researchers in the field of comparative management. Of these, the last three will be examined in this study. Several cultural anthropologists and social commentators also have described and analyzed Japan's unique management system as a means of explaining their theories.

Japanese Distribution Channel Behavior.--There are fairly good descriptions in the literature of Japanese distribution channel behavior, but they are very sporadic and are found in a variety of sources. Useful sources are Practitioners' own writings in journals and how-to types of books, some government publications documented and collected through hearings with businessmen, and Westerners' essays based on their own bitter and confused experiences with Japanese business and trade practices. Although the

English language literature is limited in this aspect, a patient search through a variety of Japanese works coupled with direct observation reveal several unique characteristics. Among these are the rebate system, promissory note payment, liberal return privileges, frequent delivery, price-cut competition among dealers, close human associations, and considerable dealer assistance. Also peculiar to Japanese business philosophy and attitudes are a high degree of dependency, expectancy, and conservatism and the dominance of a sales orientation.

Japanese Marketing Channel Administrative Behavior.--

A very limited literature exists concerning marketing channel administrative behavior. Although Japanese business and management and distribution channel behavior partially explains manufacturers' marketing channel administration, most investigation of this topic must be done first-hand. In fact, this is the aspect this study attempts to explore and contribute to the further development of. Although there are many theoretical studies of marketing channel control and administration, mainly relating to the United States, they seldom consider the cultural context, as this study intends to do.

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General Structural Characteristics and
Rationale for Japanese Distribution
Channel System

Structural Characteristics

Lengthy, Multilevel Distribution Channel.--Almost all literature describing the Japanese system, whether foreign or Japanese, considers that the length and the many levels of the Japanese distribution channel structure are its main and most notable characteristics. It is not at all unusual to find merchandise passing through several different types of wholesalers (generally called Tonya), that is, primary, secondary, regional, or local wholesalers as well as the retailer. (See Adams, 1969, p. 191.)

This multiplicity is especially typical of trade in foodstuffs and textile and cloth products. (See Figure 2.4 for meat, cloth, and dairy products.) Distribution of Perishable foods, for example, typically takes the following pattern: producer → middleman in producing area → wholesale market in consuming area → middleman in consuming area → retailer → consumer. Such a multistage process impedes the rapid mass distribution of products and is now considered one of the important causes of the rise in consumer prices (Dentsu, 1969, p. 31).

In an article in the Wall Street Journal on March 2, 1972, this multiplicity of levels was criticized, especially in relation to goods imported from the United States.

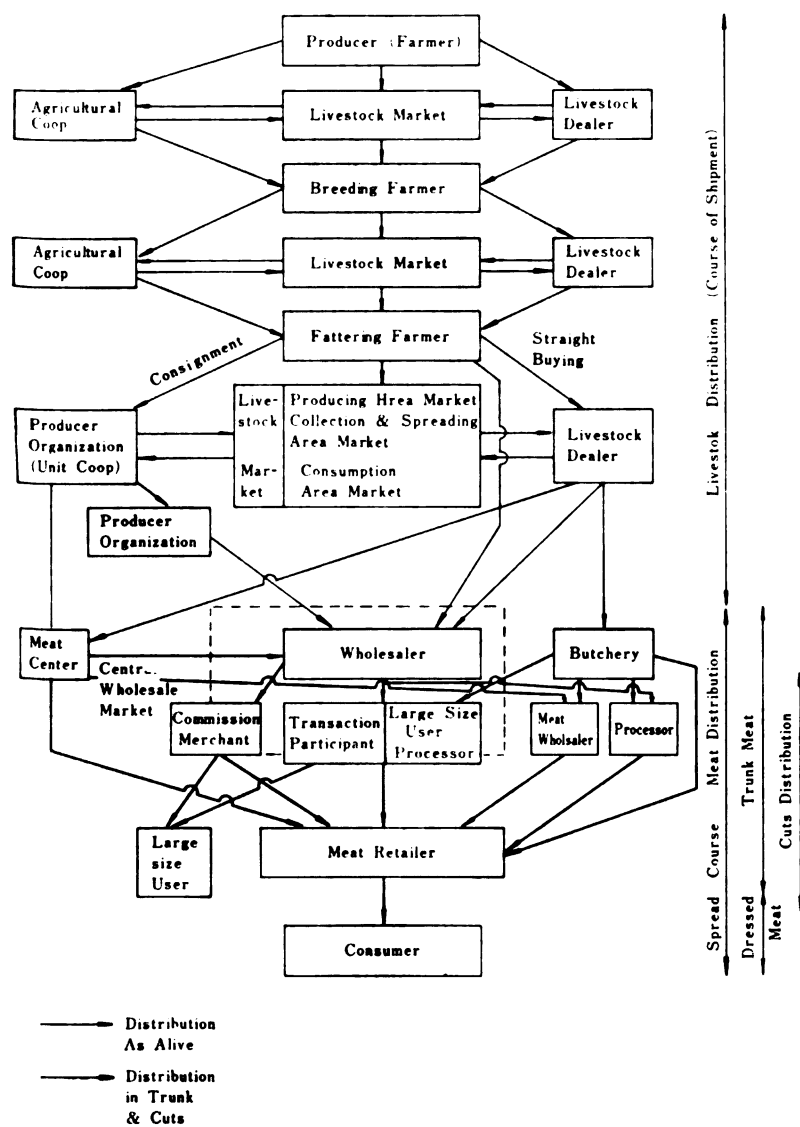


Figure 2.4.--Distribution Channel of Meat, Cloth, and Dairy Products.

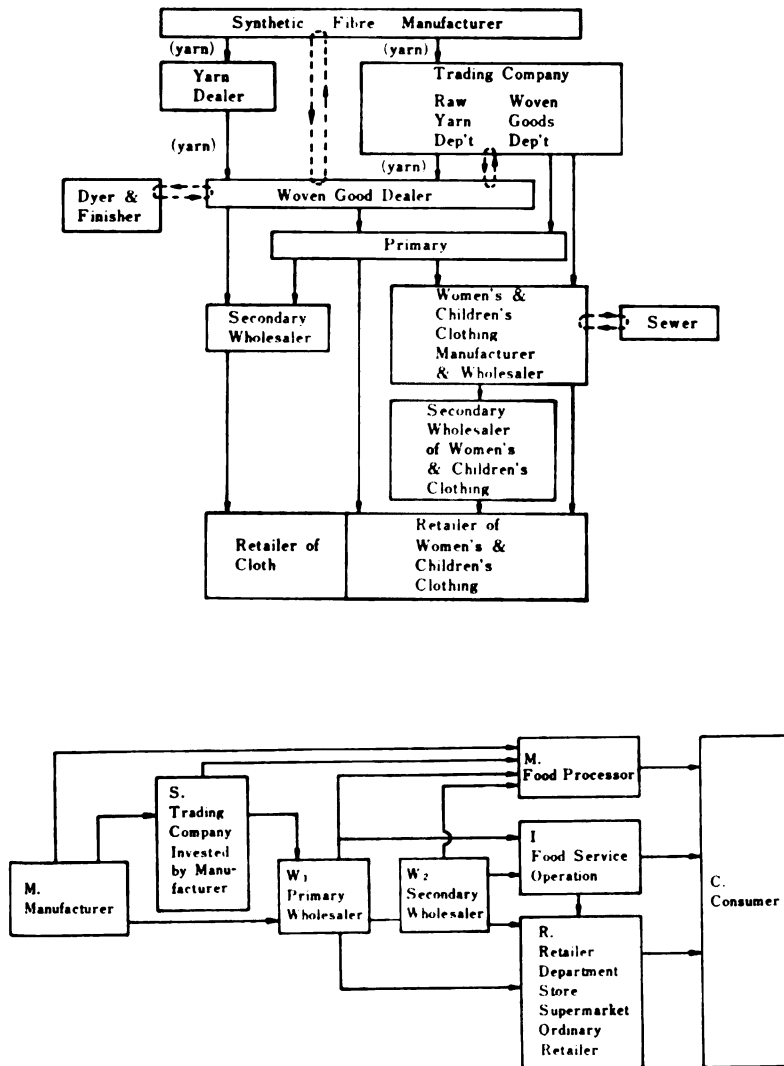


Figure 2.4.--continued.

Source: Outline of Japanese Distribution Structures, Compiled by The Distribution Economics Institute of Japan, 1973, p. 89, 99, 126.

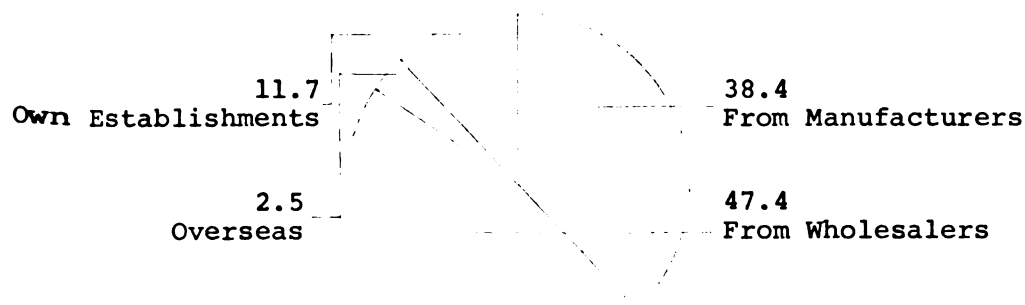
Consider a can of Del Monte peach halves and its Japanese odyssey. The peaches land in Yokohama at 26 cents a can. Immediately, customs and handling charges add nine cents to the price. Then the importer sticks on a bit more than a penny. He sells it to a wholesaler, who adds another three cents. The wholesaler sells it to another wholesaler, who adds a further two cents. He sells it to a grocery store, which adds an additional 11 cents. The retail price: 52 cents a can--a far cry from the 30 cents or so the 15-ounce can might command in a suburban U.S. supermarket. So its no surprise that in a typical Japanese city, some 90% of the imported canned peaches are sold wrapped as expensive gifts (Hartley, p. 1).

This lengthy, multilevel structure in Japan is attributable to the wholesalers, as is evidenced by the value of transactions among wholesalers as compared with retail sales. (See Figure 2.5.) In 1968 total value of wholesale sales in Japan was about 4.8 times greater than total retail sales (Yoshino, 1971, p. 17). When compared with the U.S. system, the problem is more sharply defined:

The Japanese case becomes particularly striking when compared with the situation in the United States, where the total wholesale sales are only 1.3 times the total retail sales. The breakdown of wholesale sales according to major customer groups further substantiates this point. In Japan in 1966 over 37 percent of wholesale sales were made to other wholesalers, 24 percent to institutional and industrial customers, and only 24 percent directly to retailers. The comparable figures for the United States are roughly 15 percent, 44 percent, and 41 percent, respectively (Yoshino, 1971, p. 17).

R. E. Weigand, who studied retail pricing in Japan, also pointed out this characteristic, although he used data from 1962-1963 . He gave two possible causes for these transactions: (1) A wholesaler who wants to appear to sell a full line but who cannot stock all the commodities might

SOURCES OF PURCHASES OF WHOLESALERS (Unit%)



DESTINATIONS OF SALES OF WHOLESALERS

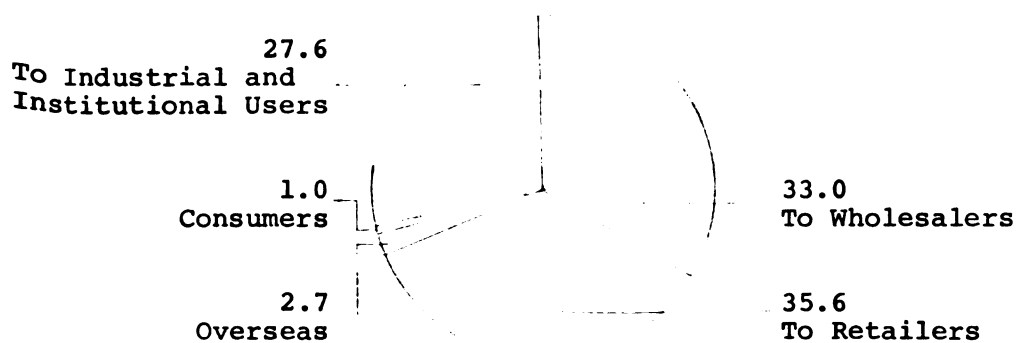


Figure 2.5.--Value of Transaction Among Wholesalers.

Source: The Ministry of International Trade and Industry,
 "Distribution in the 1970's" (Tsusansho
 70-nendai ni oderu Ryutsu), 1971.

achieve this appearance if he can easily and quickly purchase supplementary goods from others; and (2) in trying to cover a large market area, it is almost inevitable that large wholesalers will sell to smaller ones in more remote areas.

The first explanation seems highly probable when Japanese wholesalers' weak financial position and small size are considered, but Weigand could not substantiate his second assumption in Japan's case. He comments: "If size of territory is a partial explanation of the length of a marketing channel, American channels should be characterized by more wholesaler-to-wholesaler transactions than would be true," but he points out this is not the case (Weigand, 1970, p. 26). In his speculation, however, he apparently interpreted size of territory rather narrowly in a physical sense. Although Japan is small geographically (about the size of California), size of territory should be considered in the context of infrastructure (transportation and communication network and road conditions), the relative availability of modes of transportation, the cost of transportation, and the country's geographical characteristics (mountains and other natural barriers). If those factors are considered, Weigand's hypothesis may be true.

Japan's lengthy distribution channel structure could be attributable to many factors. These will be discussed later in detail, but among them is the small amount of

capital available to each distributor, which prohibits a single, large transaction.

Large Numbers of Small-Size Distributors.--The

Japanese distribution system is composed of many wholesalers and retailers. In 1968,² they numbered 281,081 and 1,389,222, respectively (Wagakuni no Shōgyō, 1970). C. W. Faris and Yoshihiro Tajima explain this characteristic in comparison with the United States as follows:

Despite the geographic concentration, there are an enormous number of distribution outlets There are twice as many food outlets as there are in the United States, although Japan has only half the population and a fourth the per capita income (Faris, 1969, p. 48).

To separate the 1,670,000 stores in Japan into wholesalers and retailers, the former numbered 280,000 and the latter 1,390,000. When compared with the breakdown of 310,000 wholesalers and 1,370,000 retailers for the United States, these figures were also reasonably similar. Considering America's population of about 200 million and its vast size, it is evident that the density of stores per capita and per area was considerably higher in Japan than in the United States (Tajima, 1971, p. 34).

Using the 1968 Japanese population figure of slightly over 100 million, there was one wholesale store for every 356 persons and one retail store for every 72 persons in Japan (Yoshino, 1971, p. 11); the comparable U.S. figures were almost double.

²The most recent census was available as a summary report as late as 1968 at the time of this research. In the following, the census data in 1968, which were published in Wagakuni no Shōgyō (1970) will be heavily used.

Because there are so many distributors, it is logical that individual distributors are small in terms of number of employees, average sales per store, sales floor size, and type of operation. Statistics of wholesale and retail establishments by size of employment are evidence of fragmentation in the Japanese distribution channel structure. (See Figure 2.6.) In 1968, nearly half of all wholesale establishments had four employees or less. Even more surprising, retail establishments with four employees or less accounted for almost 90 percent of all establishments (average number of employees per store for wholesalers and retailers in 1968 was 10.93 and 3.05, respectively).

The average annual sales per establishment in 1968 were reported at about ¥ 238 million (roughly \$79,000) for an average wholesaler (about eleven employees) and approximately ¥ 9.6 million (about \$32,000) for an average retailer (three employees).

It is interesting to compare the Japanese small business figures with those for the United States in terms of size of establishment (see Figure 2.7). The average sales for Japanese wholesale establishments with 100 employees or more were nearly 1,000 times greater than those for establishments with two employees or less, compared with 86 times in the United States. The same comparison of retail establishments shows a figure of almost 819 times in Japan and 183 times in the United States. Judging from

No. of Employees	Wholesale Trade		Retail Trade	
	No. of Estab- lishments	Percent of Estab- lishments with No. of Employees	No. of Estab- lishments	Percent of Estab- lishments with No. of Employees
1-2	63,571	22.6	932,951	67.1
3-4	62,076	22.1	295,481	21.3
5-9	80,453	28.5	116,148	8.4
10-19	43,733	15.6	30,829	2.2
20-29	13,430	4.8	7,080	0.5
30-49	9,483	3.4	4,163	0.3
50-99	5,609	2.0	1,801	0.1
100 and Over	2,730	1.0	769	0.1

Figure 2.6.--Distribution of Wholesale and Retail Establishments by Size as Measured by Number of Employees, 1968.

Source: Wagakuni no Shōgyō, 1969 [Commerce in Japan, 1969] (Tokyo: The Ministry of International Trade and Industry, 1970), pp. 120-123.

this evidence and the fact that nearly half of all wholesalers and 90 percent of all retailers employed four persons or less (see Figure 2.6), it may be noted that a large number of very small-scale distributors operate on a very small sales volume, while a very small number of large-scale distributors have a very large sales volume.

Concerning the sales floor space of retail stores, nearly 50 percent of all retail establishments in 1968 had less than 19 square meters (roughly 200 square feet), and almost 75 percent had less than 30 square meters (roughly 320 square feet). (See Figure 2.8.)

Small distributors depend heavily upon family members. Yoshino has already pointed out that 29 percent of wholesale establishments and 77 percent of all retail stores belonged in the category of family dependency for labor supply (Yoshino, 1971, p. 14). These retailers and wholesalers do not clearly separate store operations from the household budget.

It is significant to note, however, that this dependence upon family members, especially in retail stores, is not unique to Japan.

In Japan proprietors and their families combined amounted to 37.7% of all workers engaged in commerce in 1966. The figure was 15.5% for the United States, and while the percentage was a little higher in West Germany and the United Kingdom, it was still lower than that for Japan. The figure for Italy was 57.6%, which suggests that commerce in the country leans even more heavily toward family trade (Tajima, 1971, p. 32).

No. of Employees	Wholesale Establishments		Retail Establishments	
	USA	Japan	USA	Japan
0-2	1.0	1.0	1.0	1.0
3-4	2.0	3.3	2.8	3.5
5-9	3.4	7.7	4.9	8.7
10-19	5.7	19.6	10.2	18.4
20-29)		39.9		30.2
)	12.6		24.2	
)				
30-49)		72.4		47.4
50-99	31.9	145.8	54.0	94.6
100 or more	86.3	999.0	183.3	818.9

Figure 2.7.--Annual Sales of Wholesale and Retail Establishments of the United States and Japan According to Size of Establishment, 1966
(Sales of Establishments with 0.2 Employees=1.0).

Source: Wagakuni no Shōgyō, 1967 [Commerce in Japan, 1967] (Tokyo: The Ministry of International Trade and Industry, 1968), p. 6.

Sales Floor Space (square meters) *	Percent of All Retail Estab- lishments
1-9	11.8
10-19	36.2
20-29	22.3
30-49	18.4
50-99	8.1
100-199	1.7
200-499	0.8
500-999	0.2
1,000 & Over	0.1

*1 square meter = 10.8 square feet.

**Figure 2.8.--Percentage Distribution of Retail Stores
According to Sales Floor Space, 1968.**

Source: Wagakuni no Shōgyō, 1969 [Commerce in Japan, 1969]
(Tokyo: The Ministry of International Trade and
Industry, 1970), p. 84.

Family involvement in store operations also does not necessarily mean that the family income is totally dependent upon the store. Retail store operations often are regarded as a side business or supplement to the main source of family income. Both Tajima and Yoshino explain this situation:

Twenty percent or more of the retailers obtained more than half of their household income from sources other than retailing, indicating that retailing was a side business rather than their main occupation (Tajima, 1971, p. 27).

It is not uncommon to find a situation in which wives operate small stores while their husbands have full-time employment elsewhere (Yoshino, 1971, p. 14).

Limited capital and highly specialized retailers also are characteristic of the Japanese distribution system. (See Yoshino, 1971, pp. 1516, and Tajima, 1966, p. 11). The average initial capital reported by small retail stores (with four employees or less) established in 1966 was only ¥ 780,000, or slightly over \$2,000. Even for stores with 10 to 19 employees, the average initial capital was no more than ¥ 2.7 million, or less than \$8,000 (Yoshino, 1971, p. 16).

Because of limited financial resources and limited physical size, there is a tendency for retail stores to be highly specialized in the types of products they handle. The bulk of retail sales for many products still is made through smaller neighborhood stores, most of which are either single line or limited line stores. This is

especially true of food stores. Japan External Trade Organization (JETRO) has reported, based on the Ministry of International Trade and Industry's (MITI) Wagakuni no Shōgyō, 1970, that "the various types of food stores in Japan appear to be about 80 percent specialized, that is about 80 percent of their sales are in their product speciality" (JETRO Marketing Series No. 5, p. 27). Yoshino also succinctly states the situation:

In 1968 there were more than 100,000 stores specializing in liquor and seasonings, 20,000 meat shops, some 49,000 stores handling fish and related products, more than 60,000 fruit and vegetable stands, more than 238,000 confectionery and candy shops (Yoshino, 1971, p. 16).

Whether or not these specialty shops are efficient will be determined in the detailed discussion to follow, but the fact that these small-scale distributors operate in the dominant part of Japanese business is a result of its historical development.

Low Productivity of Predominant Small Distributors.--

A third main structural characteristic of the Japanese distribution system, low productivity, has been often noted. One American expert on Japan's marketing system, for example, observed that a small family retail outlet can survive on as little as \$15,000 in annual sales volume (Faris, 1969, p. 48).

Sales per person (laborer), although only one among many, is an important measure of distribution productivity. These figures for wholesaling and retailing

according to the size of business are shown in Figure 2.9. According to this figure, the annual sales per person of wholesalers with 1 to 2 employee(s) were about 50 percent and 75 percent less, respectively, than those with 5 to 9 and 50 to 90 employees. When per person sales for 1-2 employee wholesalers are compared with those of 100 or more employees, the latter figure is seven times higher than the former. It is apparent that in wholesaling there is a wide productivity discrepancy between small-scale and large-scale operations, that is, small-scale wholesalers who dominante in Japan operate with a very low sales per person rate compared to a very small number of large-scale wholesalers. The tendency can be seen in retailing operations. Per person annual sales of retailers with 1-2 employee(s) (approximately ¥ 1.8 million) were also about 50 percent and 75 percent less, respectively, than those with 5-9 and 100 or more employees.

This low rate of per person sales of Japan's small-scale distributors is clearly evidenced by comparisons with selected countries. Yoshino notes:

In contrast, in Great Britain, virtually no variation was found in sales per employee according to different size firms. In the United States the sales per person were reported to be highest among stores with 50 to 99 employees, but even here they are only about 50 percent greater than those of stores with two employees or less, in contrast to more than a threefold difference in Japan. These figures reveal the relative inefficiency of very small establishments in the Japanese distribution sector (Yoshino, 1971, p. 15).

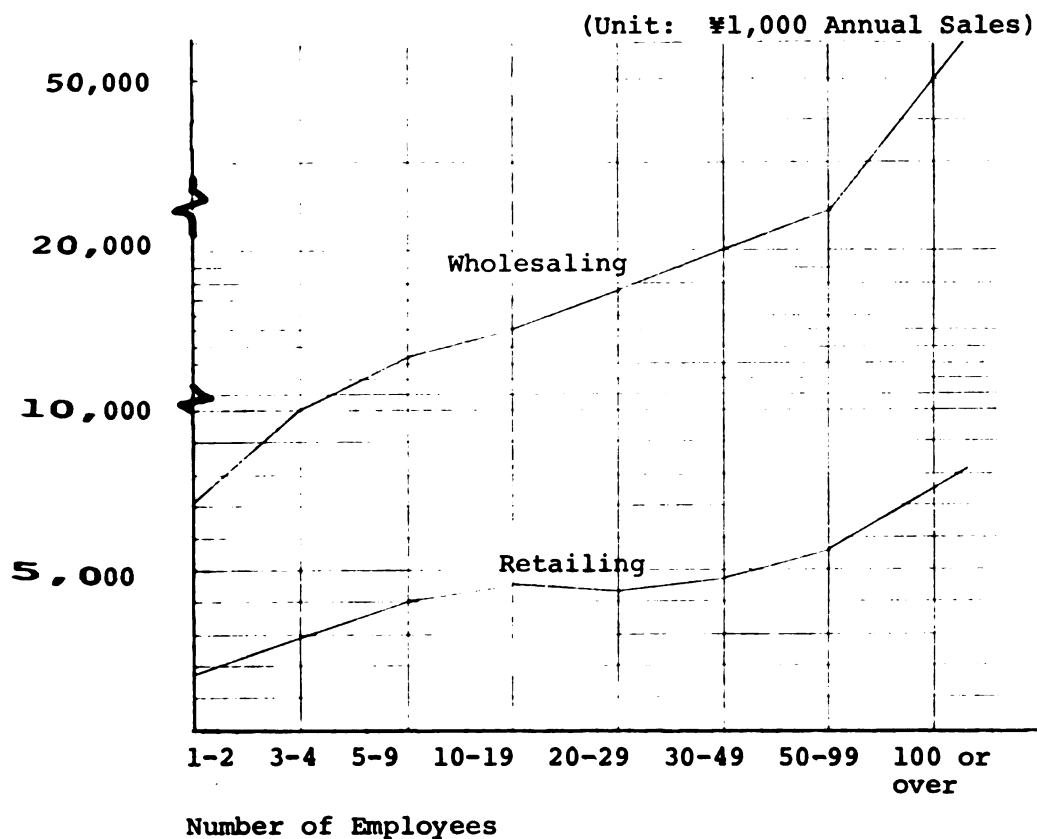


Figure 2.9.--Sales Per Worker by Size of Outlet, 1970.

Source: The Ministry of International Trade and Industry, "Commerce of Japan" (Tsusonsho, Waga Kuni no Shōgyō).

In addition to this evidence, two points should be considered when interpreting the data. The first is the high dependency on family members as laborers in smaller business operations. Family members were not counted as laborers in the data; if they had been the discrepancy in productivity between small-size and large-size establishments would be greater. Second, manufacturer-paid or wholesaler-paid detailmen and demonstrators were not counted as laborers. Most big department stores and large-scale wholesalers depend heavily upon this unique Japanese custom (to be discussed later), but those workers were not included in the per person sales figures (Korekara no Ryūtsū, 1972, p. 88). Therefore, the large discrepancy of per person sales between the two extreme scale sizes should be discounted in this case.

Although several other factors could be taken into account, the evidence of low productivity among small-scale distributors is irrefutable. Tajima cited the three most backward aspects of Japanese distribution activities as being labor intensity, lack of standardization, and lack of systematization (Tajima, pp. 37-40). These are apparently some of the causes of low productivity, but productivity cannot be considered in a vacuum. Environmental factors, especially consumers' shopping convenience, must be taken into account. JETRO has described Japan's dominant pattern of neighborhood stores:

In most urban areas shopping areas are located within a few minutes walking distance of almost any residential area. While there is much to be said for the shopping center as it has developed in Western nations, with its large parking area and variety of stores, the Japanese neighborhood shopping center [districts] also has much to offer in convenience to the shopper. . . . For example, the super market will usually handle several types of tea, but not the variety that the specialized neighborhood tea shop handles (JETRO Marketing Series No. 5, p. 28).

Another source says:

Limited income, lack of storage facilities, and the strong preference for freshness led housewives to make frequent shopping trips, sometimes several daily. And of necessity, they had to confine themselves to neighborhood shops. Women had ample time on their hands and lacked opportunities to utilize their spare time for economically productive activities. Besides shopping constituted to many housewives the only opportunity for social interactions (Yoshino, 1971, p. 23).

The situation described above still exists today, and neighborhood stores are extremely convenient for the consumer. Thus, the degree of productivity cannot be determined only by sales measures. It must be considered within the overall cultural context.

Rationale for the Development of Unique Distribution Channel Structure

Why have the various structural characteristics of Japan's distribution channel system developed as they have? Full examination of this question might require several volumes, especially if proper consideration were given to cultural, geographical, social, economic, and technological factors. Although such studies are extremely important and

interesting, the topic will be summarized rather succinctly here on the basis of previous research simply because it is not the direct aim of this study.

In investigating why the Japanese distribution channel system evolved into its present form, G. A. Elgass and L. P. Dowd enumerated six reasons for the length and multiplicity of the channel (Elgass and Dowd, 1963). Although published more than a decade ago, most of their work still is relatively widely accepted.

As the key factors behind the lengthy multilevel channel structure, they enumerated the following:

1. The national market covers a great distance because of the long, narrow shape of Japan.
2. The 94 million consumers, with a 1961 income per capita of approximately \$360, constitute a broad but thin market.³
3. The buying habits of consumers make very intensive retail distribution necessary for some types of products. Housewives shop daily for food. In a large city there are strips of small convenience-goods shops within a short walking distance from almost every residence.
4. The atomistic size of the large proportion of manufacturers, wholesalers, and retailers, plus their limited capital, encourages, if not requires, that the firms which perform the functions in the channel system make use of an additional link or two.
5. Secular unemployment, coupled with cultural patterns which favor individual proprietorship, tend to retard the growth of large-scale business units except when technology requires large-scale operations.

³This factor is outmoded today because 1974 income per capita in Japan was almost ten times as much as that of 1961. This factor, however, was a very important historical cause in formulating today's unique Japanese distribution structure.

6. Manufacturers often perform little or no part of the marketing task, thus leaving a big job for the middlemen.

As reasons for manufacturers' use of multiple channels, they found the following four factors:

1. For a given product or product line the specific market tends to have a wide range of diversity for example, from Tokyo to a tiny rural village; from cottage industry to a giant corporation. Similarly, the middlemen vary from the very large and financially strong to mamma and pappa shops.
2. With the economy's rapid growth rate and new diversification of industry, there are no traditional channels for some new products. If distribution through several types of retail stores is needed, this may well require the use of several types of wholesalers.
3. Recently, some supermarkets and discount houses have been born, to add to the diversity of retail types that the producer must reach.
4. Scrambled merchandising by established channels of distribution is not lacking in Japan.

As shown above, today's distribution channel system appears to be the result of its unique cultural environment, including geographical, sociopolitical, economic, and demographic factors, consumer shopping behavior, and the general business and management system, all peculiar to Japan.

More recently, Yoshino also has analyzed the historical and environmental development of the Japanese distribution system (Yoshino, 1971). He questioned why the distribution sector has been virtually unaffected by the rather sweeping changes that have taken place elsewhere in the economy. Not far different from Elgass and Dowd, he gave four major reasons for this situation:

1. the absence of a broad consumer market
2. the continued importance of small manufacturing establishments
3. the role of the distribution sector to absorb a large share of the surplus labor force
4. inadequate infrastructure

To his first reason, the absence of a broad consumer market, Yoshino added that "not only was the average consumer's expenditure limited, but small income forced him to purchase goods in small quantities at frequent intervals" (ibid., p. 23). Also, observing shoppers' behavior in Japan, he pointed out that "the lack of consumer mobility and the need to shop frequently have provided a powerful rationale for the existence of a large number of small stores" (ibid., p. 23).

Expanding on his second reason, Yoshino emphasized that small manufacturing establishments long have occupied an extremely important place in the Japanese economy, particularly in the production of consumer goods. Using the available data, he suggested that in 1967 90 percent of manufacturing establishments fell in the 1-29 employees category (74.0 percent with 1-9 and 16.6 percent with 10-29 employees). He concluded that "the continued presence of a large number of highly fragmented small production units requires the services of equally many marketing intermediaries" (ibid., p. 24). He also explained the historical development of the country's industries, beginning with the feudal Tokugawa era (sixteenth to nineteenth century). After briefly explaining the extensive

geographic specialization of products in the feudal days and their later nationwide distribution and recognition, he reasoned that "since the great majority of those producing units typically have been small, the marketing of their output also requires complex arrangements and multiple levels of marketing intermediaries" (ibid., p. 24).

Concerning surplus labor, Yoshino explained the serious and nagging problem of unemployment throughout the prewar decades, as well as during the early postwar years. He reasoned that easy entry into commercial activities, which had attracted a large number of the unskilled who otherwise would never have been employed, had resulted in the proliferation of marketing establishments.

Finally, using available data, Yoshino enumerated several inadequate features of the infrastructure which deter the smooth flow of information and materials, such as poor road conditions, storage facilities, communication, and transportation. He then concluded that these inadequacies had been an important factor contributing to the development of highly fragmented and specialized marketing intermediaries.

Several other authors⁴ have dealt with why Japan's distribution structure has resulted in today's form, but the studies by Elgass and Dowd and Yoshino are the most

⁴See, for example, the following literature: Adams and Kobayashi (1969); Tajima (1971); Nakamura and Tajima (1969); Faris (1969); Kubomura (1967); and Weigand (1970).

comprehensive. As noted above, the complexity and multiplicity of Japan's distribution channel structure appears to be the product of its unique environment. Although the future is not certain, it seems the development of the system in the past was well adapted to its surroundings. The present and future challenge to the system involves its adaptation to new, emerging socioeconomic conditions while remaining compatible with the traditional aspects of Japanese society.

CHAPTER III

SOME CHARACTERISTICS OF JAPAN'S DISTRIBUTION CHANNEL BEHAVIOR AND MANAGEMENT SYSTEM

This chapter examines and analyzes Japan's distribution channel behavior and management system. These two aspects, as explained in the previous chapter, are directly related to marketing channel administrative behavior, which is the subject of this research. To provide background knowledge, the unique characteristics of Japan's distribution channel behavior and management system are noted. Based on a survey of the literature, four propositions then are hypothesized.

Characteristics of Japan's Business/Management System

A recent article in the Wall Street Journal succinctly described the Japanese business/management system and compared it to Western-style management as follows:

Japan's economic iconoclasm appears to defy economic analysis: it would serve as a textbook model of how not to succeed in Western-style business. Under our system, promotions are largely based on ability. But the rise to

Japan's executive suites is largely up the escalator of seniority. A guaranteed job for life is considered economically impractical in the U.S., a sure bet to stifle progress and impede change. Yet lifetime employment is entrenched in Japanese corporate life. American executives are celebrated for being able to make bold decisions. In the Japanese system, individual initiative is discouraged by decisions arrived at by consensus after extended debate, consultation and discussion. And when Japanese workers define their goals by echoing Samuel Gompers's succinct "More!" they mean "more" for their employer as well as for themselves (McDowell, 1974).

Another recent article in Business Week identified three characteristics of Japanese management as being the most responsible for that country's current success in business operations. They are lifetime employment, payment by age and length of service, and decision making by consensus (Diebold, 1973).

As clearly indicated above, it seems appropriate to consider the ringi system (consensus decision making), lifetime employment and the seniority system, and harmonious group-oriented management as characteristics of the Japanese business/management system. These three topics, plus Western influences on the Japanese management system, are discussed below.

Ringi System

One of the most widely known components of the Japanese management process is the ringi system, which involves decision making by consensus. Yoshino devoted an entire chapter in his book on Japan's managerial system to its discussion. As he pointed out, it is "much more

than just a procedure" for decision making and "represents a basic philosophy of management deeply rooted in Japanese tradition" (Yoshino, 1968, p. 254). JETRO's booklet, Doing Business in Japan, also suggests that "a recognition of the operation of this custom (the ringi system) will be useful in interpreting attitudes shown by Japanese business partners" (JETRO Marketing Series 8, p. 29). The ringi system is, in fact, fundamental to an understanding of Japanese management or administration.

What does the term mean? Yoshino defines it literally as follows:

The ringi consists of two parts--rin, meaning "submitting a proposal to one's superior and receiving his approval," and gi meaning "deliberation and decision." The ringi system has, indeed, all of these features (Yoshino, 1968, p. 254).

Since the authority and responsibilities of lower echelon managers in Japanese organizations are ill-defined and since they receive no policy guidelines from their superiors, they "must refer all but a few routine decisions to top management" (Yoshino, 1968, p. 255). In doing so, a certain procedure is needed. A document, known as a ringisho, is drafted, and in it the matter to be decided and recommendations for action are described. This ringisho is then presented in such a way as to seek top management's approval of a subordinate's specific recommendation. The working of the ringi system is described as follows:

When the formal ringisho is ready, it must be circulated among various sections and departments that will be affected by the decision, or whose

cooperation will be necessary in its implementation. As each manager evaluates it, he indicates his approval (if he concurs) by affixing his seal. By complex and circuitous paths, the ringisho slowly works its way up to top management, eventually reaching the president. When the president approves the ringisho by affixing his seal, the decision is final. The ringi document is then returned to the original drafter for implementation. When a decision to be made is of some importance, it is quite likely that a considerable number of prior consultations will take place with those who may be affected by it, as well as with those who are in a position to influence its outcome. In formal meetings and by informal means, an exchange of views and some bargaining will take place. It is only after a consensus is reached that the ringisho is prepared and circulated among various executives for their formal approval (Yoshino, 1968, p. 255).

In this manner lower ranked people in the organization share responsibilities and risks with the entire management by asking their approval. "Decision making then becomes a group activity and individual responsibility is avoided" (Adams and Kobayashi, 1969, p. 80).

This harmonious consensus decision-making system is believed to stem from the Japanese family system and is a kind of paternalism. Perhaps this origin gives the system its slightly archaic quality. All those involved in making the decision are obliged to support the outcome, even when they disagree with the choice. Of course, an effort is made to have the process appear democratic.

Outwardly, the ringi system may seem to be very democratic, because everyone has participated in the decision. However, it is also a convenient way of avoiding responsibility, and can be considered collective irresponsibility. There is no space on the ringi forms for disapproval. Sometimes an executive has to put his hanko (personal stamp like a seal that all Japanese have) on a form because everybody else has done so. He then affixes the

hanko sideways to show that he has seen the paper but does not positively approve of it. When he is violently against a decision, he places the hanko upside down (Imai, 1969, p. 83).

Although the system has been improved by the use of a more simplified ringisho form and an executive committee meeting for decisions, the basic philosophy of a consensus decision arrived at under a paternalistic management seems to be deeply rooted in the Japanese management system, and the system itself never has been abandoned. In fact, a recent survey of Japanese companies reported that "about 90 percent of them still used the ringi system," although "about one-half of the firms indicated that they were modifying their procedures to expedite decision making" (Imai, 1969, p. 83).

Lifetime Employment and the Seniority System

Lifetime employment and the seniority system also are unique to Japanese management. Most employees are hired by a company immediately upon graduation. The company then provides in-plant education and training and continues to employ them until the compulsory retirement age of 55 is reached. Employees are unlikely to be dismissed before retirement, or to change jobs. Under this system of Shūshin-koyō (lifetime employment), "the longer the service of the employee, the higher will be the payment and the position to which he is assigned" (Grasshoff, 1969, p. 96). Thus, the nenkō-joretsu (seniority system) is a natural

outgrowth. As a result, employment becomes fixed, and Japanese management is often criticized because it does not adjust its workforce according to business fluctuations. There is virtually no layoff of employees, and employee turnover is very low (Imai, 1969, p. 77). In fact, layoffs and turnovers often are considered evidence of a company's bankruptcy. Even in such a situation, employers try to be as benevolent as possible (Butterfield, 1974, and "Death in the Family," 1974).

As indicated by the above, lifetime employment and the seniority system are inseparable; only with the former is the latter possible. Also, the latter strengthens the former; because employees are guaranteed permanent jobs in the company, the seniority system provides the incentive for senior and experienced employees to remain in the organization and receive promotions and seniority payments (Hazama, 1973, p. 43).

Within the literature on the subject, Takada has ably analyzed and summarized the lifetime employment system based on past studies and his own insights. He cautioned that the system, which is often misunderstood by Westerners, is only possible under the following conditions (Takada, 1974): (1) lifetime employment assumes that employees do not make egregious mistakes and are not malicious. For example, they do not steal or leak corporate secrets; (2) it is a customary, not legislated system; (3) it permits voluntary retirement by the employee.

Employees also may transfer to another company at any time without being under any obligation to the company; and (4) the system sets a compulsory retirement age of 55, except for top management, although there are strong demands for extending it.

Takada also gave three reasons for the historical development of lifetime employment in Japan. First, there was a need to integrate laborers. After winning two significant wars against China and Russia in the early twentieth century, the economy expanded greatly, accompanied by an increase in the work force. This increase necessitated a new management philosophy and a system such as lifetime employment to integrate these workers into the economy. Second, modern technology required that companies keep capable employees as long as possible. Third, pressure from the labor movement forced companies to provide secure employment.

Whether or not lifetime employment and the seniority system are desirable is still moot. Many factors must be considered in their evaluation. In general, Westerners who have written about the Japanese management system favor these practices, while Japanese opinions vary. Some well-known Western business professionals such as James C. Abegglen and Peter Drucker strongly advocate their importance as contributing factors to Japan's economic and business growth. Most Japanese writers are more cautious in their evaluations.

Among the many advantages of the systems, the most important is employment security. This results in stable employee income, company loyalty, some economies in the long run, smoothing of the impact of technological innovation (because of no dismissals and maintenance of good quality laborers), and the social responsibility of management (through providing secure employment). The disadvantages are discouragement of employee motivation, lowered morale, inflexibility in adapting to economic fluctuations, a fixed rather than variable amount of labor, and an imbalance between ability and job position. The system also places continuous pressure on business to expand because companies have high fixed-labor costs. Apparently this creates the excessive domestic and international competition characteristic of Japan.

At present, as part of the new Japanese style of paternalistic management, many companies are attempting to promote the advantages and reduce the disadvantages. In an effort to increase flexibility, part-time and temporary employment has been widely used. Raising the compulsory retirement age also would reduce inflexibility, but this is a controversial issue. One solution would be for companies to recruit from the pool of retirees after examining recruits on the basis of ability and health. To improve employee morale, some companies make regular inter-organizational transfers or establish special promotion channels for able employees through qualifying examinations. Some firms provide various educational training courses.

Attendance at outside management seminars, held at the company's expense, by many employees, including senior ones, is almost compulsory. If they take advantage of these opportunities for self-improvement, many employees can keep abreast of environmental and technological changes (such as in the computer field).

Based on corporate and literature surveys, Takada has summarized the general trend and direction these systems will take in Japan. Lifetime employment will persist as a corporate philosophy, but the seniority wage system may be improved gradually by implementing a merit-based payment system (Takada, 1974, pp. 45-55). Regarding the seniority system, Nakane maintains it is especially suited to and is even necessary in Japan's vertically structured society. People would become confused if they believed everyone equally endowed with talent. The system preserves harmony and loyalty.

It is said that the seniority system works when authority is ill-defined and rules are lacking, which are characteristics of Japan's business system. In this situation, experience acquired through the seniority system becomes an especially important and useful guide, although this does not necessarily constrain behavior. Respect for upper echelon personnel is quite meaningful, as the following quotation suggests:

A corollary to the rigidly hierarchical organization of Japanese enterprises is the deeply ingrained belief that older men of long experience

merit the respectful attention that accompanies their advanced status, while younger men, no matter how clever they may be, are too inexperienced to be listened to. Executives feel that the man who can solve management problems is the man who has successfully done so over the years (Adams and Kobayashi, 1969, pp. 103 and 126).

Management Based on Group Orientation
and Harmonious Human Relations

More than a decade ago the London Economist described the Japanese management system as follows:

For a variety of historical and sociological reasons there does seem to be a sort of inbred collectivism in the Japanese people, whose outward manifestations (this is a wild over-simplification) bear some caricature-like resemblance to the atmosphere in the heartier English public schools. This atmosphere disconcertingly for the visiting analyst, can overlay the attitude of the Japanese worker (as well as the Japanese executive) in the more successful industries to his job: up the old firm; Mitsubishi Heavy Machinery plant for ever; act as a fag in your pockets when passing the headmaster, and expect in return to be treated by him as one of "my people" to whom he has a special responsibility in times of trouble; feel a genuine personal involvement in the factory's production record and other collective achievements; actively prefer to live together cheek by jowl and spend a lot of your leisure time in group activities (often of a self-improving sort) sponsored by the firm (Correspondents of the Economist, 1963, pp. 16-17).

Although the Economist exaggerates slightly, its description is basically true, even today, of a typical Japanese laborer's behavior and attitude. And although the reporter was surprised, few Japanese would consider this situation remarkable. What they do find curious is the astonishment of so many Westerners. The latter may lament the lack of individual initiative and independent thought in Japanese

corporate life, but these concepts have little place in a society whose highest values are harmony, human dignity, group consciousness, and togetherness (McDowell, 1974).

Collectivism, groupism, togetherness, the family, and paternalism as well as the ringi system, lifetime employment and the seniority system already discussed, all have been used to describe the Japanese management system. The element common to all of these is a group-value orientation as opposed to the individualism expressed in Western philosophy. The following quotation elaborates:

Nurtured in the traditional collectivity orientation, it is readily understandable that Japanese management would emphasize loyalty and duty to the group, harmony and cooperation among group members, rather than individual functions and responsibilities. Permanently committed to the interest of the collectivity, each member is expected to do whatever is deemed most important in the fulfillment of the goals of the collectivity at a given moment in time (Yoshino, 1968, p. 203).

The Japanese management system, based on collectivism or paternalism, thus places the highest priority on the group value of the company as a whole. The value of the individual is secondary or is sacrificed to this group orientation. Of course, individualism may be pursued, but only through the group. In an extreme sense, the interests of the individual and the group become one and inseparable.

It is widely known in Japan that this emphasis on the group value stems from the vertical social structure which has been developed throughout Japan's history.

It (subordination or superiority) is all determined by the symbiosis of Japanese society. The hierarchy of the vertical relationship is not determined from the outside, nor is it imposed from above; it is the actual working of the relationship, namely of the people involved. It would be erroneous to construe it along the lines of western individualism. It has been noted repeatedly that even in present-day Japan expressions of individualism (Kojin-shugi) are negative in the sense that they are negations of loyalty to the group (giri) (Ballon, 1971, p. 13).

It should be realized that group orientation is a social norm in Japan.

It is often said that Japanese business firms pursue two objectives. One is the pursuit of business profit, as is common in Western nations, the other is the maintenance of the group. Hazawa characterizes this situation as "quasi-gemeinschaft," using Tennes's gemeinschaft-gesellschaft scheme, because many Japanese companies exhibit both an economically rational profit orientation on the basis of individualism (gesellschaft) and a more emotional group orientation (gemeinschaft) (Hazama, 1973, pp. 18-20).

Management based on group orientation, such as collectivism and paternalism, tends to emphasize wa (harmony). Wa does not mean merely cooperation and coordination. It is based on the willingness of the individual to compromise and sacrifice for the group value (or maintenance of the group). The ringi system, lifetime employment, and the seniority system apparently are based on this philosophy.

There are several manifestations of Japanese companies' efforts to maintain this harmony in their management

policies. The first is the method of personnel recruitment. When considering a new college graduate, most companies emphasize jinbutsu (general human character). Personal ability is important, of course, but even if a candidate's ability is outstanding, he will not be employed unless he is cooperative, liberal, and harmonious.

Applicants for management positions with elite Japanese industrial organizations are required to take a battery of exams spread over several months. Only a small percentage survive, since those who pass the aptitude or physical exams still must be judged on the basis of whether they will fit smoothly into the organization, an economic family that provides protection and security in return for the submersion of one's individual identity. Those who survive the weeding out process are then sent to company training institutes for orientation in spiritual consciousness and company pride. They learn the company song and memorize company mottos (McDowell, 1974).

Furthermore, individual behavior which threatens to decrease the morale of others is severely frowned upon. For example, if an employee eats a sandwich outside lunch hours he will be criticized, even though he performs his job well, because he acted alone and may lower others' morale (Hazama, 1973, pp. 26-27).

A third manifestation lies in the efforts companies make to keep harmony by subduing competition and discrimination and softening conflict and tension within the company. For example, managers, clerks, and other laborers often eat lunch together in the same cafeteria, wearing the same uniforms. Equality seems to be especially emphasized to keep harmony on the surface.

Finally, companies try to encourage group spirit. There are many opportunities for employer and employee to mingle. New Year's Day ceremonies, the company's foundation day, morning meetings, and so forth, are times for spiritual encouragement to be given to the group bond. In addition, many companies aim for total involvement.

Employees receive free medical care, commuting allowances, subsidized lunches, cut-rate groceries, and bachelor quarters . . . At many companies, girls can attend company-sponsored bridal schools. Newlyweds can honeymoon at company villas or company vacation cottages, buy company-built homes on company-owned lots with company-subsidized loans (McDowell, 1974).

Because of so many fringe benefits employees feel loyalty to the company. Takada has observed that employee loyalty is the result of these various company efforts. He maintains that what prevails in Japan is paternalism, not mere benevolence. The system is based on a quid pro quo between management and the worker. In exchange for lifetime employment, the seniority system, and fringe benefits, the worker offers gratitude and loyalty, and this loyalty has played a significant role in the growth of Japanese corporations.

Western Influences on Japanese Business and Management

Although the Japanese cling to many traditions, it is not difficult to find evidence of enormous Western influence. As is true of many less developed countries, Japan's modernization has been aptly termed westernization

or, more narrowly, Americanization, especially since World War II. After the devastation of war, Japan was eager to introduce and imitate Western technology and culture, although a tendency toward westernization had existed since the Meiji era (1868). In addition to technology, the West has influenced almost all the sociocultural aspects of Japan. Dean has termed this situation Asian westernism.

More than any other country in Asia, Japan has adopted the ways of the West. With modern Western science, technology, business methods, military arts, even Western sports, music, and now pinball machines at its disposal, Japan has been recognized for half a century as one of the powers in world affairs (Dean, p. 151).

Despite its enthusiastic adoption of much of Western culture, Japan also has kept its traditional ways. In fact, it adds a quality of its own to what it borrows from abroad. Tradition dies hard in Japan, as indicated by the following:

A girl may wear a miniskirt to work, but for any real important occasion she will want to wear a kimono and an obi. She may marry in a Western-style wedding gown, but for the reception afterwards she will change to traditional dress (Adams, p. 806).

As Dean has said:

Japan may look American to an Asian, but to one who first visits Japan from the United States, Japan has many alien characteristics. As the Japanese continue to find themselves in the years ahead, what they find will be clearly distinguishable from the growing range of things we and the Japanese have in common (Dean, p. 175).

The amalgamation of two cultures, modern Western and traditional Japanese, has been smoothly promoted because most Japanese have been educated to believe that Western culture is right and good.

Corporate adoption of new Western technology in the business and management field is no exception. Many Japanese firms have introduced American business practices and technology, sometimes bravely abandoning traditional Japanese methods, but usually mixing the two.

To be sure, change is creeping into the Japanese system. Strikers sometimes shatter the industrial calm, though they are relatively rare and workers continue to wear company lapel pins and sing company songs. Innovation no longer means merely copying or improving upon Western technology initiatives. Merit promotions, heretofore limited to top management, are no longer unknown in middle management ranks. And recent books telling how to change jobs at a profit have lately found a ready market here (McDowell, 1974).

The Japanese are eager to know about foreign business methods. One survey reported that about 80 percent of top Japanese executives had traveled abroad more than three times. In terms of exposure to international business, top Japanese executives perhaps have more experience than their American counterparts. It is also reported that 40 percent of Japan's top executives have been stationed abroad for more than three years (Imai, 1969, p. 78).

Many Japanese firms provide in-company management courses for employees and often send them to outside seminars to learn higher management skills. Information provided in these programs mostly involves American technology and business and management techniques. It is also very popular for Japanese business groups to visit U.S.

companies and institutions. Economic efficiency and productivity are especially emphasized in business administration courses. American business models, paradigms, and contemporary issues are also the topics of concern to Japanese business today.

General Behavioral Characteristics of the Japanese Distribution Channel System

There are two aspects of behavioral characteristics: practice and activities, and philosophy and thinking. In the following, these two aspects of the general behavioral characteristics of the Japanese distribution system, which often are considered backward, will be discussed.

Practice and Activity

Rebate System.--One of the most interesting but most complex business practices and trade customs in Japan's distribution world is the provision of rebates as an incentive to distributors. In fact, it is widely said that if one understands the heart of the Japanese rebate system, one can be an expert on Japan's distribution system.

A rebate is generally understood to be a portion of business profit given to resalers in order to motivate their purchase. Types, purpose, and methods of payment for rebates vary widely in Japan. For example:

There are straight rebates on the amount of goods sold. A maker may give the wholesaler a 2 or 3 percent commission on sales after the sales have

been completed. For a new product the maker may increase the percent of rebate for the first year to about 5 or 6 percent. The exact level depends upon the type of product. Some producers in addition rely on progressive rebates to motivate wholesalers. Wholesalers who meet a given level of sales receive for example a 3 percent rebate, but wholesalers who meet a higher level of sales may receive a 5 percent rebate (JETRO (7), p. 6).

Rebates often are offered on a case-by-case basis to individual distributors. The confidential nature of rebates is especially important; if one distributor finds that another receives more than he does, he may request more or at least the same amount. To preserve harmony and loyalty, the rebater often pretends that he is giving the best offer to each. Each distributor, in turn, believes that he will receive a larger rebate if he demonstrates the greatest loyalty. To prevent distributors from feeling uneasy and distrustful, many manufacturers have initiated more explicit rebate systems, but in such a complex system this effort seems to have had little effect. In fact, there reportedly are almost 500 names for the various types of rebates (Kanai, 1970, p. 16). The purposes of the rebate system, which determine rebate provisions, are summarized in the following (Fujieda, 1970, pp. 6-7):

As sales promotion

- (1) to motivate distributors' purchase and enhance resale
- (2) cultivate new sales routes (channels)
- (3) acquisition of new customers
- (4) sales expansion for weak product line
- (5) market entry and expansion of new product
- (6) quick disposal of unfavorable inventory
- (7) provision of stable distributor's margin

As rewards

- (1) for a good location and space provided for display
- (2) for an effort at sales expansion
- (3) for cooperation in a sales campaign
- (4) for installment of a special display corner
- (5) for cooperation in an advertising effort

As control

- (1) maintenance of price system
- (2) promotion of earlier payment (shorter term promissory note)
- (3) promotion of cash payment
- (4) limited dealing in competitor's products
- (5) limited return of goods sold
- (6) participation of a manufacturer's channel member

Varieties of types, purposes, and functions of rebates make the operation very mysterious and complex. A drug wholesaler in Tokyo reportedly employs five full-time clerks solely for complex rebate calculation. One electric appliance wholesaler supposedly utilizes thirteen employees for 25 full days a month for calculation of rebates (Kanai, 1970, pp. 14-15). Those manufacturers who can afford to now use computers for these calculations.

Although there are several possible ways to improve rebate calculation, mechanical methods do not necessarily work well. Rebates often are provided sporadically and for ambiguous reasons, such as "the degree of a wholesalers' cooperation" (Tajima, 1971, p. 44), loyalty, and so forth. Experience and intuition still seem to dictate the appropriate time, place, and occasion for providing rebates.

Soon after World War II, the rebate system was born. Manufacturers had high hopes that it would be a

sales promotion secret weapon. To distributors, it meant additional pocket money and a windfall profit given by manufacturers.

"As the rivalry among manufacturers grew keener, rebates gradually became institutionalized as a method of competition and as a means of controlling distributors" (Tajima, 1971, p. 44). Once institutionalized as a trade custom, rebates no longer were regarded as "additional profit"; they came to be regarded as necessary. Tajima explains this situation, which may finally lead to a dealer's subordination to a manufacturer, as follows:

In the fields of mass-produced commodities and goods publicized in the mass media, there are now more than a few instances of goods being sold with no margin whatsoever. These wholesalers cover their selling expenses with the rebates they receive from the manufacturers. When things reach this stage, no trace remains of the control of distribution by wholesalers, and the subordination of wholesalers to manufacturers is achieved (Tajima, 1971, p. 44).

Today, this system is widely criticized as a "vicious cycle" or a "narcotic" practice. Despite such criticism, this practice has never been abolished because it is so well received by distributors and is such a powerful weapon with which manufacturers can motivate, stimulate, and attract distributors under keen competition. The weakness of the distributors' financial position, as previously discussed, creates their reliance on rebates to supplement their profits (or offset their deficits). Furthermore, in contrast to some other nations, such as the United States, Japan's antitrust legislation does not

place many restrictions on the levels of rebates which can be granted (Weigand, p. 28). The rebate system apparently has had a comfortable environment in which to develop.

Promissory Note and Deferred Payment System.--

Another unique aspect of the Japanese distribution system is the popularity of trade credit based on Tegata (promissory notes or IOU's). Whereas the promissory note system has largely disappeared from use in the United States, it is still very much alive in Japan.

The Tegata may have originated from the harmonious trade relationships among dealers and manufacturers and from the fact that there is a minimum amount of capital in the Japanese distribution system. In any event the very liberal extension of trade credit is commonplace at every stage of the distribution process. It is widely used by almost every purchaser and accepted by every seller.

Payment periods range from 60 to 120 or sometimes 180 days, but it is not unusual to find much longer credit periods in some industries and in some special cases. One Western businessman in Japan observed that "everyone uses them [promissory notes] and some are referred to as 'pregnancy' notes, in that they may not become due for nine months or more" (Glazer, 1968, p. 20).

Given the extreme scarcity of capital at the retail level, financing is a very important aspect of the wholesaler's function (Yoshino, 1971, p. 22). This is evidenced

by the fact that the major trading companies are the largest source of industrial financing and hence the largest borrowers from banks (Glazer, 1968, p. 20). Wholesalers in Japan must accept long-term promissory notes from retailers. Wholesalers then ask their suppliers (other primary wholesalers or manufacturers) for equal or even longer credit terms. It has been suggested that this archaic structure persists because of this financial reliance; "the more middlemen, the more spreading of the risk" (Glazer, 1968, p. 19). The chain reaction of deferred payment thus has been institutionalized easily as a trade custom and industry sales promotion tool. Once the system was institutionalized, not only financially weak dealers and hundreds of thousands of tiny pop-and-mom type retailers, but also financially strong distributors and retailers requested deferred payment as a matter of course, sometimes receiving more favorable terms. This chain reaction of financial reliance, however, often leads to a chain reaction of bankruptcies.

If a company's notes are dishonored and become uncollectable, its smaller creditors go to the wall. When, therefore, a large company gets into financial difficulties, the inevitable "domino effect" that follows knock over a number of smaller companies down the channel of supply. In 1960, there were 1,172 bankruptcies; in 1967, the figure had risen to 8,486 (these were all bankruptcies involving over ¥ 10 million) (Adams and Kobayashi, 1969, p. 68).

The promissory payment system is very flexible, having no specific pattern, because its validity largely

"depends on the trustworthiness and honesty of the payee" (Glazer, 1969, p. 20). As is the case with the rebate system, credit is provided on a situation-by-situation basis, depending upon the buyer's financial position, and the strength of loyalty and human contact between buyer and seller often determines credit terms. The human factor is again essential in this practice.

Liberal Return Privileges.--Return of goods privileges are relatively liberal at all levels of the Japanese distribution channel. Many suppliers automatically expect a certain proportion of goods sold to be returned after delivery. These returns are not necessarily attributable to deficient or damaged goods. Customarily, "your goods would not sell" is the reason given. As is true of other unique Japanese trade customs and practices, the privilege of purchaser returns seems to stem from several business conditions.

The most important of these is the already mentioned financial weakness and limited capital positions of middlemen, especially dominant small retailers. They simply cannot afford to keep unsold products in stock in their limited store space at their own financial risk. Close human relations and long associations between small retailers and wholesalers also work in favor of the liberal return of goods.

The financial weakness of the purchaser, however, is not the sole cause for large quantities of returns.

Efforts to balance the market and acquire economic power, coupled with supplier competition, are other important factors. For example, large Japanese department stores usually are granted this privilege by wholesalers without much question. To attract these stable, large-volume outlets, which often enjoy strong consumer loyalty, wholesalers permit liberal returns.

Wholesalers, in turn, transfer the burden of returned goods to manufacturers to minimize their losses. Again relying on past associations and the forces of competition, they request return privileges of their suppliers.

In highly competitive industries, manufacturers often ship their products to wholesalers on a judgmental base. Without any specific orders, manufacturers send a mihakarai-okuri (a shipment based on the manufacturer's estimate of a wholesaler's stock level) because manufacturers must dispose of a certain volume in order to maintain economies of scale in production. Wholesalers accept these shipments, although grudgingly, and usually try to sell the excess further down the channel. But such an aggressive "pushing" of products would be unacceptable without the manufacturer's tacit consent to liberal returns from wholesalers. Therefore, most overshipments from manufacturers in competitive industries presuppose a liberal return privilege.

In addition, many manufacturers who have established a brand image and are reluctant to damage it by

price-cut competition at the distribution level accept the free return of goods to maintain their list price. This is especially true of those industries which are affected by resale price maintenance, such as pharmaceuticals, toiletries, and cosmetics.

There is, however, much criticism of this trade practice. Improvements are being made slowly, but it will be some time before the system is completely abolished.

Frequent Delivery.--The general manager of Polaroid Corporation of Japan once described the typical Japanese order and delivery system, based on business experience:

Japan is only as big as California. At home we have a couple of salesmen in California. So, that sounds good The small dealer, he only covers over the telephone twice a year. The big dealer he goes and sees once or twice a month. But then he comes here (Japan) and starts to study the system a bit closer. He finds out first of all that the dealers expect to be called on once a day, certainly once a week. If I'm a big dealer, I want to pick up the phone and the guy's here in half an hour. If he runs out of stock, he picks up the phone and says "I need two cartons of so-and-so now." Then it's delivered (Schmuckli and Tajima, 1973/74, p. 102).

If Japan's unique business characteristics, such as the smallness of most retailers and many wholesalers, their limited financial resources, the strong competitive pressure in many industries, and the tradition of close human association are understood, the above situation seems natural. Japanese wholesalers are forced to sell to retailers in small quantities and at frequent intervals. Yoshino wrote that in highly competitive industries, such

as drugs, processed food, and home appliances, and certain lines of soft goods the daily shipment of merchandise from wholesalers to retailers is not unusual (Yoshino, 1971, p. 22). Many wholesalers must act as they do, despite long-standing criticism of the system's economic waste and inefficiency.

Government hearings about the delivery situation in fifteen industries revealed that there were no rules or contracts between wholesalers and retailers governing the minimum delivery amount or minimum order in most industries, except for instant coffee, which has a stable demand at large supermarkets (MITI, 1972, p. 116). It is important to note that delivery service in Japan is considered an additional service, and therefore cost, by both wholesalers and retailers. In general, within reasonable limits, Japanese distributors seem to prefer quick service as a trade-off to increased costs.

Competitive Pricing.--Japanese distributors, including retailers, apparently tend to rely on price competition. This issue is related to the Japanese employment structure, as Weigand has observed:

As a consequence of the Japanese commitment toward their employees, Japanese sellers must view prices as a highly flexible marketing instrument. The notion of marginal pricing and the importance of selling at prices that contribute to unavoidable costs is well understood both by businessmen and by academicians Prices may be cut at any level in the marketing channel by firms that must have sufficient immediate

income to meet their unavoidable costs, but the move ultimately will affect the retailers' cost of goods (Weigand, 1970, p. 24).

In addition to the employment structure, several other factors tend to make price a competitive tool. First, to make enough money to survive, financially weak wholesalers and retailers in competition with hundreds of thousands of other pop-and-mom stores often face great price pressures. It is natural that cash-poor wholesalers and retailers offer large discount rates for cash. Second, as a result of Japanese business customs, these middlemen sometimes cannot avoid a volume rather than profit approach. It is on the basis of volume that they receive the largest rebates (which often are higher than the margins they make). Third, other than close human relationships, small wholesalers and retailers have no weapon except price competition. Human associations alone, moreover, are not enough to ensure survival in Japan's highly competitive business world. To increase sales volume, price competition is the major, most effective, and most immediate tool at their disposal. Finally, family-run stores, whether wholesale or retail, can afford to lower prices because they can regard all their labor and operating costs as zero.

It then is no wonder that a specialist in Japanese marketing advises U.S. firms entering the Japanese market as follows: "On the whole, the Japanese tend to look to price competition as a major way of stimulating demand" (Faris, 1969, p. 53). Another observer also states:

With not much exaggeration it could be said that pricing is an open-end affair as well for the seller as for the buyer. More than anywhere else, it is difficult in Japan to form a precise idea (if one wants to!) of the cost of a product because of the many unaccountable or not properly accounted for "human" commitments resulting from the vertical relationship (Ballon, 1971a, p. 15).

With the exception of a few internationally known large Japanese enterprises, it is safe to say that the majority of firms still are considered price competitive.

Close Human Associations.--It is widely known that Japanese businessmen emphasize harmonious human relations not only within the organization but also with other trade partners. Doing Business in Japan, published by JETRO, provides guidance about business practices and suggests that the significance of human relations in the distribution channel system should be strongly stressed.

One of the (detailing) forces' main functions is to establish a personal relationship between the producer, the wholesaler and the retailer. While the detailing force does not visit the retailers as often as the wholesaler, he provides a presence as the representative of the producer on one or two occasions each month and allows the wholesaler and the retailer to express their frank opinions concerning the product and its prospects. Where both wholesalers and retailers are very small enterprises, this personal relationship can be very meaningful to the proprietor in charge of the neighborhood shop (JETRO Marketing Series 8, p. 20).

Another example which shows the importance of human association in trade relations as well as general business contacts is the unique Japanese custom of gift giving. Gift giving reaches its peak twice a year, at ochūgen at

mid-year and oseibo at the end of the year. Almost every company in Japan sends out vast numbers of gifts, ranging from very inexpensive to very expensive, depending upon the importance of the recipient to the company. Adams comments as follows:

[Gift giving] can prove a special headache for the unwary foreigner, who may unconsciously go wrong by being either too lavish or too cheap or by giving something unsuitable. Perhaps nowhere else in the world has the art of giving a present been so refined and so hedged in by protocol, and perhaps only a native-born Japanese is capable of evaluating all the considerations that enter into the choosing of a suitable gift. The foreigner is best advised to leave this thorny problem to his Japanese associates (Adams and Kobayashi, 1969, p. 208).

For these business gifts, almost all department stores have special sales departments because this market is too large for them to ignore.

In addition to gift giving, entertaining guests is another common technique for establishing friendly associations with trade partners or customers. Evening entertainment at restaurants, bars, nightclubs, and cabarets is quite popular, and golf and mahjong are also relatively well established vehicles for promoting friendship and mutual understanding. Many Japanese businessmen want to know the "real" person they are dealing with rather than just his superficial aspects. Contact outside of business hours is considered a good way to discover what people are really like. Of course, this method also is used as a simple competitive effort to sell the product. According to Tax

Administration Agency figures, somewhat more than five in each one thousand yen of sales turnover in Japan in 1969 was spent in this manner, the so-called Kosaihi. The total amount of social business expenses in 1969 was reportedly ¥ 773 billion (or about \$2.6 billion), a figure nearly equal to the government's social security budget for that year (Boyle, 1971). This system has been compared to the American businessman's martini-lunch:

In contrast to business practice in the West, little or no business is actually conducted by those who make use of expense accounts. In fact, to invite a business guest to an evening of entertainment only as a pretext for engaging him in the discussion of business matters would usually be considered rude. If business details need to be worked out there are other times which are more appropriate. If favors are to be asked they are usually asked with crisp indirection. A simple "sozo yoroshiku" (please take care of me) at the end of a convivial evening is one of the most effective soft-sell techniques employed anywhere (Boyle, 1971, p. 193).

Heavy In-channel Promotion (Dealer Aids).--In addition to margins and rebate systems, relatively free delivery privileges, promissory notes, and frequent delivery, dealers receive several other incentives or aids from manufacturers or upper-level wholesalers in the distribution channel. These generally are called dealer incentive plans. Examples are an invitation to take a trip or visit a resort area, or tickets to the Japanese theater. Weigand writes:

Dealer incentive plans are well known in the United States, but they appear to be much more common in Japan. A night at Kabuki or a large

cabaret, a weekend in Hong Kong, or even a week in Hawaii are rather common incentives for retailers (Weigand, 1970, p. 28).

This practice helps create a group feeling and closeness to business associates.

Manufacturer-paid demonstrators in retail outlets also are used to strengthen the manufacturer-dealer relationship. Fortunately for Japanese manufacturers and dealers, "Japan's proscription against the use of paid demonstrators appears to be less restrictive than the American interpretation of the law" (Weigand, 1970, p. 28). When a manufacturer or wholesaler sells to a department store, particularly, their agreement often requires the producer to provide a number of sales personnel and maintain a minimum level of sales. Manufacturers often provide sales girls to supermarkets and larger retail stores (JETRO Marketing Series 8, p. 23).

Manufacturers often pay for management education programs for dealer personnel in vertically integrated channel relationships. Modern management and marketing techniques are taught at manufacturer-sponsored seminars for wholesalers' personnel based on each level of organizational rank.

Manufacturers also provide sales promotional tools, such as store display kits and business and managerial information, as well as various types of financing. Sending detailmen to dealers is a special dealer aid. "Very often the producer's detail man will visit retailers

together with the wholesaler's representative. If he visits the retailers alone it will usually be with the understanding of the wholesaler. In some cases the detail man will also take orders and pass them along to the wholesaler" (JETRO Marketing Series 8, p. 21). Although many may complain that the system is too costly, and change may occur in the future, nevertheless, the provision of dealer assistance is still essential to doing business in Japan.

Philosophy and Consciousness

Dependency and High Expectancy.--Doi, a leading Japanese psychiatrist who wrote a best-seller, Amae-no-Kozo ("Anatomy of Dependence" 1974), pointed out that Amae (indulgence) is a unique national characteristic. Amae here refers to the indulgent, passive love which surrounds and supports the individual in a group, whether family, neighborhood, or the world at large. Close dependence and high expectancy of others in a group seems to be the way of life in Japan.

This dependency or expectancy can be observed especially among Japanese distributors, and most foreign businessmen are confused by this attitude. As already observed, after a trade relationship is established, dealers expect frequent visits from suppliers (manufacturers or wholesalers) and the best possible service from whoever sells to them. They often regard frequent visits as an expression of a supplier's interest in them or as evidence

of their importance to him. A Western manager of Polaroid Corporation of Japan has described this attitude:

The dealer expects this service (frequent visits). And this is what most foreign companies do not realize--this service expectation. It means you must have a very large sales force that can provide that expected service. It must be big enough to cover these dealers at a reasonable frequency. That sales guy can call on the dealers once a week and maybe just drink a cup of tea. But that's expected (Schmuckli and Tajima, 1973/74, p. 102).

It is widely said that true economic reciprocity is almost impossible in Japan because of the obvious differences inherent in its vertical social and organizational stratification, exemplified by the boss-follower relationship. If two parties are equal in ability, in order to achieve social balance, harmony can be created in two ways: through artificial relationships of the boss-follower type, or through parallel, independent, and irreconcilable relationships, typified by many of the sects within Japanese political parties. Vertical rank differentiation, whether based on seniority, merit, or some artificial measure, is essential to preserving harmony. This makes true give-and-take reciprocity difficult. Glazer illustrated this mentality of the Japanese businessman in connection with the capital liberalization of the U.S. and Japanese automobile industries. He first noted that "the footprint of General Motors on Japanese soil would seem much larger to the Japanese than the footprint of Nissan or Toyota on U.S. soil." Then he said that "to the Japanese, reciprocity is inconceivable because

one is not dealing with equals when one discusses the U.S. and Japan using any acceptable measure, which negates the concept of reciprocity" (Glazer, 1968, pp. 58-59.

This paradigm could also explain the mentality behind Japanese distributors' dependency and expectancy. Most distributors regard themselves as weaker than the manufacturers who supply them with goods. They have expectations of and depend upon the manufacturer.

Given the lack of true reciprocity, contracts between manufacturers and dealers often are meaningless or disregarded. In a vertical society, one feels that he must protect his subordinate, and his subordinate expects it. This is society's tacit promise. The following statement in the JETRO booklet, Planning for Distribution in Japan, illustrates this:

These small wholesalers tend to value personal contacts with large wholesalers, retailers and producers much more than written contracts. The smaller wholesalers usually know all of their customers by name and many details of their business. The retail stores are also generally in debt to the smaller wholesalers and the smaller wholesalers in turn in debt to the larger wholesalers, since most sales are made on a 30, 60, or 90-day payment basis. The smaller wholesalers tend to be passive and look to larger wholesalers for information on new products and guidance in many areas of managing their business (JETRO Marketing Series 4, p. 16).

Glazer also saw the difference between Japanese and American attitudes toward contracts.

The Western view of the contract is that a legal contract between two parties whose validity is upheld by the courts is binding upon the parties.

The Japanese view is that a contract is a piece of paper and people are human beings (Glazer, 1968, p. 59).

Although Glazer did not state them explicitly, he seemed to believe there are two reasons why Japanese businessmen disregard contracts in this manner. First, the Japanese may have a much stricter social code concerning obligation. "The penalty for failure to discharge the obligation is dishonor of oneself, one's name, and one's family, perhaps for generations to come. This is a much stricter penalty than commercial codes exact in the West and hence the Japanese lesser concern for the paper contract and excessive concern for the nature of the obligation and the human beings involved" (Glazer, 1968, pp. 59-60).

The second reason may be the Japanese feeling of extreme uncertainty about the future. "The Japanese side prefers that contractual obligations be left as vague as possible, in order to provide for a maximum of flexibility."

In a vertical society, people believe that another party will not punish them even if they do not exactly fulfill a contract because mutual compromise based on human concerns is regarded as more important than a piece of paper. Of course, it should be realized that such a relationship is reached through a very careful and selective process. Glazer again explains:

In a vertical system, the lower party performs some loyal service for the higher party which then compensates the lower party. But in this feudal

system, the upper party does not develop such links with everyone below it because the obligations would be too great. Hence there are strong lasting ties and there are strictly temporal ties. For example, small firm bankruptcies in Japan are mostly due to the fact that the upper party has cut off its temporary business with the lower party which is helpless because it has no strong vertical ties with anyone else (Glazer, 1968, p. 61).

Dependency and high expectancy apparently are related to the consciousness of the group member. As stated earlier, wholesalers or manufacturers are expected to show their commitment with occasional presents at the appropriate time. They are also expected to provide their trade partners slightly larger margins or rebates than others (JETRO Marketing Series 8, p. 21). This partially explains why rebates cannot be offered to all trade partners. The provider must pretend that he gives the highest rebate and margin to each.

Sales Rather Than Profit Orientation.---There are many indications that participants in the Japanese business and distribution system are more oriented toward sales volume than profit. After enumerating cases from selected industries as examples, Hanawa explains:

Kami yori usui kosen (margin thinner than paper) is a common saying in the Japanese business world. . . . In some cases, totally disregarding manufacturers' list prices, Japanese agents sell machinery on a negotiable basis, often ending with prices lower than those listed. Why such a thin margin? There is a prevailing Japanese philosophy that "some business is better than none at all" (Hanawa, p. 186).

A sales orientation which may even disregard profitability may stem from the Japanese lifetime employment system discussed earlier. Permanent employment means that labor becomes a fixed rather than variable cost (Weigand, 1970, p. 24; Baron, 1971, p. 15; and Faris, 1969, p. 43). There is extreme pressure on the Japanese firm to operate at nominal capacity so long as revenues just cover raw material costs.

The unique Japanese system of rebates could be another cause. Rebates are based in large part on sales volume. Rebate recipients therefore must sell a fairly large volume, even reducing the gross margin to zero, because the rebates given by suppliers are huge. In addition, bank credit, which is extremely important for the poorly financed majority of Japanese firms, tends to be given according to sales volume. A larger scale of operations better qualifies one for bank credit (Baron, 1971, p. 16).

It is also worth noting that the term profit tends to be disregarded in Japanese society. According to Ito, historically Japanese merchants were bitterly criticized and often ostracized because they sought profits. An often quoted proverb says: "Byōbu to Shōnin wa magaraneba tatanu" (A folding screen and a merchant cannot stand up unless they are crooked). This means that profits can be obtained only at the cost of some social injustice. In Japan, more emphasis is placed on the national or group interest. Ito

further explains that even today the pursuit of optimal profits, now a definite possibility for large Japanese enterprises, is not totally accepted. In support he quoted the 1964 White Paper of the Japanese Government's Economic Planning Agency's slogan: "'Business recovery without the feeling of good business,' i.e., business prosperity without business profit. Quite clearly, maximum profit-pursuit as a Japanese motivational force is excluded, for it does not fit the Japanese image of a corporate entity." Today's Japanese businessman often prefers to use the term "normal" or "legitimate" profit. Ito defines "normal" profit:

"Normal profit" means that the cost of capital is covered. For the Japanese enterprise, capital means essentially borrowing. Thus in the final instance, a "normal profit" in Japan is obtained when interest on borrowed capital is paid on schedule: it is measured by its interest rate (Ito, p. 100)!

Conservative and Noninnovative.--The conservatism of the Japanese participating in distributive activities long has been pointed out and criticized by many Japanese and foreigners. Tajima, a specialist in the Japanese distribution system, considers this traditional mental attitude the most significant backward element in the system.

The most important aspect is the lag in mentality. Apparently the sequence here is that the backwardness in mentality leads to various other forms of backwardness on the part of the distributor; this prevents self-reform and consequently causes a lag in the constitution and activities of distribution. Furthermore, I would like to categorize the lag in mentality as being, flatly, "negative attitude toward innovation" (Tajima, 1971, p. 26).

Although it is quite difficult to measure conservatism, there is much supporting evidence. Tajima, for example, noted that "42.2% of the proprietors of marginal retail stores are aged fifty or over, and those who are sixty or over account for 17.4%" (Tajima, 1971, p. 22). Using the sociological relation between age and innovation adoption, he pointed out that they are more likely to be categorized as "die-hards" or laggards. Tajima's point is weak since a correlation between age and innovation in the distribution world has never been established, but it is quite suggestive of noninnovativeness. There are other suggestive facts:

40 percent of retailers expressed satisfaction with the existing state of their business.
 42.6 percent of small-scale retailers forecast that the state of their business would remain roughly the same three years later, while 24.1 percent replied that they expected a slight improvement (Nakamura and Tajima, 1969, p. 136).

As the inefficient practices noted in the earlier discussion indicate, most small retailers and distributors are reluctant to adapt new Western techniques and economically efficient methods. Rather, they seem to favor warm, cozy, human-based business associations, although they sometimes realize that they must adapt to a new, changing environment.

Hypothesizing Cultural Rationale of Marketing Channel Administrative Behavior

As shown in the previous section about operational definitions and the conceptual scheme, the cultural

rationale of marketing channel administrative behavior lies in those abstract concepts which explain it, especially its culturally unique characteristics. It was also assumed that the Japanese marketing channel administration system is a subsystem of two higher ones, the Japanese business/management system and marketing channel behavior.

Overall Distribution Rationale
Based on Deduction

There are only limited empirical observations and facts available concerning Japanese marketing channel administration. Therefore, it seems appropriate to draw logical deductions from observation of the two higher systems to identify the cultural rationale underlying Japanese marketing channel administration. It seems apparent that among Japanese manufacturers' in the marketing administration of distribution channels, both human and economic rationales are equally important factors. The specific blend or mixture of these two basic rationales comprises the manufacturers' unique approach to behavior in marketing channel administration. The rationale depends upon and is influenced by direct and indirect sociocultural factors. Based on this overall deduction, four hypotheses which might explain the Japanese manufacturers' unique behavior in marketing channel administration have been developed. The deduction process and the abstract concepts (hypothetical cultural rationales) are shown in

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Figures 3.1 and 3.2. These four concepts hereafter will be referred to as hypotheses. Brief explanations of them follow.

Hypothetical Proposition 1:
Pseudo-harmonism

Pseudo-harmonism refers to the proposition that the channel administrator (manufacturer) emphasizes harmony, but a cool economic rationale does deeply exist in channel administration. "Expressed gemeinschaft, but implicit gesellschaft" is the underlying philosophy.

Almost every past study has emphasized the human rationale underlying Japanese business systems. This human involvement in business has been the source of criticism by domestic and foreign analysts. However, the Japanese human-related business approach has been reevaluated recently. This reassessment stems partly from Japanese economic growth and partly from the human orientation trend in the business world. Despite this favorable reevaluation the Japanese system seldom has been analyzed equally from the viewpoint of both human and economic rationales. If Japanese administrative behavior in business relations (channel relations) is based solely on a human rationale, which was the traditional Japanese emphasis, how could Japan have achieved its economic success? To answer this question, the above hypothesis was formulated.

Observations	Intermediate Abstraction	Abstracted Concepts
<u>Ringi</u> system	Consensus Decision	Eclecticism
Lifetime Employment		
Family/Group Orientation in Management	Pseudo-Familialism	Pseudo-Harmonism
New Westernization		
Seniority System	Experience	Nonfunctionality
Human-Oriented Flexibility/Adapt- ability	Some Ignorance or Neglect of General Principle	Exceptionism

Figure 3.1.--Japan's Business and Management System and Hypothetical Propositions.

Some Selected Observations*	Intermediate	Abstracted Concepts
<p>Expressed emphasis on coexistence and codevelopment in trade relations</p> <p>Minimizing social/human disorder in the pursuit of economic end (non-extremism)</p> <p>Existence of loyal, inefficient dealers, as well as efficient ones</p> <p>Risk-avoiding and noninnovative attitudes</p> <p>"Distribution Revolution" under social pressures (tendency to economic rationale)</p> <p>Harmony as the social norm, but economic rationale as the emerging competitive and social force</p> <p>The stronger dealers become stronger</p> <p>Flexible and tactical behavior in trade relations (free style)</p> <p>Severe competition among many small dealers</p> <p>Managerial discretion regarding rebates, promissory notes, contracts, and so forth</p> <p>Competition outside of business (gift giving and invitations)</p> <p>Sometimes quick, sometimes slow decision</p> <p>Some are too busy while others are not</p> <p>Family-type operation of many dealers</p> <p>Reliance on past experience because of no rule for guidance</p>	<p>Emphasis both on human (means) and economic (end) rationales</p> <p>Expressed gemeinschaft but implicit gesellschaft (Cool economic rationale in the long run, while maintaining harmony in the short run).</p> <p>Situational trade behavior; "The exception to the rule"</p> <p>One-man decision or decision based on boss-follower relationship</p>	<p><u>Eclecticism with admitted cost for gaining harmonious human relations</u></p> <p><u>Pseudo-harmonism</u></p> <p><u>Exceptionism</u></p> <p><u>Nonfunctionality</u></p>

*These observations are selected without special empirical evidence. Also these do not necessarily show causal relationships with abstracted concepts.

Figure 3.2.--Distribution Channel Behavior and Hypothetical Propositions.

Hypothetical Proposition 2:
Eclecticism

Eclecticism refers to the proposition that adaptation to the westernization of management and administration in the traditional human-oriented business climate has necessitated compromise, a mixture of both an economic and human orientation. The human-harmony aspect in channel administration is regarded and expressed by the administrator as necessary, even though it incurs some additional costs. The cost of this harmony is a sacrifice in economic efficiency.

In the past, the Japanese business administrative style has been discussed only on a practical business basis. Because economic and human rationales were not treated equally, full exploration has not been made of the means-end relationship. Of the two rationales, the economic one seems to come first in a strictly business sense, followed by the human, which serves to smooth and facilitate the economic process.

Hypothetical Proposition 3:
Exceptionism

Exceptionism refers to the proposition that Japanese channel administration is conducted without specific rigid rules or by ignoring existing rules. This attitude, deeply imbedded in Japanese philosophy, permits flexibility and adaptation in channel administration, while it arouses higher expectations and creates confusion among dealers.

This hypothesis was formulated to clarify why practices and behavior are so complex in distribution channel administration. At the philosophical level, the administrator might realize the means-end relationship between the human and economic rationales, but in practice,

confusion occurs because of the wide discretion the individual may exercise in choosing between the traditional human concerns and business considerations.

Hypothetical Proposition 4:
Economic Nonfunctionality

Economic nonfunctionality refers to the proposition that Japanese channel administration is founded on an individual human basis rather than a functional economic and business basis. This means that some individuals in channel administration are extremely busy while others are idle, although a compensation system based on group merit and seniority may modify this situation in the future. Nonfunctionality also makes administrative behavior appear complex and mysterious.

The hypothesis that administrative behavior is based on human rather than functional considerations concerns the means-end problem. It already has been shown that the human rationale is the means to an economic end.

When the Japanese channel administrator behaves according to a human rationale, he cannot operate within just one functional area. He often must go beyond and become an expert on "all problems" across many functional areas. Dealers who know this system, often unconsciously, seek out the man widely recognized in any given organization for these abilities rather than go to the person whose function would seem to make him the correct one to negotiate with. This tendency may be another reason why the Japanese style seems so complex.

CHAPTER IV

RESEARCH METHODOLOGY

The main purpose of this chapter is to describe the research methodology by which the four hypothetical propositions developed in Chapter III are investigated. First to be discussed are the industry structure, distribution channel structure, and distribution channel behavior of each selected industry. Twenty-one operational hypotheses related to each of the four basic hypothetical propositions are then developed. After presenting this information and operational hypotheses, the sample design, selection of respondents, and interviewing procedures are discussed. At the end of this chapter research limitations are briefly presented.

Pharmaceutical Industry¹

Industry Structure

The pharmaceutical industry in Japan consists of approximately 2,700 manufacturers, but as of 1971 the

¹General information about the pharmaceutical industry in Japan was gained from the following sources: Outline of Japanese Distribution Structure (1973),

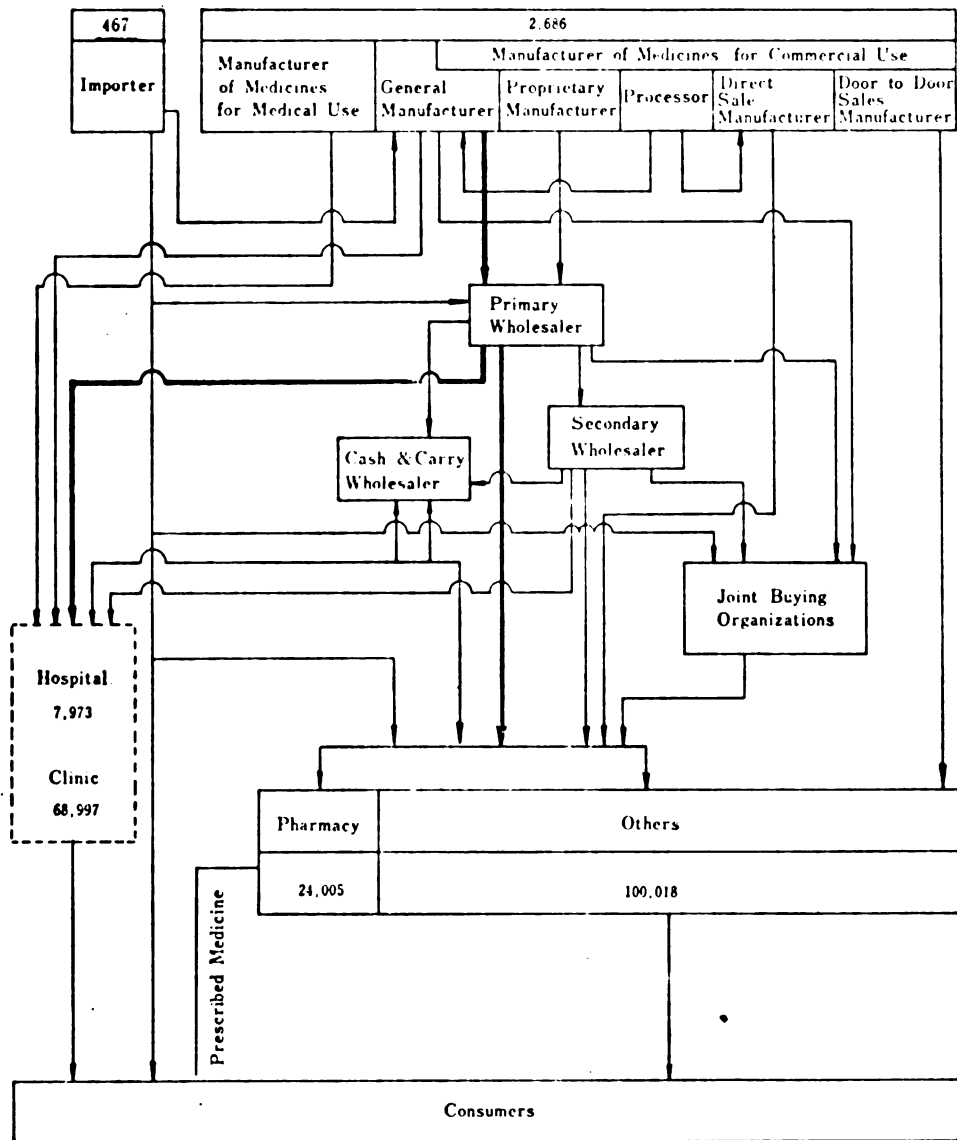
20 largest controlled 54 percent of the industry (Outline of Japanese Distribution Structures, 1973, p. 150). This industry usually is referred to as an industry of the "top 10" or "big 20" because of the dominance of these largest firms. Only the top 30 companies seem to be concerned with marketing.

Distribution Channel Structure

National wholesalers of ethical pharmaceuticals (medicines) are believed to number roughly 3,000. The list of the Japan Pharmaceutical Traders Association, however, shows only 1,059 members as of June 1970 (ibid., p. 150), but it does not list tertiary wholesalers. Yet the latter are used for direct transactions with medical facilities, hospitals, and clinics. Although there are some manufacturers who sell directly to medical facilities, their number and market share are negligible in the industry as a whole (ibid., p. 150).

The general distribution channel in the Japanese pharmaceutical industry is shown in Figure 4.1.

Ryūtsū Chōsa Report No. 21: Pharmaceutical Product (1973), JETRO Marketing Series 4, Iyaku hin no Nagare: Sono Torihiki-kanko no Jittai ni Furete (1971), Ryūtsū kikō ni odera Kouri-gyō no Genjō to Shorai no Tenbō (1970), Growth Opportunities in World Markets for Health Products, Country Report No. 82--Japan (1971), Torihiki Jōken no Tekiseika (1973), and Ryūtsū kindaika no Tenbo to Kadai (1968).



Source: Outline of Japanese Distribution Structures, Compiled by the Distribution Economics Institute of Japan, 1973.

Figure 4.1.--Distribution Channel Structure in Pharmaceutical Industry.

Distribution Channel Behavior

The rebate provision is a very general practice among pharmaceutical manufacturers and wholesalers. Rebate terms, however, are seldom publicized. Although there are many types of rebates, money rebates are often used. The two most common rebates are a special one based on the sales of a single item and a general or quantity rebate (bonus) based on the total sales of all of a manufacturer's products during a certain period. The former often is applied to seasonal products, and its rate is relatively high. The latter is given on the gross sales of the manufacturer's items for a base period, and its rate is usually relatively low. Because of the popularity of rebates, virtually no quantity and cash discounts are given. In essence, quantity and cash discounts are subsumed under certain rebate provisions.

Promissory notes (or deferred payments) are common in transactions among pharmaceutical wholesalers and manufacturers. Cash settlements are seldom made for items purchased; rather, a form of credit is used. The average credit settlement period as of 1973 was about 150 days (Torihiki Joken no Tekiseika, 1973, p. 89).

Interestingly enough, in transactions between wholesalers and medical facilities, cash payments are becoming more common. Also, where credit is used the length of the credit period is becoming shorter. In the

case of deferred payment, the average period of payment in 1973 was reduced to a range of 120 to 130 days.

Return of goods privilege is also a general practice in the pharmaceutical field, although transactions are principally made on a nonconsignment basis. The rate of return of goods from medical facilities to wholesalers is estimated to be approximately 5 percent. The rate from wholesalers to manufacturers is even higher, estimated to be between 5-8 percent (Outline of Japanese Distribution Structure, 1973, p. 146). The reasons given for these returns are the forced sales of suppliers, the necessity of adjusting inventories, miscalculations made in buying, and the appearance of similar but lower priced goods after the original purchase has been made.

Frequency of delivery is very high. About 70 percent of pharmaceutical wholesalers deliver products to medical facilities every day. Another 25 percent deliver once very two to four days (ibid., p. 146). Yet there are no wholesaler agreements with medical facilities concerning minimum order amounts per delivery. Reportedly, this situation is unavoidable because of the emergency nature of the merchandise, but in reality the practice imposes a heavy economic burden on wholesalers.

As for other trade practices, cho-ai (payment on account) is common, while tempu (granting an additional

quantity based on amount purchased), though very popular in the past, was not emphasized during the early 1970s. But since 1974 the practice has gradually been revived because of changing economic conditions.

Soap and Detergent Industry²

Industry Structure

The soap and detergent industry consists of approximately 60 manufacturers; however, the top five companies control 70 percent of the market. If the third largest manufacturer, Shiseido Company (which is more accurately categorized as a cosmetic firm), is removed, the top two manufacturers (Lion Fat and Oil Co., Ltd., and Kao Soap Co., Ltd.) account for more than 60 percent of the total sales volume. Because the fourth, fifth, and sixth ranked firms recently have established a joint sales company to fight the dominance of the top two companies, the number of major manufacturers for practical purposes is considered by the trade to be three.

²General information on this industry was gained from the following sources: Busshibetsu Ryūtsū Jittai (1): Keshō-hin, Keshō-sekken no Ryūtsū (1971), JETRO Marketing Series 4, Keshō Sekken no Ryūtsū (1970), Outline of Japanese Distribution Structures (1973), Ryūtsū chōsa Report No. 16: Detergent and Dentrifrice (1972), and Torihiki Joken no Tekiseika (1973).

Distribution Channel Structure

It is reported that there are approximately 3,000 wholesalers and 300,000 retailers of soaps and detergents (Outline of Japanese Distribution Structures, 1973, p. 165). Among the wholesalers, the upper 30 percent is considered to control about 70 percent of sales. Nevertheless, the smaller wholesalers are regarded as important in helping supply the 300,000 retailers scattered all over Japan (ibid., p. 166). The living patterns and shopping habits of consumers necessitate such a large number of both wholesalers and retailers.

Two types of distribution channel are mainly used in the soap and detergent industry. One is represented by the Kao Soap's system, which primarily uses its own sales company but supplements it with a few wholesalers. The other is illustrated by the Lion Fat and Oil system, which uses wholesalers exclusively. However, a third type of distribution channel was recently established as a joint venture by three manufacturers (Ashahi Denka Kogyo K.K., Dai-Ichi Kigyo K.K., and Mitsuwa Soap Co., Ltd.). Operating through a common sales company, Nippon Sunhome Co., Ltd., this system is a mixture of the previous two. It uses a sales company, but also relies heavily on primary and secondary wholesalers. These three systems are illustrated in Figure 4.2.

(a) Distribution Channel and Price System of Kao Soap Company.

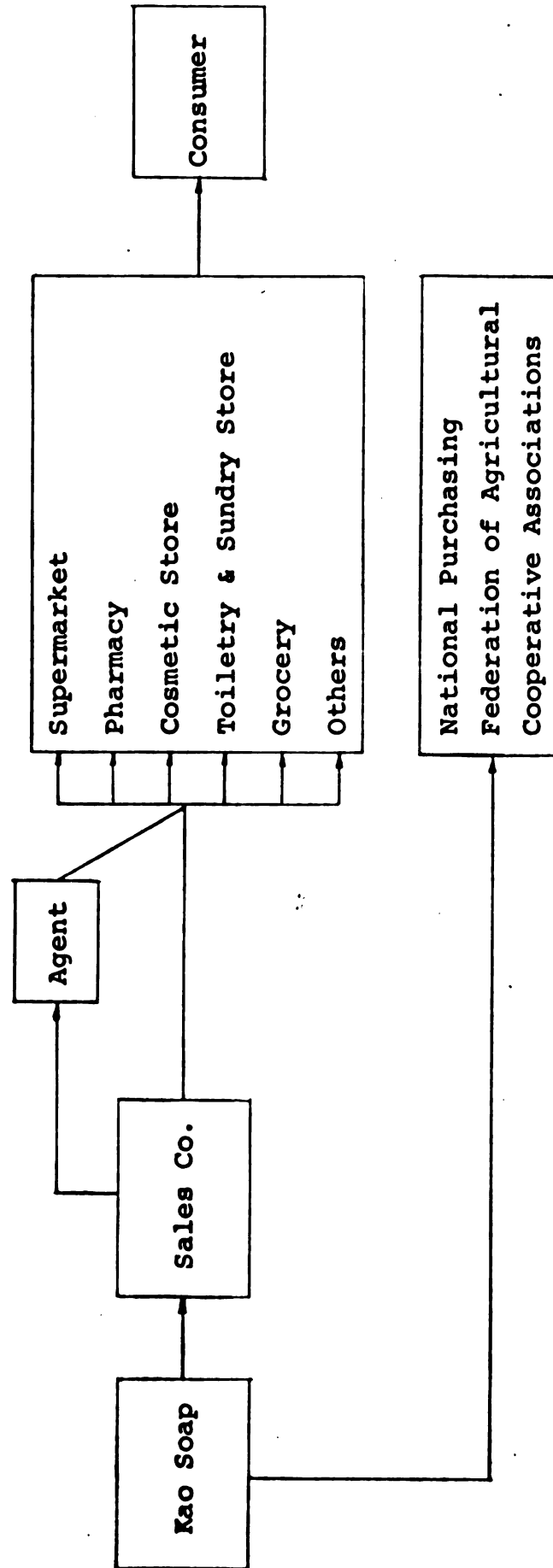


Figure 4.2.--Distribution Channel Structure in Detergent/Dentifrice Industry.

(b) Distribution Channel and Price System of The Lion Fat & Oil Company.

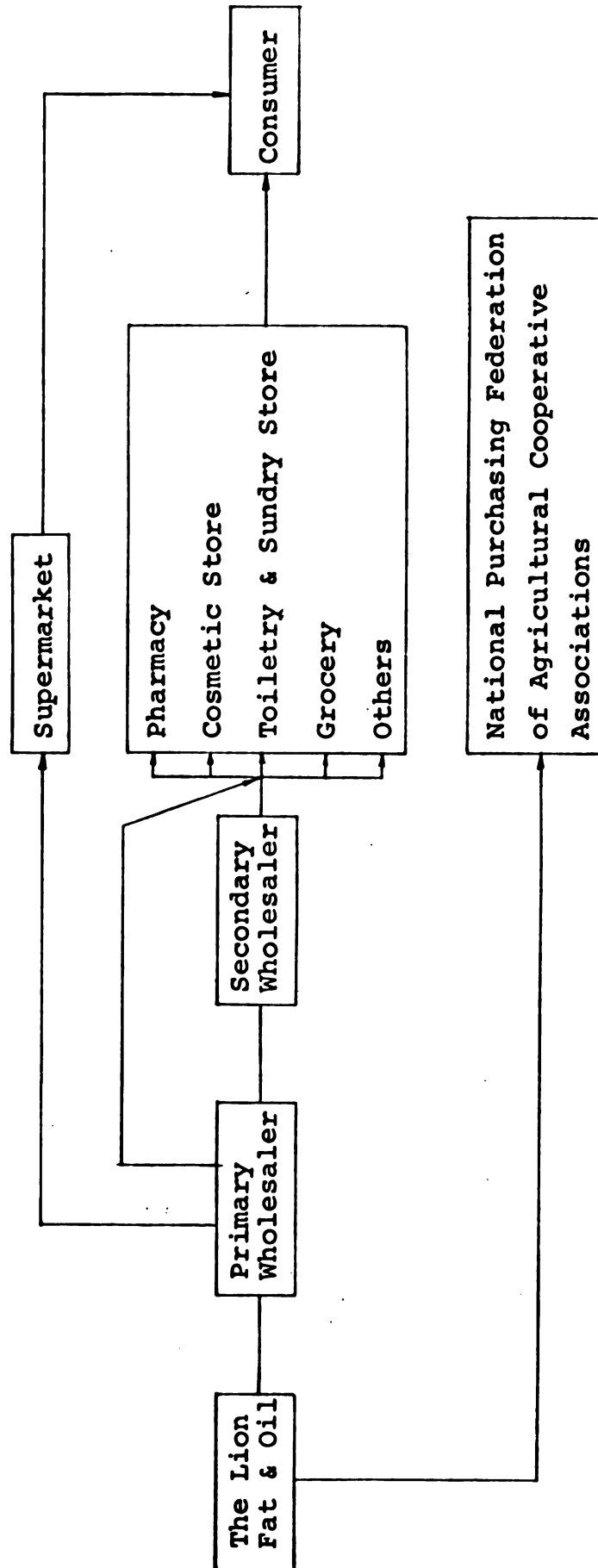


Figure 4.2.---continued.

(c) Distribution Channel and Price System of Nippon Sunhome Co., Ltd.

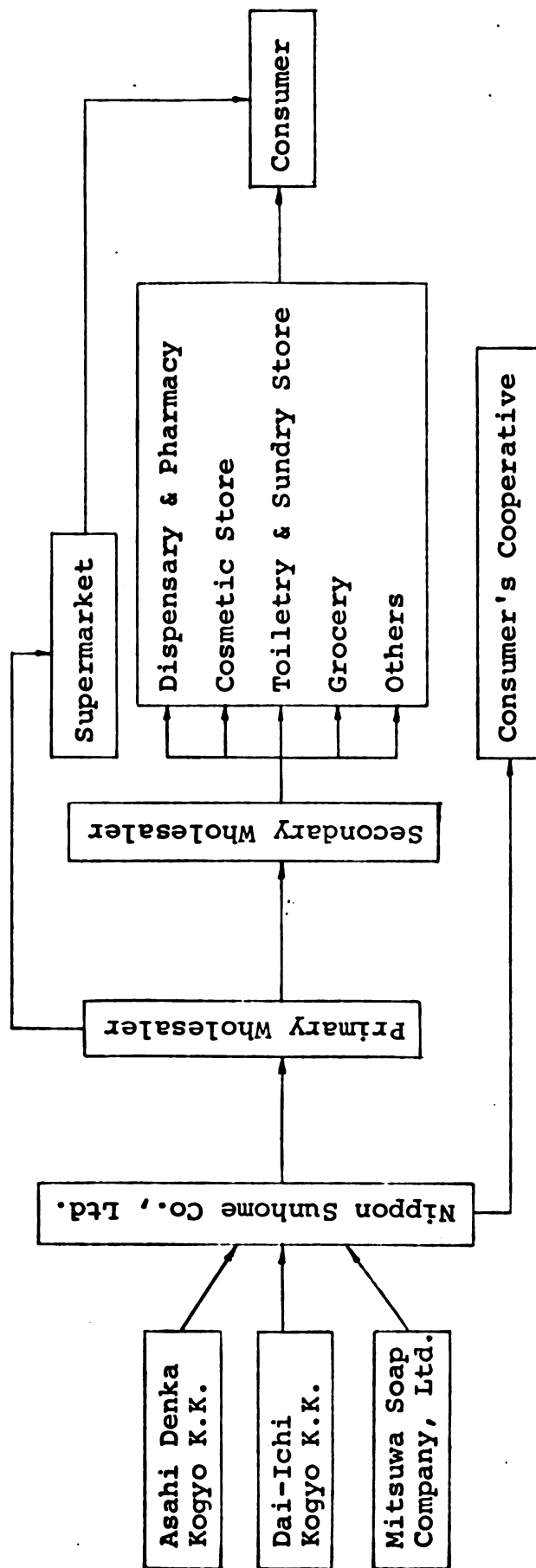


Figure 4.2.--continued.

Source: Outline of Japanese Distribution Structures, The Distribution Economics Institute of Japan, 1973, pp. 168-169.

Distribution Channel Behavior

The rebate provision is a common practice, and the types used are basically the same as those used in the pharmaceutical industry. The rebates, however, tend to be paid more in accordance with the performance of business functions. Approximately 5 percent of sales is paid to the primary wholesaler by the manufacturer as a base commission (or margin). Because this commission also must be paid to the secondary wholesaler by the primary wholesaler, the latter actually makes no profit from this commission. In such instances the manufacturer pays another 3 percent to the primary wholesaler to cover the transaction with the secondary wholesaler. This is referred to as a cho-ai rebate (a rebate for accounting fees). In reality it is a payment related to the position in the distribution hierarchy for functions performed.

Several other rebates are also used. A rebate is paid by some manufacturers to both primary and secondary wholesalers when they keep the retail stores under their control. This assures the implementation of desired policies and practices.

A stipulated percentage of sales is also paid for satisfactory performance of the physical distribution function by wholesalers. This is known as a performance or delivery control rebate. In addition, an overall performance rebate, or bonus, may be paid based on total sales made within a specified period.

Promissory notes (or deferred payments are often used, but the payment period is far shorter than that employed by the pharmaceutical industry. Payment periods usually range from 45-75 days after shipment (Outline of Japanese Distribution Structures, 1973, p. 176).

Cash payments are encouraged, and rebates often are used to reward immediate payment. For cash payments, an amount roughly equivalent to the rate of interest for the term of the promissory note is allowed by the manufacturers. Although this payment is similar to a cash discount, such an amount is included as a rebate because it is still paid on a subjective basis in this industry. It is not the regular cash discount available to all.

Return of goods privileges are extended to every level in the distribution channel, although transactions are made principally on a nonconsignment basis. This tendency to return products is actually decreasing, however, because some manufacturers provide rebates for non-return of goods. Yet, returned merchandise is still a problem. In 1972, 20 percent of wholesalers reported that they suffered from the undue return of goods from retailers (Torihiki Jōken no Tekiseika, 1973, p. 74).

Delivery frequency to both retailers and wholesalers is generally high (ibid., p. 76). Manufacturers deliver merchandise directly to both large-scale retailers and wholesalers. Economic factors are now receiving

greater attention, however. Because the high cost of delivering bulky merchandise is recognized, there is a general tendency toward more systematic logistic planning.

Dentifrice and Toiletry Industry³

Industry Structure

The dentifrice and toiletry industry is oligopolistic in structure. Two firms, Lion Dentifrice Co., Ltd., and Sunstar Dentifrice Co., Ltd., have approximately 80 percent of the market share. Lion has a 59.5 percent share and Sunstar 20.8 percent as of 1970. The third ranked company is a foreign firm, Colgate-Palmolive Co., Ltd. It has 7.3 percent of the market and is not included in the study. The fifth ranked company is a cosmetic firm (Shiseido Co., Ltd.), with 3.4 percent. The channel administrative behavior of three of the top four companies, Lion, Sunstar, and Kao Soap, was studied.

Distribution Channel Structure

Both primary and secondary wholesalers are used in the distribution of dentifrice and toiletry products. Primary wholesalers engage in the sales of manufacturers'

³General information on this industry was gained from the following sources: JETRO Marketing Series 4, Keshō-hin no Ryūtsū (1971), Keshō-hin, Toiletry Gyokai no Ryūtsū Sengo-shi (1972), Outline of Japanese Distribution Structures (1973), Ryūtsū Chōsa Report No. 16: Detergent and Dentifrice (1972), Shiseido Handbook (1969), and Torihiki Jōken no Tekiseika (1973).

products in a specific territory. They numbered about 300 in 1972. Wholesalers at the secondary levels are those that purchase from the primary wholesalers. They numbered about 2,500 to 3,000 in 1972. Retail outlets in dentifrice and toiletry numbered 200,000 nationwide in the same year. Of these only one percent, about 70 firms, or 2,000 stores, are supermarkets (Outline of Japanese Distribution Structures, 1973, p. 175).

The concentration of sales among primary wholesalers is obvious. More than 70 percent of total sales is controlled by the top 30 percent of dentifrice wholesalers (ibid., p. 175). However, because of the convenience nature of dentifrice products, manufacturers cannot ignore entirely the utilization of secondary and tertiary wholesalers if they wish nationwide distribution.

The actual pattern of distribution channels used varies somewhat among dentifrice manufacturers, but basically, the channel alternatives are the same as those for the soap and detergent industry.

Distribution Channel Behavior

There is an overlapping of some distributors and manufacturers in this industry with those of the soap and detergent industry. The basic trade practices and business behavior utilized, therefore, are much alike. They include rebates, promissory notes, frequent deliveries, and return of goods privileges.

Development of Operational Hypotheses
and Related Interview Questions

Prior to the formal interviews, the four propositions discussed in Chapter III were broken down into operational hypotheses. Six of these were developed relating to the proposition concerning pseudo-harmonism. Similarly for the other propositions, eclecticism, exceptionism, and economic nonfunctionality, twenty-one operational hypotheses were developed.

Some of the operational hypotheses advanced were in the form of industry practices believed to exist. Since no formal studies had been made of them in the past, they are included in this study to determine whether these practices are prevalent and whether they exist in the changing environments currently confronting each of the industries. The hypotheses are listed and explained below.

Proposition 1:
Pseudo-harmonism

- H1: The Japanese manufacturers studied tend to express the importance of human and social relationships as a base of business management behavior at the corporate policy level.
- H2: The ultimate criterion of marketing channel administrators* tends to be an economic measure rather than human considerations.

*For simplification, in the following material the reference to Japanese manufacturers as marketing channel administrators will be shortened to "channel administrators."

- H3: Channel administrators tend to express aspects of togetherness, coexistence, and codevelopment with wholesalers in their marketing channel policy.
- H4: Channel administrators are reluctant to own or subsidize economically weak wholesalers, even if ownership or complete control is possible.
- H5: Although channel administrators give various types of dealer aids to wholesalers, the most important tool in attracting wholesalers is believed to be a channel administrator's product competence (research and development, high product quality and image, and so forth) and not his human aspect toward wholesalers.
- H6: The economically stronger wholesalers are given more favorable rebates and margins.

Proposition 2: Eclecticism with
Admitted Cost for Harmony

- H7: In dealing with wholesalers, channel administrators avoid an image of being economically oriented.
- H8: Although channel administrators and wholesalers have close human contacts and relationships often extending beyond the boundary of trade and business, these relationships do not extend to family involvement.
- H9: Each marketing channel comprises some intensely loyal wholesalers who are willing to sacrifice their own business interests to a considerable extent for the sake of the channel administrator's interests.
- H10: In providing dealer aids, channel administrators regard the human factor as an important lubricant in dealing with wholesalers in the future.
- H11: Channel administrators tolerate some economically weak wholesalers by considering them a regular cost of doing business.

- H12: Efforts to promote economic efficiency of the marketing channel in the past decade have resulted in no substantial changes in marketing channel policy and structure.

Proposition 3: Exceptionism
(The Exception Is the Rule)

- H13: Although channel administrators have established a formal rebate system, the actual rate is often determined at management's discretion.
- H14: There are many types of rebates that are greater than the stated business margin, and they allow room for discretion on the part of channel administrators.
- H15: The payment periods of promissory notes for wholesalers is not standard but varies with the particular conditions and considerations of each wholesaler.
- H16: The delivery of inventory is not generally made on the basis of a manufacturer's logistical planning and scheduling but, rather, on the basis of dealers' requests.
- H17: Manufacturers generously permit the free return of goods from wholesalers without any special charge.
- H18: Although manufacturer-wholesaler sales and dealership contracts exist, business is not really controlled by these contracts.

Proposition 4: Economic
Nonfunctionality

- H19: The human character of the personnel in charge of dealer relations is regarded as very important by channel administrators in dealing with wholesalers.
- H20: The character of the individual is more important than the individual's job function to wholesalers in doing business with manufacturers.

H21: Effective channel administration requires coping with a wide variety of problems inside and outside the firm involving both human and economic concerns in addition to the normal marketing considerations.

To gather information concerning each operational hypothesis, questions related directly to the proposition were explored in depth in each personal interview. These questions were arranged in an interview guide so that discussions with subjects proceeded smoothly and naturally from a macro to a micro view (See Appendix 5 "Interview Guide"). The number of formal interview questions totaled twenty-nine. In-depth interviews were held with each of the respondents and exceptional cooperation was received.

Methodology

Sample Design

The sample for this study was selected on a judgmental basis. It was a three-stage process involving: (1) selection of appropriate industries; (2) selection of the specific companies in these industries; and (3) selection of individual respondents in each of the companies. Prior knowledge of each of the industries, their structures and marketing practices, and the policies of companies was gained through a survey of the literature and exploratory conversations with experts in Japanese distribution channels. Industry executives helped identify

the most important firms in each sector. The companies finally chosen in each of three industries were then selected on a nonrandom basis.

Eight companies were selected from the pharmaceutical industry. These included three from the top ten in terms of sales, three from the second ten, and two from the third ten. The top 30 companies were regarded as the relevant population for research concerning manufacturers' marketing channel administrative behavior.

Three companies were selected from the top five in the dentifrice and toiletry industry. In this highly oligopolistic industry, the top five were considered to be the relevant population. The top five, however, included a foreign establishment and a cosmetic company. When they were deleted, the remaining three, for all practical purposes, became the population to be studied. Thus, essentially 100 percent coverage was achieved.

The soap and detergent industry presents an unusual situation. This is reflected in the sample chosen, which includes two of the top five companies. In this industry a cosmetic company has the third largest volume, and the fourth, fifth, and sixth ranked firms may be regarded as one company from the perspective of distribution channels. They have jointly established their own sales company. Thus, the number of relevant companies is reduced from the top five to the top three.

The total sample chosen, therefore, numbered thirteen firms. The Kao Soap Company was unique in that it belonged both to the dentifrice and toiletry and the soap and detergent industries. Because of this overlap the actual number of individual companies studied was twelve. In each industry, however, the top two companies were always included in the sample.

Selection of Individual Respondents

The following procedure was adopted for selecting respondents to be interviewed in each company in the sample. First, executives in each of the firms selected were contacted by either this researcher or senior professors at Keio University to determine the appropriate knowledgeable people to be interviewed about the company's distribution channel administration. Three companies were approached by the author and nine through the introductions of senior professors. In every instance complete cooperation was assured. At the personal interviews, one company was represented by five persons, three firms by two, and the rest by one person. Thus, the total number of interviewees was nineteen.

Although the respondents' job functions varied, all were very experienced management personnel and were extremely knowledgeable about their company's marketing channel administrative system. They held the following positions in their organizations: director (3), deputy

director (5), manager (3), and assistant manager (1).⁴

A list of the respondents interviewed is shown in Appendix 3, indicating job titles and positions in their respective companies.

Interviews

All interviews were conducted by the writer between August 22 and September 27, 1974. Interviews were held in the subjects' offices, with one exception, an interview conducted in a hotel after accompanying the interviewee on a business trip.

When detailed explanations and descriptions were required for complex situations, the respondents used detailed diagrams which were appended to the interview guides. Interview times ranged from two to three hours. The respondents proved to be highly knowledgeable, very explicit, and totally cooperative.

An interview guide was used to assure that all the desired areas were covered while giving respondents an opportunity to express themselves in an unstructured, frank, and comprehensive manner. Immediately following each interview the author reviewed the notes taken and fleshed them out to capture the full meaning of the information provided.

⁴For companies which sent two or more people, only the highest positions were counted.

To determine generally whether the operational hypotheses and therefore the subsequent questions were supported or unsupported, three general guidelines were adopted. First, when at least 75 percent of the respondents agreed (disagreed), the assertion was considered to be strongly supported (unsupported). Second, when 50-75 percent of the respondents agreed (disagreed), the assertion was considered to be fairly well supported (unsupported). Third, if less than 50 percent agreed (disagreed), the assertion was considered to be unsupported.

Research Limitations

The major limitations of this research investigation are noted below:

1. The study is a preliminary investigation of distribution channel behavior. There is a lack of data available to plan a sophisticated study and replicate results. This is a pioneer study and is largely descriptive in nature.
2. A nonrandom judgmental sample was used. Therefore, the techniques of statistical analysis and inference cannot be applied.
3. The study was limited to manufacturers' administrative behavior relating to wholesalers rather than to the whole marketing channel, including retailers. Therefore,

although the term "distribution channel administration" is used often because of its popularity, its use here is limited to administration concerning wholesalers.

4. Every effort to obtain the facts was made in this research, but, as is true in any interview, there is no way of being absolutely sure that all of the respondents revealed the total situation as it exists.
5. It is difficult to conduct research in Japan; conduct interviews in Japanese; gather information and ideas according to Japanese concepts, language, and cultural traditions; and then translate them into the American marketing equivalent. Some precision is always lost in the process. Yet, every effort has been made to preserve precision and clarity.

CHAPTER V

MAIN FINDINGS

The purpose of this chapter is to discuss the main findings based on information from the interviews with twelve subjects in the three chosen industries, pharmaceutical, dentifrice and toiletry, and detergent and soap. The 21 operational hypotheses stemming from the four main propositions are examined one by one, based on the results of data gathered from the interviews. As was explained in Chapter IV, a supported-unsupported method of measurement was used to determine the general tendency.

Because of the nature of this descriptive survey, the main findings were qualitative in nature. Yet, some simple tabulations were made to note any trends or tendencies. Classification of results by size of company was undertaken.

In pursuing the analysis it was found that the pharmaceutical and the dentifrice/detergent industries basically proved to be the same with regard to channel administration. Therefore, in the analysis the three industry categories were finally reduced to two.

Pseudo-harmonism

1) Expressed harmony in corporate mottoes.

H1: The Japanese manufacturers studied tend to express the importance of human and social relationships as a basis of business management behavior at the corporate policy level.

This operational hypothesis was very strongly supported by the interview through Question 1. Eleven out of twelve respondents interviewed answered that their companies have explicit or expressed corporate philosophies or management mottoes. These usually are called sha-ze (general principle), sha-kun (admonishment), or kōryō (general guideline). These philosophies or mottoes are usually written out and communicated and known by most employees. They are, however, very abstract, vague, and idealistic. The mottoes almost invariably refer to such groups as the "nation," "society," "people," and "mankind." They often stress humanity.

All eleven respondents from companies with expressed mottoes indicated the importance of factors such as society and humanity as they relate to their businesses and products. For example, "contribution to the nation's health through our high-quality medicine" was the motto of a pharmaceutical manufacturer, and "contribution to society through cleaning technology" was a detergent manufacturer's motto. Based on their mottoes it would

appear that, at least outwardly, the social justification of business seems to be quite important to Japanese companies. However, mottoes may often serve as window dressing. (See some selected examples of mottoes in Appendix 5.)

Styles and forms of mottoes vary. A few companies have only one simple and succinct statement of their business philosophy such as: "spirit of harmonious cooperation" (a detergent firm), "science for the world's welfare, medicine for human happiness" (a pharmaceutical firm), or "the nation and people will flourish with cleanliness" (a soap and detergent firm). Most companies' mottoes, however, contain from three to ten related guidelines under one general principle. The guidelines are still abstract and general.

Several companies' mottoes originated with their founders. As such, they are often difficult for young employees to understand, accept, and relate to because of the old-fashioned language. Some companies, therefore, provide interpretive pamphlets. It seems that, in general, the older, well-established companies place more emphasis on the nation's welfare, humanity, and the happiness of mankind. The newer companies have more succinct and easily understood mottoes.

It is interesting to note that mottoes seldom refer to business profits. One exception is that of a

medium-sized pharmaceutical firm, which emphasizes three important aspects: the pursuit of social welfare, the pursuit of humanism, and the pursuit of the company's economic welfare. Mentioning economic and business profit in corporate mottoes tends to be regarded as gauche by Japanese society.

In contrast to the above, one medium-sized pharmaceutical company's motto, using its founder's words, admonishes: "Don't fall into a sheer profit orientation (or be profit-minded), but pursue human love through our business." Yet, this particular company is well known in the industry for its very aggressive, competitive sales effort and outright pursuit of profit.

Close human relationships and cooperation within the organization were also referred to as very important elements in management philosophies. Some pamphlets on corporate mottoes stated that a healthy business results from the cooperation and harmony of all employees. One smaller pharmaceutical company even noted that the company is an extension of home and family by printing in the guide to its philosophy: "Connect your company with your home."

In some of the companies studied, all employees, including executives, factory workers, and clerks, recited the firm's motto in unison at every morning meeting. But employees, especially the younger ones, consider such

customs "nonsense" and "old-fashioned" and believe they will disappear before very long.

The emphasis on humanity and social justifications for business and the lack of an apparent emphasis on business profits goals may be the result of the historical development of Japanese business. In feudal days, merchants were ranked lowest, politically and socially, after soldiers (the ruling class), farmers, and craftsmen, even though they held the greatest power through their control of the economy. Perhaps the main reason for holding merchants in low esteem was accrual of profit without physical labor. After the modernization of Japan in 1868, however, merchants sought to improve their image by developing a social justification for their business and resulting profits; sometimes they expressed their importance to the nation's welfare in idealistic and unrealistic terms.

2) Implicit pursuit of economic efficiency in channel administration.

H2: The ultimate criterion in the administration of the marketing channel studied tends to be an economic rather than a human rationale.

This hypothesis was fairly well supported by answers to Questions 3 and 4 in the interview. Question 3, which referred to the respondent's preference for either harmonious cooperation or the pursuit of economic

efficiency, seemed to be a difficult one for all subjects to answer. Eight out of twelve, however, selected economic efficiency as the ultimate criterion in their own marketing channel administrative behavior. Two respondents, on the other hand, insisted that cooperation and harmony with their wholesalers was the most important. The other two would make no conclusive choice and insisted on taking a middle position. This may even suggest an unwillingness to admit the significance of the economic over the human rationale.

Some differences among industries and company sizes were observed (see Figure 5.1). All respondents interviewed in the dentifrice and detergent companies stated that economic efficiency was the ultimate criterion. But in the pharmaceutical industry, four respondents (one small and three large-sized companies) opted for economic efficiency. Two medium-sized companies preferred harmonious cooperation, and the other two (a medium and a small-sized company) took a middle stance. This distribution seems to relate well to industry structure and environmental pressures on the two types of industries.

In the pharmaceutical industry, which has many competitors at the manufacturers' level, but still enjoys fairly high profits, cooperation and harmony are expressed as being important factors in marketing channel administrative behavior. This tendency is especially true among medium- and small-sized companies. As a general rule,

Size of Companies in the Industry (Rank)*	Pharmaceutical	Dentifrice/Detergent
1	Economic efficiency	Economic efficiency
2	Economic efficiency	Economic efficiency
3	Economic efficiency	Economic efficiency
4	Harmonious cooperation	Economic efficiency
5	Middle stance	
6	Harmonious cooperation	
7	Economic efficiency	
8	Middle stance	

*Rank of companies' sizes is determined by the total sales volumes in 1972. In the pharmaceutical industry, the top three belong in the industry's top 10, 4th through 6th in the industry's next top 10, and 7th and 8th in the third 10. They are referred to here as large, medium, and small sized, respectively. In the dentifrice/detergent industry, the first three companies are conventionally regarded as large-sized firms and the fourth one as medium-sized.

Figure 5.1.--Ultimate Criteria in Channel Administration by Industries.

the pharmaceutical industry may be regarded as being more traditional in its channel administration than the more oligopolistic dentifrice/detergent industry. The latter also has lower manufacturers' margins.

In both industries, it is noted that the larger firms prefer economic efficiency as an ultimate criterion. Respondents from the pharmaceutical firms that ranked in the second and third ten leading companies seem to place more emphasis on other criteria than simple economic measures.

When asked about the compatibility of the two criteria in their own channel policy, all twelve respondents who suggested economic efficiency as the ultimate criterion indicated that the economic preference did not mean that they could ignore human associations with wholesalers. Without the cooperation of wholesalers, these respondents explained, good business was not possible. On the other hand, those respondents who held that cooperation and human associations were the most important criterion, believed that in the future they would shift to more emphasis on economic measures because "it is a trend." Overall, most of the respondents hesitated to take an either-or position.

Six companies that selected economic efficiency as the ultimate criterion indicated that in the future they would seek even stronger control over their wholesalers and try to obtain greater market stability, which

in turn would benefit the channel system as a whole. For example, one respondent from a large detergent manufacturing company expressed the view that its own margin was so low compared with the margin the firm provided wholesalers that he believed the company might take stronger and more aggressive economic measures to increase the manufacturer's margin. Yet, manufacturers seldom wished to drop any of the present, high margined wholesalers. Under these contradictory conditions, according to this respondent, economic efficiency must be sought for the entire channel system in the detergent industry, including wholesalers and retailers.

One respondent from a large pharmaceutical company, who expressed a preference for the criterion of economic efficiency, also suggested that "although economic efficiency is inevitable we will never cut our present wholesalers." He added, however, that "if they cannot follow our way to pursue economic efficiency for the total channel group, they may naturally go out of business in the future."

In sum, the prevailing attitude of manufacturers toward wholesalers seems to be "leave them alone." Manufacturers do not adopt social aggressive measures to promote economic efficiency in the channel.

Of the two firms whose spokesmen replied that harmonious association with wholesalers was the ultimate priority, one is known in the industry for once having

attempted to establish its own sales company. But this firm now recognizes that it is much more effective to use independent wholesalers to supplement its own sales company. The spokesman of the other firm strongly believes that economic efficiency can be achieved only through harmonious cooperation with wholesalers.

Question 4 concerning the use of any ranking or grading system for wholesalers as well as any criteria used for rankings is also related to hypothesis number two. As was expected, since ranking was thought to be a general industry practice, companies ranked their wholesalers. One firm of the remaining three has its own sales companies but these were initially ranked and selected from among many independent wholesalers. Thus, this firm also is recorded as having a ranking system. One other company has had its own sales companies since its inception. Thus, in essence, only one firm does not have a ranking system, and it was the smallest of all the manufacturers studied.

Wholesalers are usually grouped into A, B, and C wholesalers, or primary, secondary, and tertiary wholesalers. Primary or A wholesalers are, of course, the most important trading partners of each manufacturer. Most manufacturers have organized a kai (a circle or association mainly consisting of the primary wholesalers under the parent manufacturer's name). The number of wholesalers in a kai varies from about 60 to 300.

In general, firms in the pharmaceutical industry have smaller numbers of wholesalers in their kai. Kai members receive several privileges from a parent manufacturer, such as special rebates and bonuses, invitations to manufacturer-sponsored management seminars, and entertainment at restaurants and resorts. Primary wholesalers were estimated by respondents to account for 60 to 70 percent of total sales, customers, and territory covered. They sometimes control secondary and tertiary wholesalers under them.

The ten respondents using a ranking system noted that sales volume of their brands by wholesalers is the major criterion used in selection of customers for a kai. Nine of the ten companies also considered the importance and strength of wholesalers in the company's territory coverage.

In addition to the above criteria, others were also used. Human association (cooperation and loyalty) and historical connections with wholesalers were considered by seven companies in the pharmaceutical and four in the dentifrice/detergent industry. The financial strength of wholesalers, which is especially significant in determining the ability to pay, is used by five of the manufacturers. Other replies indicated that the management skills of wholesalers, the future potential of wholesalers, and the wholesaler's customer mix are also important. This is recorded in Figure 5.2.

Criterion Used	Number of Firms Using Criterion		
	Industry*		Total
	Pharmaceutical	Dentifrice/ Detergent	
Historical connection	3	1	4
Territory coverage & strength	4	4	8
Sales volume	5	4	9
Human association	4	3	7
Financial strength	4	1	5
Other	6**	-	6

*The effective total number of pharmaceutical and dentifrice/detergent companies studied are 5 and 4, respectively.

**Some companies answered more than once. Thus, the total may exceed the number of companies.

Figure 5.2.--Distribution of Firms by Criteria Used in Ranking Wholesalers.

To relate the above answers to the operational hypothesis, the answers were categorized into two broad classifications based on the main emphasis: economic or human/cultural. The former included sales volume, territorial coverage and strength, and financial strength. The latter included past relationships between manufacturers and wholesalers and human association. The data are presented in Figure 5.3. The results clearly show that there is a strong emphasis on the economic measure in ranking wholesalers.

Main emphasis	Pharmaceutical	Dentifrice/ Detergent	Total
Economic	19	9	28
Human/cultural	7	4	11

Note: The figures were obtained by simply adding the numbers in Figure 5.2.

Figure 5.3.--Distribution of Criteria Used for Ranking on the Basis of Two Emphases.

3) Expressed humanity in channel administration.

H3: Channel administrators tend to express togetherness, coexistence, and codevelopment with wholesalers in their marketing channel policy.

The answers to Question 2 strongly supported this operational hypothesis. Kyōzon-kyōei (coexistence and codevelopment) seemed to be the most important philosophy held by parent manufacturers' in their marketing channel administrative behavior. Surprisingly, ten out of twelve respondents used this word in describing trade relations with member wholesalers.

All the respondents noted the difficulty of doing business without the cooperation of independent wholesalers. They also suggested that a direct sales system which bypasses independent wholesalers, while it is desirable, would be virtually impossible. In this regard it is interesting to note that one pharmaceutical firm, which once had its own sales company, also emphasized the importance of harmonious relationships with independent wholesalers because wholesalers are necessary for supplementary coverage of the national market.

Under the kyōzon-kyōei policy, manufacturers seek economic benefits for the distribution channel as a whole. They educate, persuade, and directly assist wholesalers. Togetherness, coexistence, and codevelopment are stressed in channel policy.

An institutional expression of kyōzon-kyōei is the organization or circle called kai, which was described previously. All upper-ranked manufacturers in the industries studied had their own kai. Member wholesalers of this circle, or club, sincerely promote their parent manufacturer's products. In return, manufacturers provide more favorable rebates and bonuses as well as other special dealer aids.

Throughout all interviews, additional evidence of the importance of togetherness between manufacturer and wholesaler was revealed. One dentifrice company, for example, was very impressed with the recent growth of large-scale supermarkets. Yet, despite an attractive economic offer from a large supermarket to handle distribution and provide sales volume, the manufacturer decided to move cautiously. Another respondent reported: "If supermarkets visit us and agree to carry the physical distribution function by themselves we will sell them products directly because their sales volume is too attractive to reject. We may, however, move slowly so as to gradually increase trade with them. Otherwise, our wholesalers will suffer a shokku (shock)." At present, this manufacturer gives choai (an accounting fee expressed as a percent of sales) to wholesalers based on the sales volume done directly with supermarkets. In fact, the choai, or back margin, is a very common practice in the three industries studied.

The respondent of a large detergent company stressed human association with wholesalers in marketing channel policy as a major consideration. This company formulated a threefold policy statement which was printed and delivered to its member wholesalers. The stated goals were: strengthening of wholesalers, strengthening of company products, and strengthening of human association as a channel group. Under these three main policies, the company detailed some general guidelines. One is that "our company will never establish its own sales company, but always will cooperate together with its member wholesalers." Another line reads that the "cooperation factor would be considered in rebates," and "human association is the most basic to our business."

Economic factors are always important as an ultimate criterion. This was suggested before, yet the Japanese manufacturers studied never forget to "express" and "emphasize" human association and harmonious cooperation with member wholesalers. Outwardly they stress kyōzon-kyōei, or togetherness.

4) Economic rationale as a priority in harmonious channel relations.

H4: In spite of the harmonious setting of Japanese channel relations, channel administrators are reluctant to acquire economically weak wholesalers as subsidiaries when they are requested by such wholesalers to do so.

This hypothesis was strongly supported by responses to Question 5 and 6. The results of Question 5 showed that only two out of eleven manufacturers studied had their own subsidiary wholesalers.¹ One manufacturer is in the pharmaceutical industry and the other is in the dentifrice/detergent industry. At the same time, however, these two do use other independent wholesalers in different degrees to cover the national market.

A representative from one large pharmaceutical company which owns some subsidiary wholesalers explained its reasons for involvement with ownership as follows: (1) Financial control over important wholesalers is the effective defensive strategy to adopt against foreign competition, and (2) financial aid based on human association with some wholesalers in the past naturally resulted in a subsidiary system. Apparently this company's present subsidiary wholesalers are mostly economically stable and not at all weak. According to the interviewee, some financially weak wholesalers were sometimes guided and aided financially. Such arrangements were, however, made by the manufacturer only if they were strategically important to the company. The respondent added that the acquisition of subsidiary wholesalers basically results from economic factors. He commented that in the past,

¹One manufacturer among twelve was excluded simply because its system did not fit the question.

however, noneconomic factors centering around traditional human relations were surely the major stimuli.

Another large company in the detergent/dentifrice industry also had subsidiary wholesalers. Some of those wholesalers, even though they are weak economically, are quite important strategically in a given territory. It is only in such situations that the above mentioned company helps and subsidizes them and even then quite reluctantly.

Several interviewees whose companies did not have subsidiary wholesalers indicated that today subsidiary wholesalers are considered to be old-fashioned channels in their industry. In addition, large risks are involved, and the distribution system is too rigid relative to the changing environment.

Question 6 related to manufacturers' attitudes toward financially troubled but strategically important wholesalers. Most respondents indicated that their firms' attitudes and actions depended upon individual situations. Such factors as the length of time the trade relationship had been maintained would be weighed in such a decision. The respondents felt no need for subsidization since their firms already had established good distribution systems. Yet, it is interesting that none of the respondents reported that their company would disregard a financially troubled wholesaler. Most (nine out of twelve) felt some aid, such as favorable rebates and bonuses or prolonged

payments, would be granted. A few subjects from large firms suggested that their company might even permit such a wholesaler to use the company's name in establishing a trading channel connection. This could imply a guarantee on the part of the established manufacturer, so that the financially troubled wholesaler might obtain a loan more easily from financial institutions or other sources. This practice, however, seems to be possible only when the manufacturers involved are large and well established.

The response to this question indicates that most channel administrators do not want to lose even their economically weak member wholesalers. At the same time they cannot afford to subsidize them or unduly assist such wholesalers financially. The course of action chosen in dealing with such wholesalers is some support and sympathy for their position, but not direct aggressive positive support by manufacturers.

An interesting attitude related to this question was expressed by a respondent from a pharmaceutical company. He reported that a manufacturer will be happier if a financially troubled wholesaler visits him first. Then the wholesaler is more likely to be accorded help by the manufacturer. By visiting the manufacturer first the wholesaler has expressed his loyalty. By the same token, if the wholesaler visits a second manufacturer, the latter would not be pleased, for he would feel he was of

secondary importance. The likelihood of the second extending help naturally would be low.

5) Product competence over human relations as an important tool to attract member wholesalers.

H5: Although channel administrators give various types of dealer aids to wholesalers, the most important tool in attracting wholesalers is believed to be the channel administrator's product competence (R & D expenditures and achievements, high product quality, good image, and so forth) rather than human relations with dealers.

This hypothesis was strongly supported in the interviews by responses to Questions 7 and 8. Question 7 concerned the types of dealer aids offered by manufacturers such as: personnel (detailmen or managers); materials (sales promotion materials or other in-store equipment); money (special rebates or financing); and management information (manufacturer-sponsored management seminars or data).

All companies studied provided special detailmen, sales promotion materials, and special rebates to wholesalers of various kinds. Management seminars to educate wholesalers' personnel were provided by ten companies out of twelve. These ten had their own kai, and seminars were given for kai members.

In some instances special financing was arranged. However, this practice was limited to a few large

manufacturers. It was given to wholesalers in the form of loans. (See Figure 5.4.)

As was explained very briefly in Chapter III, the use of detailmen is unique in Japan. Manufacturers' detailmen essentially make sales to and take orders directly from wholesalers' customers. Although these detailmen belong completely to the manufacturers in a legal, financial, and managerial sense, they work for wholesalers from morning to evening to sell their own brands at the wholesale level.

One subject indicated that this practice produced a vicious cycle: If the manufacturer sends his detailmen to wholesalers, the wholesalers' salesmen depend on them and do not sell that manufacturer's brands. The same respondent added that at present his company required that their detailmen visit customers together with the wholesalers' own salesmen. Another respondent noted that because the development of wholesalers' customers and subsequent wholesalers' sales were generated substantially by manufacturers' detailmen, the manufacturers then could allocate these accounts to particular wholesalers and thus increase their control over the wholesalers. This allocation of accounts (chōai) by manufacturers produces, according to one respondent, a strong source of control or power over wholesalers.

Management seminars for selected wholesalers are another popular service provided by manufacturers in the

Dealer Aid	Number of Companies Offering the Aids*
People Aids:	
Sending of detailmen	12
Sending of management personnel	3
Material Aids:	
Sales promotion materials	12
Other in-store equipment	9
Money Aids:	
Special rebates	12
Special financing or loans	5
Information Aids:	
Management seminars	10
Data	9

*Total number of companies = 12

Figure 5.4.--Manufacturers Dealer Aids.

industries studied. The seminars include such topics as general marketing and management skills, environmental changes, and new products and policies of manufacturers. Because seminars are sometimes held at resorts, including Hawaii or Hong Kong, seminar invitations often are intended as rewards. However, purely educational seminars are also held by manufacturers for wholesalers. The seminars are conducted by outside consultants as well as by the manufacturers.

Sales promotion materials and special rebates are provided freely. Sales materials include pamphlets, display counters, calculators, and even cars. Special rebates are commonly provided based on both past efforts and accomplishments, and the degree of financial difficulty of the wholesaler.

As a whole, manufacturer and dealer aids provided are quite numerous. Such aids in reality often take the form of a manufacturer's grant to wholesalers, rather than a quid pro quo business transaction. As such they may increase a manufacturer's control over wholesalers.

Question 8 was designed to obtain manufacturers' opinions about the most important ways to attract wholesalers. The responses were direct, simple, and clear: They had a past and future dimension to them. The important methods of the past relate: to rebates and discount rates based on human relations considerations and past

trading relations. In the future, however, they will be based on product strength. This is depicted in Figure 5.5.

All subjects answered that "product strength" would become the most important attraction in the future. Pharmaceutical companies as compared with dentifrice/detergent companies have a slightly different emphasis, which reflects each industry's characteristics. Pharmaceutical firms, as might be expected, stress new product development, or R & D, as a major factor. Dentifrice/detergent companies emphasize high quality products, image, and high turnover of present products. The pharmaceutical industry is well known for its great dependence on foreign technology and for its eager search for innovative new products as a competitive weapon. Industry spokesmen estimate that more than two-thirds of present sales are derived from products of foreign origin. The oligopolistic dentifrice/detergent industry, in contrast, is more eager to heighten and ensure the good image of present product lines.

Spokesmen for three companies (one in the dentifrice/detergent and two in the pharmaceutical industry) also noted that human relations and personal associations would be as important as product strength in the future. However, they admitted the latter would have a much higher priority. The three all represented middle-to small-sized companies.

Size Company	Type of Industry	Pharmaceutical	Dentifrice/ Detergent
		Large . . . 3 Medium . . . 3 Small . . . 2	Large . . . 3 Medium . . . 2
Large	Past	Human : 2-1/2 Prod : 1/2	Human : 3 Prod : 0
	Future	Human : 0 Prod : 3	Human : 0 Prod : 3
Medium	Past	Human : 3 Prod : 0	Human : 1 Prod : 0
	Future	Human : 1/2 Prod : 2-1/2	Human : 1/2 Prod : 1/2
Small	Past	Human : 1-1/2 Prod : 1/2	
	Future	Human : 1/2 Prod : 1-1/2	

Note: This figure is based on two simplified categories, the human and product-strength factors. When a company stated both factors as important, the company was listed as human 1/2 and product 1/2.

Figure 5.5.--Factors Attracting Wholesalers in the Past and the Future.

Also listed as important future factors to be considered were provision of management know-how to wholesalers, demand-pull advertising of manufacturers, and aid in management and financial problems of wholesalers.

Concerning the past, most respondents agreed on the main factor that traditionally had attracted dealers. All four dentifrice/detergent company spokesmen admitted that human associations, including rebates and discount rates based on them, had been the most important. These four did not especially mention the past importance of product strength.

On the other hand, six out of eight pharmaceutical companies responded that margin, rebates, and discounts had been the most effective consideration, while four out of the same eight answered that human associations were the key (three answered that both were important). It should be noted, however, that margin, rebates, and discount rates, in the past, were often (but not necessarily) related to the degree of human association. Thus, representatives of two pharmaceutical companies also said that product strength (R & D efforts) had been as important as human associations with wholesalers in the past. It is interesting that one of the companies is a top-ranked firm, while the other is a relatively smaller but technologically oriented firm.

Respondents were questioned about the reasons for abandoning the past system of relying on human relations

to establish rebates and discount rates and whether they felt there would be a shift to product strength in the future. One respondent from a pharmaceutical company indicated that the old system no longer provided a competitive edge. Two other respondents mentioned that while dealers would accept a manufacturer's merchandise to save face, the merchandise, nevertheless, would eventually accumulate at some level in the distribution channel and have to be returned to the manufacturer. Therefore, many manufacturers increasingly are realizing that distribution practices based merely on human relations do not pay off in the long run. One pharmaceutical company representative, commenting on the future shift to a product emphasis, said that in today's international economy a firm cannot rely on foreign technology. Research and development will be indispensable both in obtaining cross licenses from foreign firms and in developing new products at home.

Times are changing. It apparently is inevitable that economic strength based on strong product offerings will be an important, if not the important, factor for manufacturers in attracting wholesalers as channel members in the future.

6) The stronger wholesaler as the higher income earner.

H6: The economically stronger wholesalers are given more favorable rebates and margins.

This hypothesis was also supported strongly by the respondents in their answers to Question 17. Without doubt, and despite the prevailing belief in Japan that rebates based on human consideration are quite common, all subjects agreed that sales volume is the single most important factor in providing rebates. As a result, larger wholesalers receive more favorable rebates.

Rebates in the industries studied proved to be variable. They are basically determined on the basis of sales volume. Other economic factors are also considered. These include the degree of cooperation given by wholesalers, the ability to pay (especially shorter term promissory notes), the growth rate of wholesalers, and the ability to fulfill quotas.

The rather ambiguous factor of cooperation is often used in assessing total rebates or granting special economic incentives. One respondent, for example, explained the following situation. If rebates were based strictly on economic criteria, a wholesaler who received a 15 percent total rebate in one period might not receive the same in the next period, despite the fact that he extended the same effort. Yet, if this wholesaler is important to the manufacturer, it is quite likely he will receive the same 15 percent rebate. His earned rebate may take the form of Tsutsumi-kin (wrapped money), tokubetsu kansha-kin (special remuneration), booby-sho (booby prize), or some other rebate supplement. These supplements are quite

dependent on the cooperation extended and on human relations factors. But it is important to note that they are nothing more than supplements. Maintenance of the manufacturer's suggested price, the willingness to accept the manufacturer's over shipments during slump periods, and the continuous efforts extended to sell the manufacturer's brands are all indications of the extent of cooperation. It is this aspect of rebates that cannot be calculated in strictly economic terms.

One pharmaceutical company's spokesman explained the recent shifts in rebate practices on a more economic basis. According to him, ambiguous rebate provisions based on human associations often make it difficult for wholesalers to plan financially since too much uncertainty is involved. He added that wholesalers gradually are requesting a more explicit rebate system based on economic considerations. Throughout the interviews it was found that larger manufacturers rely more on economic determinants for setting rebates. The medium-sized firms emphasize both human factors and economic strength. It seems that industry followers, not leaders, are more likely to place greater value on human associations in administering distribution channels.

The total rebate rate varies, depending upon such factors as type of product, sales period or season, and ease of selling the product. The rebate rate, moreover, often includes margins, and when it does it ranges from

12 to 14 percent in both the pharmaceutical and dentifrice/detergent industries. The highest average rate was 17 to 18 percent in the dentifrice/detergent industry. These rates apparently were awarded to those wholesalers, more specifically, larger wholesalers, who had performed cooperatively and achieved a large sales volume at the same time. It is important to note, however, that high rates do not necessarily mean high wholesaler profits, since some portion is often passed on to secondary wholesalers, retailers, or other trade customers.

Eclecticism

7) An avoidance of the economic image.

H7: In dealing with wholesalers, channel administrators avoid an image of being economically oriented.

This hypothesis was supported by the responses to Question 9. However, if one reflects on the recent tendency toward an economic emphasis by manufacturers, the support is not very strong. All respondents agreed that Question 9, about their preferred image from the point of view of channel policy, was difficult to answer. However, seven out of twelve respondents reported their companies preferred an image of being a human-oriented firm rather than an economically oriented innovator. Four reported their firms preferred the image of setting channel policies based on economic factors. One spokesman indicated the

response would have to be made on a "case-by-case" basis. No special distinctions among type of industry or size of company were observed.

Respondents who preferred the humanistic image reasoned that most wholesalers, except for a few strong ones, could not exist without a manufacturer's special patronage. Therefore, wholesalers tend to be fearful and suspicious of manufacturers who have an economically oriented channel policy. One respondent from a top-ranked dentifrice/detergent company noted that his firm, in order to diminish uneasiness, occasionally sent letters to wholesalers assuring them that they would never be neglected or bypassed. Another subject from a medium-sized company declared that human associations are indispensable to doing business in the industry, and that losses would be enormous if the firm publicly stated that it would bypass wholesalers. This respondent added that good human contacts were almost like "Japanese blood." Another medium-sized firm's spokesman said that his company could not cut just a few wholesalers, for if any should be dropped, the others would become very suspicious of the firm's channel policy. The morale of all wholesalers would then decline. It is also interesting to note that one company which was regarded in its industry as neglectful of human associations with wholesalers preferred a humanistic image, although its preference may result from purely economic factors.

Respondents who stated their companies preferred the image of being economically oriented explained their positions as follows. One pharmaceutical company representative emphasized that technology, research and development, and superior products would be the determinants of survival in the future. He added that even wholesalers would become less satisfied with only the humanistic image of manufacturers with less than competitive products. A subject in the detergent/dentifrice industry explained that his firm already had established strong channel relations. It did not need the added impetus of a humanistic image because it had a strong brand backed by ultimate user demand. All respondents who preferred an economic image worked for firms with an established identity and high levels of technology, quality products, or strong channel relationships. However, none denied the importance of a humanistic image in their industries.

In reality, whether a manufacturer has an economic or humanistic image it seems to be a matter of degree. It is no doubt a problem of achieving the proper balance. It is probably safe to say that both are important images. The human factors seem to be assumed; the economic then take on greater emphasis and will continue to do so in the future.

8) Human Relationships.

H8: Although channel administrators and wholesalers have close human contacts and relationships often extending beyond the boundary of trade and business, these relationships do not extend to family involvement.

This hypothesis was strongly supported by interview Questions 10 and 11. Question 10 refers to the degree of personal, friendly contacts with business partners. Nine out of twelve company respondents claim that their companies have fairly close contact and friendship with wholesalers' personnel. Spokesmen for two medium-sized pharmaceutical companies claimed to have moderate contact, while one medium-sized pharmaceutical firm reported "little contact."

Subjects from large companies in both industries indicated very close personal relationships with wholesalers' personnel as friends. At least three subjects mentioned that the length of employment in an industry is very closely related to the degree of personal associations. It is interesting to note that three pharmaceutical firms whose representatives had claimed little or moderate personal contact had relatively shorter histories in their industries.

Question 11 then asked about the nature of these personal associations. Were these people mere business acquaintances, recreational companions, or close, personal friends? Ten out of eleven of the subjects

considered them both business acquaintances and recreational companions. But business relations, as was mentioned, are not limited strictly to business dealings. Managers or executives at the wholesaler level often consult their counterparts at the manufacturer level about such management problems as their wage systems, tax questions, and labor relations. They often dine or play golf together. Several subjects suggested that if these wholesaler friends visited their company, they would drop their work and meet them without an appointment.

Two subjects in the pharmaceutical industry suggested that sometimes close personal friendships were established between wholesaler and manufacturer executives. One interviewee said that family involvement or the arrangement of a marriage between a daughter and son sometimes had resulted after long contact, but this is not a usual occurrence.

Overall, despite the fact that deep personal acquaintanceships were common between executives of wholesalers and manufacturers, close personal friendships seem to be vanishing gradually. This occurs especially as organizations become larger and more modern and as the older generation is replaced by the newer. Yet, friendships are still important. For example, one respondent noted that, although they are diminishing, such business friendships are very useful and important in actual trade and business relations. Several respondents indicated

that because of their friendships they could ask or grant rather special favors to one another. Friendship apparently also accounts for the flexibility of business relations which is so characteristic of Japan.

9) Loyalty of Wholesalers.

H9: Each marketing channel comprises some wholesalers with intense loyalty, willing to sacrifice their own business interests to a considerable extent for the sake of the channel administrator's interests.

This hypothesis was fairly well supported by the answers given by respondents to Question 12. Positive responses, however, tended to come from larger companies with a longer period of existence.

Eleven respondents out of twelve answered that they have some wholesalers as business partners who are willing to sacrifice their own business to a certain extent for the benefit of manufacturers. The one company which answered it did not have such partners was the smallest of the twelve studied.

The nuances of the meaning of the positive responses, however, is interesting. All four dentifrice/detergent companies along with the top four pharmaceutical companies differed slightly in their answers from the other three pharmaceutical companies, all medium or small sized. Representatives from the top eight companies studied (the four dentifrice/detergent firms and the top four pharmaceutical firms) stated that their firms

received such sacrifice from wholesalers purely because of friendship or loyalty based on human associations. The three smaller pharmaceutical companies noted that wholesalers will make such sacrifices because of the strong-weak economic relationships between manufacturers and wholesalers. One of these respondents, however, added that personal relationships between manufacturers and wholesalers were important in the consideration of sacrifices.

How is loyalty engendered? Respondents from all top eight companies said that past financial help to wholesalers in difficult situations was the reason for wholesaler loyalty. Several respondents went on to explain that their firms provided capital to financially troubled wholesalers purely because of the traditional close human associations. They did so without charging any capital interest. It was not merely an economic transaction. One subject commented that his firm had sent merchandise free of charge when a wholesaler's warehouse was burned out. Two other interviewees said that the presidents of their companies served as go-betweens in a merger of two competing wholesalers, thereby gaining loyalty. Another subject, from a large pharmaceutical company that has been in business for a long time, pointed out that some wholesaler firms have had trade relations with his firm for almost three generations.

The spokesmen for the top eight companies believed wholesaler loyalty stemmed from what is called giri (human-based obligation). Examples of this loyalty were expressed by subjects in the following terms: "Our wholesalers would accept overstock without any special charge." "Wholesalers are voluntarily cooperative without our having to use our power or control." "Ashi o mukete nenai (they never sleep with their feet in our company's direction)." Some also said that their "giri may not appear in serene times but it would come out when an emergency happened to us."

10) Human considerations in dealer aids.

H10: In providing dealer aids, channel administrators regard the human factor as an important factor in channel administration of the future.

This hypothesis was fairly well supported by the interview responses to Question 13, which dealt with opinions about the future role of human considerations in dealer aid. The majority deemed them to be "fairly important" in the future. Eight out of twelve company spokesmen took this position. One large company's representative suggested that human considerations would be "very important." Subjects from three companies took a contrary position, holding that the human factor would "not be very important." But it is interesting that no respondent replied that human considerations would "not

be important at all" in the future. Yet, almost all subjects agreed, in varying degrees, that in the future the emphasis might be less on human considerations and more on economic factors than is the case today. They were all convinced, however, that the complete neglect of human considerations would never occur in their own industries. No special differences in responses by type of industry or size of company were observed.

In reasoning that human contacts would remain fairly important, a respondent from a large manufacturing firm explained that by adding the human factor to rebate provision the manufacturer could establish a psychological hold on wholesalers through giri (a feeling of appreciation). All of these feelings are deeply imbedded in Japanese society. Another added that although formal arrangements are not specified, this feeling of obligation helps wholesalers work especially hard to provide better service for a manufacturer. Another subject suggested that, as one might expect, if a wholesaler had exactly the same business offer from two manufacturers, he obviously would opt for the one that provides human considerations.

Some respondents who believed human considerations would not be very important in the future reasoned that the internationalization of business will mean greater emphasis on economic factors. Some also suggested that various social pressures, such as regulation, the power

of consumers, and competition fostered by innovation and technology, would reduce the human quotient. A few noted that the present complexity of doing business in Japan stemmed from human considerations, and that future business practices should be less complex and more straightforward, hence, based more on economic considerations.

It seems that the overall importance of human considerations in channel administration will remain. This will foster complex relationships and structures. Yet, the degree of importance may be reduced gradually in the future. Channel relationships may adopt more of a straightforward economic posture.

11) Weak wholesalers as a cost of business.

H11: Channel administrators tolerate some economically weak wholesaler members, considering them a regular cost of doing business.

This hypothesis was only weakly supported by the responses to Question 14, which first concerned the respondents' overall evaluation of their present member wholesalers. Then, after identifying their levels of satisfaction or dissatisfaction, the interviewees were asked whether they would take strictly economic measures for improvement, if necessary, or would tolerate less satisfactory wholesalers.

As Figure 5.6 indicates, no company representative indicated his company was "very satisfied" with its

Evaluation*	Pharmaceutical Company	Dentifrice/ Detergent Company	Total
Very satisfied	0	0	-
Rather satisfied	2	2	4
Rather unsatisfied	5	1	6
Very unsatisfied	1	1	2
Total			12

*As an evaluation scale, a four-point scale instead of a five-point scale using "not sure" was employed. The inclusion of "not sure" in the preliminary tests intended to make respondents select that point.

Figure 5.6.--Manufacturers' Overall Evaluation of Their Wholesalers.

wholesalers. Apparently, even strong loyalty from economically weak members was not enough to gain a satisfactory rating.

The subjects who answered the company was "rather satisfied" with its wholesalers were all members of large firms. All of these firms were regarded by themselves and others as placing a very heavy emphasis on the human aspects or personal relationships in dealing with channel members.

The "rather satisfied" respondents admitted that their wholesalers' sincere efforts to sell their products and their highly cooperative efforts based on loyalty were important to them. Their response was "rather" instead of "very" satisfied because their cooperative wholesalers did not always have sufficient economic power to perform the required selling and delivery functions.

One subject explained that his firm basically sells and delivers its products to major accounts through its own direct efforts. It only depends upon wholesalers for collections and other minor functions. In return for these minor tasks wholesalers are credited for those accounts or territories. Because this practice is an industry custom, the firm's slight dissatisfaction seems to stem from the industry practice and not from wholesaler performance.

Respondents from six companies (one in the dentifrice/detergent industry and five in pharmaceuticals) that answered "rather unsatisfied" apparently felt this

way because other competitors had much stronger ties with and control over their wholesalers. The common reason given for their "rather unsatisfied" response was that wholesalers do not push their products aggressively enough.

Subjects from two fairly large companies in this category stated that their firms' ties with wholesalers were not as strong as those of other top manufacturers in their industries. They noted their companies were increasing their efforts to strengthen these ties.

Four out of five respondents in this category from pharmaceutical companies said that their wholesalers were "not too cooperative" and "not enthusiastic in selling our product." Moreover, they explained "feedback from wholesalers about where our products are now and about customer trends is too slow." The respondents also complained that their wholesalers were too weak financially to perform the proper wholesaling functions. The respondents represented four medium to small sized pharmaceutical companies.

Two respondents (one in dentifrice/detergent and one in pharmaceutical) said they were "very unsatisfied" with their wholesalers. Both were from the smallest companies studied in each of the industries. Their reasons were basically the same as those given by the "rather unsatisfied" group. Their feelings about them, however, were more intense. In addition, it was noted that the share of business at the wholesalers' level is small because the large manufacturers already have

relationships with the major wholesalers and command their strong loyalty.

When asked if they intended to cut some weak wholesalers from their distribution channel, all four subjects representing "rather satisfied" companies answered "no." They reported that, on the contrary, even weak wholesalers would be helped and assisted.

But the respondents did not explicitly say that their companies were tolerant of economically weak wholesalers. It was noted in the interviews that manufacturers had already invested too much in extending assistance to their member wholesalers (such as installing computer systems) to make the elimination of the weaker wholesalers a feasible strategy.

Among the group of "rather unsatisfied" companies, respondents' opinions varied. Representatives of relatively large firms said they would continue to use basically the same wholesalers simply because they had no better alternatives available for covering the required territory. Respondents from medium-sized companies (all pharmaceutical) admitted they might drop some wholesalers if they could find replacements. But they also noted that the probability of finding better replacements would be small, and much uncertainty would be involved.

The policy of all the "rather unsatisfied" firms seems to depend more or less on the availability of better alternatives. Given the fact that almost all the better

wholesalers already are affiliated with a parent manufacturer, it is unlikely that any will cut their present wholesalers from their distribution channel.

Employees of two "very unsatisfied" manufacturers responded that even they might not cut their present wholesalers. They simply needed more wholesalers to expand their markets and territories. Their problem seems to be one of obtaining enough wholesalers rather than screening them according to quality.

Regarding the hypothesis, it seems that channel administrators appear to tolerate some economically weak wholesalers. The reason for doing so, however, is that they cannot find better alternatives. Thus, in this sense, even though channel administrators may consider some of the weaker wholesalers as a cost of doing business, the reason for holding such an attitude is not a result of administrative benevolence based on human associations and factors as was hypothesized. This hypothesis seems to be supported only weakly in the case of the respondents representing some of the "rather satisfied" manufacturers who tolerated weak wholesalers as a humane cost.

12) Changes in Channel Policy.

H12: Efforts to promote economic efficiency of the marketing channel in the past decade have resulted in no substantial changes in marketing channel policy and structure.

This hypothesis was relatively well supported by pharmaceutical companies. The results, however, were indeterminant for the detergent/dentifrice industry. The data relevant to this hypothesis came from Question 15, which inquired whether respondents had changed the number of wholesalers, their distribution policies, or system substantially to improve economic efficiency over the past decade. All respondents admitted that their companies had changed the number of wholesalers. But only one company admitted to changes in distribution policies or system. This is shown in Figure 5.7.

In Question 15 the interviewer probed to find out how companies had developed their distribution system in the past decade. Within the pharmaceutical industry, subjects from the top six of the eight companies indicated that they had reduced the number of wholesalers on a selective basis to improve economic efficiency. But they pointed out they seldom had taken any drastic measures to reduce the number of wholesalers. They did not change their basic distribution methods or policies. An employee of one top-ranked manufacturer, for example, commented that the firm had not changed its basic system drastically, although some wholesalers might have disappeared "quite naturally."

A spokesman for a relatively large pharmaceutical company, whose primary wholesalers had been reduced from 600 to 350, said that while many small wholesalers had

	Pharmaceutical		Dentifrice/Detergent	
	Number of Wholesalers	Policy/ System	Number of Wholesalers	Policy/ System
Changed	8	0	4	1
Not changed	0	8	0	3

Figure 5.7.--Changes in the Number of Wholesalers and Distribution Policy in the Past Decade.

merged at the manufacturer's suggestion, new organizational arrangements and dramatic cuts had been few. He noted that while 200 out of these 350 primary wholesalers accounted for 95 percent of total sales, the remainder, 150 wholesalers, accounted for only 5 percent. Yet, the latter had not been cut because of long-standing, human-based trade relations, sometimes spanning two generations. The representative of a medium-sized pharmaceutical company commented along similar lines. The number of wholesalers used by his firm had been reduced from 600 to 300, but this was the result of mergers arranged with the cooperation of wholesalers. Moreover, wholesaler loyalty has been maintained so far.

Another medium-sized firm's representative, however, offered a slightly different viewpoint. He reported his company could not change its channel policy drastically because such action would create distrust among other wholesalers. Thus, as far as the responses of subjects from the top six pharmaceutical companies studied are concerned, the hypothesis was quite well supported.

Respondents from two other pharmaceutical companies also answered that they had never reduced the number of wholesalers. But the number with which they had begun operations was so small that their problem was to expand and not reduce the number of wholesalers in order to increase territorial coverage. Although the operations of these two certainly supported the hypothesis, in reality

these companies did not belong to the same set as the others in the consideration of distribution policies.

In the dentifrice/detergent industry, the situation is slightly different. Over the past decade, the number of primary wholesalers for each company had been reduced as a result of both more careful selection by manufacturers and manufacturer-directed mergers. Although this trend is also true in the pharmaceutical industry, in the dentifrice/detergent industry it has resulted from a change in channel policy. The resulting structure has, therefore, altered more drastically.

Changes in the distribution system of the dentifrice/detergent industry have been stimulated by one of the top-ranked manufacturers. In the late 1960s, this firm established its own sales company to perform some of the functions normally performed by traditional wholesalers. This change had an enormous influence on other dentifrice/detergent manufacturers as well as their wholesalers. Many of the latter feared a chain reaction on the part of other manufacturers. Some manufacturers took advantage of this uneasiness by dropping some of their wholesalers and tightening their control over the remainder.

Initially, however, the company which instigated this change lost a fairly large number of wholesalers and a portion of market share and suffered a decrease in sales. Another top-ranked competitor, therefore, enjoyed wind-fall sales increases with the shift of some

wholesalers into its orbit. This rival company since has strongly advocated kyōzon-kyōei (coexistence and codevelopment) with wholesalers to alleviate their uneasiness and at the same time strengthen company control of independent wholesalers. It insists that it will never shift to a new distribution system without wholesalers. Followers in the industry after this experience adopted one of two policies: Either they established their own sales companies, or they strengthened their ties with independent member-wholesalers. But even followers who established a sales company did so in a manner so that they did not neglect their former wholesalers entirely. This was done in part to relieve wholesalers' uneasiness and to avoid being considered cold and calculating.

In the dentifrice/detergent industry, therefore, hypothesis 12 was not confirmed. Some manufacturers did indeed try to improve economic efficiency through adopting new distribution measures. Others chose to strengthen their ties with their traditional wholesalers. At present, both methods seem to be equally well regarded in this industry.

It is, however, quite important to note that the drastic change in channel policy made by the top-ranked company was preceded by an effort to mollify traditional wholesalers. Wholesalers were asked to participate in the new sales company's management or to become stockholders. Also, special rebates were provided to offset

some of the deficits the wholesalers would suffer as a result of the change. Furthermore, in reality this company's policy itself may not have been so drastic. Prior to the change, the firm used its own sales representatives. They were sent to each wholesaler to make sales for them. Thus, it can be argued that the establishment of a sales company could be regarded as merely a modification of the traditional system, or the next expected development.

Exceptionism

13) Rates of Rebates.

H13: Although channel administrators have established a formal rebate system, the actual rate given is often determined by discretionary management action.

This hypothesis was strongly supported by the responses to Question 16, 17, and 18. Question 17 concerned the existence of an explicit rebate system. In the dentifrice/detergent industry, respondents from all four companies acknowledged the existence of explicit rebates. In the pharmaceutical industry, representatives of four of the eight companies acknowledged they had them. However, two respondents claimed they had only vague rebate systems. The other two said they did not have them. Rather, the latter two companies provided rebates on a case-by-case basis. The two firms that reported having vague rebate systems also provided rebates on this basis.

Most manufacturers, especially the larger ones, did have explicit systems. The reasons given for such an explicit system relate to their usefulness in meeting both taxes and some of the recent regulatory pressures being exerted.

Question 18 was directed to respondents whose firms had explicit rebate systems. It related to the possibility of changing the formal, explicit rebate, determining who made decisions to change them, and how much, if any, change was made.

When asked about the possibility of changing the formal rebate, all respondents, except one from a top-ranked manufacturer (9 out of 10 effective companies, including those who answered "vaguely yes"), admitted that there were some areas of discretion between formal policy statements of rebates and the actual rebates extended. In the inquiry it became evident that even the dissenting top-ranked manufacturer seemed to employ discretion, although the spokesman said the firm did "not employ it especially." Evidence for this conclusion lies in the fact that the same respondent indicated in another question about the criteria for determining rebates (Question 16) that degree of cooperation received from wholesalers was the important criterion. The assessment of the degree of cooperation is based on someone's discretion and evaluation since there are no explicit standards for measuring it.

Nine out of the effective ten subjects named the honsha eigyō-buchō, the headquarters marketing manager, as the one who had responsibility for providing actual rebates. Two subjects said it was the responsibility of the firm's president (one of these two subjects noted that both the marketing manager and president had the responsibility).

One respondent from a medium-sized company, whose president decides the rebates himself, explained that he did so because rebates were really the key to determining a wholesaler's fate. He explained that in today's system the size of the rebates determines whether wholesalers survive or declare bankruptcy.

Most subjects report that the shiten-chō (regional branch manager) or sometimes the sales representative had some say in the actual rebates realized by wholesalers. But they added branch managers and salesmen obtain permission from the head office through the ringi system for any significant decisions they make in changing rebates.

The range of discretion (difference between stated policy and actual rates) was considered on the upper side to be 2 percent² by five company respondents, and on the lower side as less than one percent by three of them.

²Assume that a company calculates the formal over-all rebate given to a certain wholesaler as 13 percent, based on an explicit corporate rebate system. If 2 percent is the range of discretion, this means that the actual rebate provided may be as high as 15 percent.

The other two effective subjects said that the range was between one and two percent.

However, we must consider that seven companies previously reported that the degree of cooperation received from wholesalers was a rebate criterion. This was noted in replies to Question 16. Also, the degree of cooperation was not included in consideration of the "range of discretion" concerning rebates. Thus, in reality the actual range of discretion would appear to be much larger than the estimates given.

One manager made an interesting comment during the interview. He reported "secret human-based rebates which are usually unknown to others and are very dependent on our discretion are in fact the source of our control power over wholesalers." Another manager also disclosed with some embarrassment that it was not unusual for the rate of rebates among top wholesalers and manufacturers to be decided while drinking or dining together. A third subject indicated that "as an industry custom we use rebates quite flexibly to fix the amount of total gains for each wholesaler at around a 15 percent range as chōsei-waku (a coordinated range)." Flexible rebates seem to constitute a significant and unique characteristic of channel policy of these industries.

14) Rebates and business margins.

H14: Many types of rebates exist with rates even higher than the stated business margin, thus allowing room for management discretion.

This hypothesis was also strongly supported by both the answers given to Questions 19 and 20 and information gained as a result of probing concerning industry practices. In addition, data from Question 16, concerning the basic criteria used for determining rebates, also supported this hypothesis.

Question 19 inquired about the kinds of rebates extended and under what condition they were provided. Both industries studied used a wide variety of rebates. In the dentifrice/detergent industry, rebates based on cash collection, goal achievement (quotas), delivery performance, and quantity of sales were common. Rebates based on the acceptance of new products, cooperation in maintaining prices, preordering products during the off-season, exclusive dealerships, the amount of nonreturned goods, and the previously mentioned degree of cooperation were often applied. These findings are substantiated by the findings of other research projects.³

In the pharmaceutical industry, basically the same types of rebates are available. The specific, economically based rebates such as those related to sales volume, cash

³See Torihiki Jōken no Tekiseika, 1973, p. 73.

collection services, and delivery services are used widely. The more ambiguously human-based rebates, awarded for the degree of cooperation extended, the maintenance of price, or to supplement wholesalers' deficits, were also found to be important. One subject captured the essence of the situation in his comments. He noted that while there are numerous names for rebates, the name itself is unimportant to wholesalers. What really matters is the total rebate amount wholesalers receive from manufacturers.

The most popular form of rebate payment is a cash rebate offered on a straight rate basis. This is a fixed rate for each item regardless of the quantity purchased. However, payments made in merchandise as well as cash payments on a progressive rate basis, such as higher rebate rates for purchases of larger quantities, are widely used.

Question 20 was designed to investigate the ratio between rebates and margins. In the dentifrice/detergent industry, the margin was fixed at around 7 percent. In the pharmaceutical industry it was around 5 percent. These rates were fixed by manufacturers for their wholesalers and were explicit for both industries. However, from the respondents' answers to Question 16 about overall rebate rates, the average total rate received by wholesalers, both margin and rebates, was determined to be 14-15 percent in the pharmaceutical industry and 12-14 percent in the dentifrice/detergent industry. The rebate rate alone, therefore, is equal to or greater than the fixed

margin rate. It may even be considerably more than the fixed margins. This relatively higher flexible rebate as opposed to the fixed margin seems to allow room for discretion on the part of management. It may make wholesalers even more reliant on the manufacturers they serve.

15) Length of credit of promissory notes.

H15: Length of credit terms of promissory notes for wholesalers is dependent upon the conditions and considerations of wholesalers rather than a predetermined fixed policy.

This hypothesis was relatively well supported by the answers given by respondents from the pharmaceutical industry. It was not supported by the responses received from the dentifrice/detergent industry.

In both industries, the periods covered by promissory notes were found to be closely related to rebate rates. That is, if payment is prompt, more favorable rebates are gained. One dentifrice/detergent company, for example, even penalizes late payments of promissory notes by reducing the amount of the rebates.

In the dentifrice/detergent industry, subjects from three top-ranked companies said that variations in the payment period of promissory notes are exceptions. One top-ranked detergent firm today receives about 95 percent of the payment for its sales in cash. The respondent from this company said that some of its member wholesalers had the option of a maximum 60-day payment period, but

the option is a costly one for them. The manufacturer provides an additional 3 percent rebate for each payment made on time, which is a very high rate. Because this rate usually is much more favorable than that extended by commercial institutions, wholesalers are better off paying cash, even if they have to borrow the money to do so. Such a policy encourages cash payment by wholesalers.

Another detergent company also reported using basically the same method. Companies in the dentifrice industry permit 60-75 days as the period for deferred payments. A subject from one large dentifrice firm said its rate of collection made on time is 95 percent because it penalizes late payment, usually by adding 5-10 days to the 60-day payment period at the rate of 0.3 percent per day, a very high rate indeed.

In the dentifrice/detergent industry variations in the payment period were considered to be exceptions. Yet, minor postponement of the payment date could be granted by regional branch managers or sales representatives with the permission of the head office.

In the pharmaceutical industry, on the other hand, there is a wide variation in payment periods. An average of approximately 120 days seems to be the industry practice. Interviewees from five out of eight pharmaceutical companies reported that their company gave 90 days as the minimum period. The other three, which are medium or smaller sized firms, give from 110-130 day payment periods

as the minimum. The maximum payment period varies between 150-200 days. This, however, is very unusual.

Representatives from all the pharmaceutical firms said their companies relate payment periods and rebates, the earlier the payment period, the more favorable the rebate. This flexibility of payment periods depends on the power of wholesalers, their financial strength, and the length of association with them.

Most subjects indicated that decisions about a few days' postponement in payment might be made by sales representatives, section managers, or regional branch managers. Formally, these people need permission from their superiors to grant such extensions. In practice, however, the range of discretion seems to be relatively broad. It is important to note, however, that deferred payment privileges have recently been restricted to a considerable extent. This is especially so when wholesalers are concerned with another and perhaps more important factor, rebates.

Relative to a topical and important factor, one subject added that, because of the energy crisis in 1974, the tendency in his company has been to shorten rather than extend payment periods.

In general, exceptions to the practice of making payments on time seem common in the pharmaceutical industry. In the dentifrice/detergent industry, however, payments are generally made on time. Also, the larger

companies in both industries tend to be in a better position to demand shorter payment periods and receive more prompt payment.

16) Delivery of merchandise.

H16: Delivery of merchandise is not made on the basis of the manufacturer's logistical planning schedule, but, rather, on the basis of dealer requests.

This hypothesis was well supported by the respondents' answers to Questions 23 and 24, referring to the frequency and method of delivery. All subjects interviewed, except one, reported that companies delivered merchandise relatively frequently. Frequency was especially high in the dentifrice/detergent industry, which arranged delivery schedules varying from a maximum of every day to a minimum of every two weeks.

One respondent from a top-ranked detergent company indicated that an order received in the morning would be delivered that evening. Another top-ranked detergent manufacturer reported that, on the average, truck deliveries were made daily, while train deliveries occurred twice a week. The average delivery frequency for large-sized wholesalers was five times per week, and for small-sized wholesalers three to four times per week.

In the pharmaceutical industry, the average delivery frequency was slightly less than for the dentifrice/detergent industry. Even here, however,

subjects from five of the eight companies reported their firms delivered merchandise every day. Some interviewees noted that because of the nature of their products, their companies had to deliver often to meet the emergency needs of dealers. Minimum delivery schedules averaged about once a month. But such shipments may be deceptive, since they were made to smaller and less significant local wholesalers. Several respondents indicated that a delivery schedule of twice a week was probably the average.

Several subjects from the pharmaceutical industry admitted that their physical distribution system was very poor, which results in high costs. Most indicated, however, that in the future logistical planning by manufacturers and the development of logical delivery schedules would become more important.

Respondents indicated some of the companies were now developing mihakarai-okuri sales according to a planned delivery schedule based not on customers' orders but on the manufacturer's estimate of a wholesaler's inventory. Such deliveries were made once or twice a month. But they also admitted that the rate of collection for such deliveries was extremely low, and the rate of return goods was high.

Delivery frequencies may well be reduced in the future. Today, the frequency and costs of deliveries are high. Government documents indicate that 67.7 percent of pharmaceutical wholesalers make deliveries to their clients (medical facilities or retailers) every day;

25.7 percent deliver once every 2-4 days.⁴ This same source reports that literally no wholesaler fixes minimum order quantities for deliveries made to customers.

Frequency of delivery is apparently higher between wholesalers and their customers than between manufacturers and wholesalers, which was the relationship studied here. This is understandable. Nevertheless, there still seems to be great opportunity for better logistical planning on the part of manufacturers and hence opportunities for improved profit performance. In fact, many of the respondents interviewed reported that it was their intention to improve this aspect of their operations. Some even suggested that the keys to future development and effectiveness are likely to be financial strength and better inventory management by wholesalers.

In general, deliveries are seldom made on the basis of a planned delivery system. While several manufacturers have established rudimentary delivery schedules, wholesalers' orders, particularly to meet emergencies, are honored. This is especially true when the trade relationships have extended over a long time and when wholesalers themselves are strong.

⁴See Torihiki Jōken no Tekiseika, 1973, p. 88.

17) Return of goods.

H17: Manufacturers generously permit the free return of goods by wholesalers without special charge.

This hypothesis was supported to some extent by information gathered from some of the prior questions, particularly those in the section on liberal return privileges noted in Chapter IV. However, Question 25 is specifically concerned with determining recent trends as well as the details of return privileges.

It was previously noted that many manufacturers still accept goods returned by wholesalers. However, it was also found that, because of changes in industry practices, the quantity of returned merchandise in the detergent industry has decreased substantially. Manufacturers have tightened their control over merchandise returns by basing rebates on the quantity of ordered goods that are returned--the less returned, the higher the rebate. In the pharmaceutical industry, however, practices concerning returned goods and the quantities returned remain about the same.

In both industries, it should be noted that externalities have eased the situation. The energy crisis created a shortage of merchandise, which has reduced returns.

Changes in practice were emphasized by several respondents. Subjects from two detergent companies, for

example, noted that their firms did not accept returned goods unless they were defective. Respondents from two dentifrice companies said that a rate of return of 5-6 percent of sales was about average. The rates on seasonal goods are, of course, much higher. They are estimated to range from 30-50 percent of sales.

In the pharmaceutical industry, return rates vary depending upon the nature of the products--whether they are ethical or proprietary, or seasonal medicines such as cold tablets or stable items such as aspirin. The reported rate of return of ethical goods ranged from 2 to 6 percent of sales; for general proprietary items from 7-10 percent of sales; and for seasonal proprietary items from 15-20 percent of sales.

Consignment sales are also widely practiced in the pharmaceutical industry. In fact, three pharmaceutical companies handle sales on a consignment basis only. When this occurs, the question of merchandise returns is irrelevant.

Several respondents from pharmaceutical companies also noted that returns come most often from the smaller and less significant channel members and not generally from primary wholesalers. Thus, manufacturers become concerned about the burden caused by weaker channel members. While five of the eight respondents surveyed reported they accepted returns, they also reported that they sometimes assess a penalty by introducing charges for certain

returns. Such charges often take the form of reduced rebates for the wholesaler.

As was noted earlier, since the onset of the energy crisis, pharmaceutical manufacturers have not received many returns. But this condition of merchandise being in shorter supply will change. Until it does, many respondents reported that they will be more generous with their returned goods policy.

18) Contracts and dealer relationship.

H18: Although manufacturer-wholesaler sales and dealer contracts exist, business is not rigidly controlled by the contract.

This hypothesis was strongly supported in the interviews. Data received from answers to Question 26 dealt with the manufacturer-wholesaler contract.

The neglect of the contractual agreement and lack of strict legal interpretation has been pointed out occasionally in past literature. Detailed analysis and explanations of working contractual arrangement have seldom been made. The responses received to the interviewer's question concerning this subject seems to confirm the vague nature of industry practice as stated in the contracts.

Representatives from all the companies studied, except for one small-sized pharmaceutical firm, acknowledged that their firms had business and trade contracts

with wholesalers. Yet, it is extremely interesting that not one subject reported that these contracts were important in their business relationships with wholesalers. Many respondents even noted that they had never checked their contracts after they were signed because there was no need to refer to them further. Thus, contracts appear to be a matter of form and not substance. The respondent representing one top-ranked detergent company explained that the contract was often superceded by a sales agreement in which both parties mutually establish a sales quota.

In the Western business world, if a wholesaler only sells 90 percent of his quota during the period, this would mean that he had not fulfilled his contract. He might suffer serious sanctions. In Japan, however, the situation is different. Although the wholesaler could be penalized, if a manager of the manufacturing firm believes the wholesaler did his best, he need not be. Sometimes, he may even be granted a favorable rebate simply because he did his best.

Another respondent, employed by a top-ranked dentifrice manufacturer, indicated that if a large or primary wholesaler did not meet the agreed quota within the period specified, punitive action need not be taken. The manufacturer might merely extend the time period in order to give the wholesaler another chance to reach the quota, rather than downgrade him to the rank of secondary wholesaler.

A subject from a top-ranked pharmaceutical company explained his firm's contract policy. At the beginning of a period the manufacturer meets with wholesalers to arrive at a consensus agreement on sales quotas. These are then codified. Each wholesaler keeps his document as an implicit contract. The manufacturer never requires a signature or hanko (a personal stamp or seal which is always used by Japanese businessmen as a signature). The agreement is a gentleman's agreement based on trust. (This company is quite famous for its business success.)

Spokesmen for almost every one of the pharmaceutical manufacturers studied indicated that contracts are "almost meaningless." One suggested that while contracts exist, the more important items are the shō-shūkan, the business customs existing in the industry. If a manufacturer applies sanctions for breach of contract instead of following more lenient business customs, he very likely would be criticized as being cold and without feelings.

Contract dealings with Western manufacturers are quite different, however. A subject from a dentifrice company explained that wholesalers naturally expect foreign manufacturers to retaliate when contracts are broken. According to him, a wholesaler downgraded by a manufacturer to the secondary level for failing to meet his sales quota will not criticize this action because the manufacturer is foreign and not Japanese. The wholesaler realizes that protest would be shikatagamai, useless.

"Quite interestingly," this subject added, "the wholesaler would feel this way even if the firm were staffed entirely by Japanese managers and salesmen." Wholesalers seem to apply different standards when dealing with Japanese and foreign companies.

Economic Nonfunctionality

19) The human element.

H19: The human character of a manufacturer's personnel in charge of dealer relations is regarded as a very important factor in doing business with wholesalers.

This hypothesis was strongly supported during the interview by answers to Question 27. Question 27 sought to determine the importance of the human or personal characteristics of channel administrators in dealing with business partners. In response to this question, all subjects noted that personal characteristics were very important. One subject indicated that this human orientation is at the heart of Japanese business, is its blood, and it never can be changed. Many other interviewees agreed that a fairly large amount of business is determined by human contacts, although these may not necessarily be the only basis. Three subjects reported that there were many instances when a human orientation was more important than economic rationality. All respondents representing large companies explained tolerance, broad-mindedness, and an understanding of giri (a sense of duty) and ninjo (an

understanding of humanity) were important in their industries.

The value sometimes placed on personal attributes is noted in the two instances that follow. One subject emphasized that human considerations when dealing with wholesalers are not only desirable, but also necessary. He claimed, for example, that very large, powerful regional wholesalers could even force manufacturers to dismiss lower-level managers if the manager's "nature and human dealings" were not agreeable to the wholesaler. In the same vein, another respondent explained that if a manufacturer's manager had very fine human relationships with large wholesalers, his position in the organization would probably be more secure.

Several interviewees added that, in addition to the human aspects, a manager naturally must also have the distinctive ability to control and administer the channel. But there seems to be no doubt among respondents that good human qualities are extremely important.

H20: An individual's name and personal characteristics are more important than his job function to wholesalers in maintaining good business relations between the manufacturer and wholesaler.

This hypothesis received some support in the responses to Question 28. But it had more validity for manufacturers' relations with larger, primary wholesalers than with other wholesalers.

In answer to Question 28, which referred to the wholesalers' attitude toward a manufacturer's administrator, 9 out of the 12 company spokesmen replied that from a wholesaler's point of view, a manager's name and personality were more important than his mere organizational position or job function. This again adds evidence that business relations in Japan depend heavily upon personal relationships and associations.

For example, one subject noted that in the pharmaceutical industry he had immediate personal access to about 50 presidents of wholesaling firms should the need arise. Moreover, these individual relations were his main asset as well as the main company asset. Another subject pointed out that although there are many occasions for friendly contacts, such as at kai meetings, dinners, and seminars, these tend to be limited only to top-ranked wholesalers. Therefore, the hypothesis was true mainly for primary, not secondary and tertiary, wholesalers.

The three respondents who did not agree completely with the hypothesis suggested that personal names and organizational positions could be thought of as being equally important, depending upon the particular wholesaler. The three companies represented ranged from medium- to small-sized pharmaceutical firms. The spokesman from the smallest of the three said that because his firm did not have much market power, wholesalers simply did not pay much attention to it. The other two

respondents said that today less emphasis was being given to personal business and trade relationships. These two firms are fairly well known as being among the more economically oriented in their industry.

In general, it seems that for managers at both the manufacturer and wholesaler levels their personality and personal relationships are more important than their job description or job function. A respondent from a medium-sized pharmaceutical company revealed that the human relationship often becomes so firm that wholesalers occasionally would visit a channel administrator for consultation even after he had taken another position in the same company.

21) Significance of nonbusiness activities.

H21: Effective channel administrators must engage in numerous activities that are not strictly business and involve both human and economic rationales.

This hypothesis was well supported by the respondents in their answers to Question 29 as well as by observations and comments made by subjects when responding to other questions during the interview.

Spokesmen from ten companies out of twelve represented indicated that channel administration managers spend time outside business hours contacting personnel of member wholesalers. These contacts include a variety of

social engagements such as dining and golf, as well as personal conversations and business consultations. It was explained that because the human factor is so important in their industries, channel managers must develop and maintain good human relationships with wholesalers, and this is usually done outside normal business hours.

As was noted before, one respondent said that busy managers would meet with managers of large wholesalers whenever they visited the company even if the latter had no appointment. He also emphasized that some of the wholesalers' personnel would talk almost the entire day about all their business with the manufacturer's manager. They would even discuss matters not directly related to the manufacturer. These encounters consume much of a manufacturer's manager's time.

An employee of a medium-sized pharmaceutical company reported that certain small local wholesalers periodically visited the manufacturer's main office with their financial statements. The manufacturer does not request this. It is believed that the wholesalers do so thinking that if they visit often, they may receive more favorable rebates as a result of establishing closer human relationships. Furthermore, most manufacturers seem pleased when wholesalers, recognizing the manufacturers' power, show this kind of respect.

Interviewees observed that everyone in the industry knows that work outside business hours is expected of

channel administrators. A few respondents from the pharmaceutical industry remarked that the managers seldom dined with their own families because of so many engagements with their business partners and clients.

Responses to Questions 27 and 28 also revealed the importance of good human relations for channel administrators and underscored that not only business but also private contact is necessary. It is therefore quite understandable that managers of marketing channels must devote much of their leisure time to business associates.

* * * * *

A summary of interview results for each operational hypothesis is given in Figure 5.8. Although the detailed discussions concerning each operational hypothesis often proved more important than the simple abbreviated support-nonsupport response, a summary is useful for indicating the overall perspective in channel administrative behavior.

As Figure 5.8 shows, the 21 operational hypotheses which were derived from the four hypothetical propositions were, with a few modifications, generally well supported. There are probable reasons for these favorable results, among them, the following three seem the most important:

- (1) The operational hypotheses themselves were constructed after a fairly thorough background investigation of industry practices and an intensive review of the literature.

- (2) Because of the homogeneity of business customs and philosophy in Japanese firms, the experiences and practices of one company are likely to be similar to those of others.
- (3) This researcher had access to many industry experts and a fairly large number of documents not normally available, including private and public materials. These rendered insights and practical operative guidelines.

Pseudo-harmonism	Degree of Support*
H1: The Japanese manufacturers studied tend to express the importance of human and social relationships as a basis of business management at the corporate policy level.	strongly supported
H2: The ultimate criterion in the administration of the marketing channels studied tends to be an economic rather than a human rationale.	fairly well supported
H3: Channel administrators tend to express togetherness, coexistence, and codevelopment with wholesalers in their marketing channel policy.	strongly supported
H4: In spite of the harmonious setting of Japanese channel relation, channel administrators are reluctant to acquire economically weak wholesalers as subsidiaries when they are requested to do so by such wholesalers.	strongly supported
H5: The most important tool in attracting wholesalers is believed to be a channel administrator's product competence (R & D expenditures and achievements, high product quality, good image, and so forth) rather than human relations with dealers.	strongly supported
H6: The economically stronger wholesalers are given more favorable rebates and margins.	strongly supported

Figure 5.8.--Summary of Main Findings of Operational Hypotheses.

Eclecticism	Degree of Support*
H7: In dealing with wholesalers, channel administrators avoid an image of being economically oriented.	weakly supported
H8: Although channel administrators and wholesalers have close human contacts and relationships often extending beyond the boundary of trade and business, these relationships do not extend to family involvement.	strongly supported
H9: Each marketing channel comprises some wholesalers with intense loyalty, willing to sacrifice their own business interests to a considerable extent for the sake of administrators' interests.	fairly well supported, but it tends to center on large-scaled companies
H10: In providing dealer aids channel administrators regard the human factor as an important factor in channel administration in the future.	fairly well supported
H11: Channel administrators tolerate some economically weak wholesalers by considering them a regular cost of doing business.	weakly supported
H12: Efforts to promote economic efficiency in the marketing channel in the past decade have resulted in no substantial changes in marketing channel policy and structure.	fairly well supported by pharmaceutical, but undetermined in detergent/dentifrice industry.

Figure 5.8.--Continued.

Exceptionism	Degree of Support*
H13: Although channel administrators have established a formal rebate system, the actual rate given is often determined by discretionary managerial action.	strongly supported
H15: The length of credit terms of promissory notes for wholesalers is more dependent on the conditions and considerations of wholesalers than pre-determined fixed policy.	fairly well supported
H16: Delivery of merchandise is not made on the basis of the manufacturer's logistical planning and schedule, but, rather, on the basis of dealer request.	fairly well supported, but the practice was rather limited to today's practice but not to tomorrow's
H17: Manufacturers generously permit the free return of goods by wholesalers without a special charge.	fairly well supported but practice is diminishing in the dentifrice/detergent industry
H18: Although manufacturer-wholesaler sales and dealers' contracts exist, business is not rigidly controlled by these contracts.	strongly supported
Economic Nonfunctionality	Degree of Support*
H19: The human character of the personnel in charge of dealer relations is regarded as very important in dealing with wholesalers.	strongly supported

Figure 5.8.--Continued.

H20: An individual's name and personal characteristics are more important than his job function to wholesalers in maintaining good business relations between the manufacturers and wholesalers.	fairly well supported, but in limited situations (i.e., large-scaled wholesalers)
H21: Effective channel administrators must engage in numerous activities that are not strictly business and involve both human and economic rationales.	fairly well supported

*Note: As was noted on page 117, "strongly supported" means that 75 percent and more of the respondents agreed, "fairly well supported" means 50-75 percent agreement, "weakly supported" for 25-50 percent agreement, and "not supported" means more than 75 percent disagreement.

Figure 5.8.--Continued.

CHAPTER VI

SUMMARY AND CONCLUSIONS

In this chapter, a brief summary of the research findings is presented. Based on the findings, the interpretation and evaluation of each of the four basic propositions are offered. Finally, the chapter presents a discussion of some future implications of the developments.

Summary of Major Findings

Overall, the four basic propositions offered as conjectural hypotheses, which were examined in terms of twenty-one operational hypotheses, were well supported. They seem to offer an explanation of the cultural rationale underlying the channel administrative behavior of the Japanese manufacturers studied. No strict statistical measures or validations of findings were attempted, however. The research was designed as an exploratory, preliminary study.

The existence of pseudo-harmonism and eclecticism as aspects of the business philosophy in channel administration was relatively well supported. The proposition

that there is an expressed emphasis on harmonious human and social relationships and an implicit use of a cool economic rationale was well borne out in corporate management mottoes, marketing channel policy, and interviewees' opinions and reports of practices relating to rebates and other dealer aids.

The proposition concerning eclecticism, that there is an equal balance of economic and human measures in channel administration and that neither is extreme, was supported by the evidence gathered. It was also observed that some sacrifice of economic efficiency in channel administration occurred and was considered a cost of doing business, or a necessary expense to maintain harmony in social and human relationships.

Exceptionism and economic nonfunctionality were widely observed as aspects of customary activities and trade practices in channel administration. The proposition relating to exceptionism, that managerial discretion occurs in the actual provision of rebates despite the existence of a formal rebate system, was observed to hold to an especially strong degree. Respondents reported that most firms ignore dealership and sales contracts, as information from other sources had led one to expect would be the case. Evidence of the existence of flexibility in the terms of payment periods for promissory notes, the frequency of delivery, and free goods return privileges

was noted. But the use of these practices seems to be diminishing gradually among larger manufacturers.

Evidence was found to support the proposition regarding economic nonfunctionality. The manager's personality and human orientation were found to be even more important than his business performance or job title or function. Many interviewees seemed to regard the channel administrator as a "human affairs person" rather than as a "purely economic decision maker." This meant that channel administrators, to be considered successful, have to participate in many activities besides purely economic and business affairs.

An Interpretation and Evaluation of Findings

If the four basic propositions are valid as major explanations of the cultural rationale underlying marketing channel administrative behavior, they should clarify to a certain extent an understanding of some of the distribution system's complex nature. Thus, in this section, the main characteristics of channel administrative behavior are summarized, interpreted, and evaluated in the light of each of the four fundamental propositions. Despite a lack of statistical validation, the following explanations seem to contribute to an insightful and more comprehensive understanding of Japan's distribution

channel behavior, which to date has been described as "overly complex, mysterious, and archaic."¹

Pseudo-harmony: Expressed
"Gemeinschaft" but Implicit
"Gesellschaft"

In the channel administration of those Japanese manufacturers studied, human and social relationships, such as harmony, traditional associations, loyalty, and mutual cooperation and codevelopment, are almost always emphasized and expressed. Nevertheless, a cold economic rationale is still paramount. This was evidenced by the manufacturers' ranking systems for appraising middlemen and the adoption of such criteria as sales volume and market share as fundamental determinants of rebates and margins offered to wholesalers.

Perhaps the degree of gemeinschaft was much stronger in the past than today. However, competitive and social forces have forced the cooler gesellschaft system upon the industry. Severe competition among existing firms as well as the entry of foreign competitors and other competitive industries are economic factors that reinforce this tendency. The trend also has been promoted by a number of social forces, including the consumerism movement, social critics' complaints about high costs and prices, government

¹William D. Hartley, "Cumbersome Japanese Distribution System Stumps U.S. Concerns," Wall Street Journal, March 2, 1973, p. 1.

regulations and policies designed to increase the economic efficiency of the system, criticism from Western-oriented academics, and the important resource and energy restraints. As a result, companies relatively weak in negotiating power tend to place more emphasis on the human rationale, while those firms that are relatively stronger emphasize an economic rationale.

Manufacturers may endorse codevelopment and coexistence with all wholesalers equally. In reality, however, it is the economically stronger and bigger wholesalers who are usually given more favorable rebates and incentives. This means, in effect, that the stronger a dealer is, the stronger he will be. This is a fairly cool expression of the economic rationale.

Is this tendency or practice of channel administration in concert with the beliefs and desires of the Japanese people, who are widely believed to be very oriented toward maintaining harmony? There seems to be some evidence that it is.²

²Tamotsu Sengoky and Atsuko Tohyama, Hikaku Nihonjin Ron (A Comparative study of Japanese) (Tokyo: Shagaku-Kan, 1973). In this comparative study covering eleven countries, 2,000 young people in each nation were asked to respond to the statement: "Basically, the person you can rely on is yourself." Some results were: Japan, 73.8 percent; United States, 68.4 percent; Great Britain, 34.3 percent; West Germany, 73.1 percent; France, 51.4 percent; and Switzerland, 44.9 percent. Among the politically stable, developed countries, the Japanese clearly ranked the highest in mistrust of others.

Although Japan is a group-oriented society, the individual seems to believe he must eventually stand by himself. For example, Japan has one of the highest saving rates in the world, which is partly explained by this attitude on the part of individuals.³

In an overly simplified generalization, the occidental nations are sometimes viewed as being more economically oriented, while the oriental nations are seen as being more human oriented. On such a spectrum Japan presently may be midway between the so-called Far East Japan and the new Far West Japan. But because of the heavy Western influence since World War II, Japan seems to be closer to the West than to its Asian neighbors.

The tendency toward gemeinschaft has been viewed as resulting from changing economic and social forces. There is, however, some necessity for the shift. Human-oriented gesellschaft is compatible with the Japanese seniority system, life-time employment, and group orientation. But this apparently secure system is a two-edged sword, as one interviewee pointed out. A person who fails in business loses "face" or status when he loses his job. Since job mobility and opportunity are low, the individual cannot afford to make serious mistakes and risk losing his position in a lifetime organization.

³Tsunehiko Yui, "The Japanese Propensity for Saving," Japan Interpreter 8 (Winter 1974):478-83.

Therefore, although branch managers have wide discretion in determining rebates and margins, their rationale must be basically economic. A consensus is more easily arrived at on these grounds. Once branch managers fail in one job function, it is difficult for them to reascend the status ladder. Thus, lifetime employment seems to have inherent features which balance gemeinschaft and gesellschaft and in so doing it contributes to pseudo-harmony.

In the future, the economic rationale may be stressed more heavily and the cultural or human rationale deemphasized. This direction, whether Japanese channel administrators and wholesalers like it or not, will promote greater economic efficiency and less channel harmony than exists today.

Eclectic or Mixed Solution with a Human Cost

Japanese distribution channel administrators seem to avoid the acceptance of extreme solutions. They tend to hedge their approaches. They generally employ both economic and human rationales as a guiding basis for decisions. This highlights the acceptance of mutual cooperation and codevelopment as a most important policy in channel administration.

It was interesting to note that in the interviews spokesmen of almost all firms, including companies well

known for their acceptance of an economic orientation or with their own sales companies, still expressed opinions emphasizing the importance of developing "togetherness" with other wholesalers in channel administration. In this regard, the most typical comment about channel policy expressed in the interview was: "We cannot consider our growth without our dealers' growth, and our dealers' growth also cannot be considered without ours." This despite policies and practices emphasizing economic rationales.

The wide discretion with regard to policies in the system permits manufacturers to support those small wholesalers who cannot achieve the sales goals stated in their contracts (if the gap is not too large). This situation breeds a "structure of dependence"⁴ of Japanese channel members and some inefficiencies. However, it also creates wholesalers' loyalty, which can be a great help to manufacturers.

Thus, in the administration of distribution channel systems in Japan, two rationales, the human and the economic are expressed as being equally important. Evidence suggests that both can be considered as desired goals of channel administrative behavior. At least they seem so on the surface. The two rationales, however,

⁴Takeo Doi, The Anatomy of Dependence, translated by John Bester (Tokyo: Kodansha International Ltd., 1974).

often are incompatible, and a trade-off must be made. When this becomes necessary, the alternative selected is shaped by both the specific situation and the general climate and sociocultural factors.

In Japanese channel administration, the economic rationale is foremost. The findings strongly support this conclusion. The more human rationale is a secondary factor when used in pursuing immediate goals of manufacturers. The importance of the human rationale, however, cannot be ignored. Channel administrators are well aware of its significance.

An economic cost is attached to the acceptance of a human rationale. Harmony, loyalty, and friendship usually are uneconomical to obtain. But it is felt that only by paying this price can economic ends be achieved more smoothly and with a minimum of conflict. The cost of the human rationale, the sacrifice of economic efficiency, has been considered to be and remains a necessary one in light of the Japanese physical and social environment (infrastructure, geographic conditions, shopping behavior, and so forth).

Japanese channel administrative behavior thus can best be viewed as a mixture of both rationales. It is a unique blend of the human and economic rationale. Manufacturers are very benevolent in making their channel administration decisions. They remain so, however, only as long as they perceive some future potential in the

arrangements with wholesalers. The human rationale is not an altruistic one. For when manufacturers can no longer perceive any potential benefits to their arrangements with wholesalers, they cease to provide economic incentives. But Japanese manufacturers seldom refuse to trade with a company; rather, they will offer no more trade advantages, and the wholesaler then leaves voluntarily. One channel administrator said that decisions to drop followers (wholesalers) were usually made when the president of a follower firm retired. The economically ineffective firm having been kept on because of long-standing human relations between the manufacturer and the wholesaler is now deleted from the channel. In Japanese channel administration, even when manufacturers behave tyrannically, they try to temper it with benevolence to minimize social and human disorder.⁵

Eclecticism seems to be characteristic of channel administration in Japan. This might be expected since eclecticism is also characteristic of Japanese culture in general. Moderation, a dislike of extremism, and the unacceptability of radicalism seem to be Japanese social norms. Thus the tempered decision, the decision blending both extremes, the moderate decision seems to be the most

⁵Lewis Stern distinguished two types of channel administration: tyranny and benevolence. This does not seem to hold true for Japan. In Japan, channel administration is more likely to be characterized by both, benevolence and tyranny, rather than one or the other (Stern, 1965).

acceptable to the Japanese, who emphasize harmony. This seems to be a major distinguishing characteristic between American and Japanese approaches to channel administration.

Ruleless. Rule or Exceptionism

In the administration of channels by manufacturers there are no rigid rules. Of course, industrywide, business manners and customs exist. Also, at the individual firm level there are overall policies, plans, and rules. But these facts notwithstanding, business practices among Japanese industries leave very wide discretion to individual decision makers, or the rules that are stated are frequently neglected. In the industries studied in this dissertation, and in Japanese business generally, the exception is the rule. Each situation is viewed as a unique one.

An excellent example of this is found in the use of the rebate system in channel administration. It is dominant in the industries studied. It is a most effective tool used in the administration of channels. It affords great individual discretion. This lack of rules and availability of wide discretion are two of the reasons why the administration of Japan's channel system and the related behavior seem complex and mysterious, especially to foreigners.

The absence of rules often permits selection from among a wide range of alternatives in pursuing

ultimate goals. While this "free-style" approach has advantages, it also has many disadvantages. One advantage is the possibility of being more adaptive to changing situations, which may be quite a significant strength in today's rapidly changing world. Another possible advantage, and perhaps disadvantage, is the resulting protection afforded domestic industry from foreign competition. For the foreigner must have broad and direct practical experience in the Japanese business world to understand it and operate distribution channels effectively. The costs of achieving this knowledge and experience is high in time and money. Another possibility, that of joint ventures which utilize the experience and knowledge of Japanese wholesalers, is costly and even less controllable for foreign manufacturers. Thus the lack of capability in distribution channel administration is the big barrier to foreign entry into the Japanese market.

When the government forced the liberal investment of foreign capital upon Japanese business in 1971 in response to international economic pressures, most Japanese companies relied on the complexity of their business system in general and distribution system in particular to protect them. Although foreign competitors wishing to enter Japanese markets had superior technology, products, capital, and marketing techniques, nevertheless, Japanese firms felt that the foreigners' ignorance of Japanese business practices and distribution methods

would discourage entry. Japanese manufacturers reacted by further strengthening ties with their wholesalers, as well as other competitive efforts.

But as was indicated earlier, such an advantage can also turn out to be a disadvantage. For once world markets operate more fully on an economic rationale, which seems to be the general tendency, then Japanese companies will have to participate on this basis. The more Japanese companies adhere to their traditional practices, the weaker they will be in international competition, and the more they will suffer in the future.

One of the disadvantages of a free-style approach to channel administration is that policy becomes more tactical and situational than strategic, and the overall thrust and company perspective is frequently lost at the individual level. The free-style approach partly explains why Japanese companies almost daily have lengthy meetings. Some manufacturers through time have established an effective range of decisions and situations over which individuals can exercise discretion, maintaining flexibility and adaptability within set broad guidelines.

Another disadvantage of the free-style approach is the creation of overexpectation on the part of the present or potential wholesale channel member in the manufacturer member. Because there are no fixed and rigid rules, and because of the exercise of wide individual discretion, a wholesaler may well expect and to some extent depend on

gaining additional advantages and support through negotiations. However, individuals negotiating without specific policies and rules have a whole variety of alternative approaches from which to draw, both inside and outside the business sphere. Negotiators each time may expect to gain more and more rather than to return to the stated policy the next time after an exception is granted. Negotiators use the popular Japanese business practices of gift giving, invitations to resorts, and the extension of other similar favors to promote closer human relations, all of which are not strictly business related. Such human relations are so heavily emphasized that one interviewee noted that occasionally a company must even transfer a local branch manager to prevent him from becoming too closely involved with the wholesalers' personnel to the detriment of fair channel relations.

Another possible disadvantage of such wide discretion in the Japanese channel system is the creation of extremely fierce competition. Many wholesalers expect to gain more concessions from manufacturers than their competitors. For example, since there are no established limits on rebates and similar allowances, overly competitive efforts to obtain them may result. Sometimes such efforts even endanger an industry's attempts at self-regulation. In the pharmaceutical industry, for example, tempu (which means "the addition") used to be a very popular practice. If a wholesaler bought products in

large volume, or out of season, the seller gave "additional" quantities as a kind of discount. Excessive competition sometimes resulted in the unbelievable amount of 200 percent tempu, which meant two additional items were given for each one bought. Under governmental encouragement in late 1971 the industry was prompted to self-regulate such practices. Despite industry effort, the practice still continues, but under a different guise. The custom is referred to as okiwasure and means that the manufacturer delivers more goods than were ordered and then "forgets" the error.

These and other factors make Japanese business systems, especially channel administration, complex and confusing. If the overall nature of the system is understood, however, clarification and explanation should result.

Nonfunctionality

In the industries studied, many decisions concerning channel administration are made by top manufacturing executives themselves rather than by delegating authority to lower level executives. This is true partly because of the importance of channel administration for the manufacturers selected for the study. It also occurs because of the nonfunctionality of Japanese administrative processes and procedures regarding distribution systems.

For example, rebates are so important that the final decision about rebate rates extended to individual wholesalers is made by the president in many companies. Similarly, because of the nature of exceptionism, as was discussed earlier, the delegation of authority becomes very difficult. For if clear rules or principles were identified and followed, then delegation would be much easier. But since so few managers have clear guidelines about how to proceed, the management of Japanese channel distribution is not as functional as it could be. The fact is that top management must perform many functions, not because they are important, but because top administrators are the only ones in a position to make a final decision.

The difficulty of delegating authority is further complicated by the Japanese practice of lifetime employment. Because of the lack of job mobility, people are reluctant to make final decisions alone. This is especially so where there are no clearcut rules and procedures, because such decisions become too risky. An employee knows that if he commits a serious mistake he cannot recover his full status in the organization. Also, he cannot move to another organization or job easily. It follows then that his rational management behavior would be: (1) to avoid making a decision by himself (no decision); (2) to ask his superior to make the decision (resulting in no delegation of authority, or one-man authority); (3) to consult

relevant colleagues and get guarantees from them on the decision beforehand (ringi system); or (4) to obtain the full trust and confidence of his superior so that he can make all decisions by himself, but under the superior's blanket of responsibility (boss-follower reliance).

This pattern of behavior adds yet another source of complexity to channel administration, as well as Japanese business behavior in general. Alternatives (1) and (3), no decision and reliance on the ringi system, take time and can be criticized for their slowness. Alternatives (2) and (4), one-man authority and boss-follower reliance, induce quicker decisions. Those who do not know the Japanese system may be somewhat confused by the fact that in the Japanese administration system some decisions are reached very fast while others are very slow in coming.

In addition to the four alternatives stated above, decisions sometimes will be made on the basis of past experience. If a situation arises in a channel which has occurred in the past, then the previously established pattern will be followed. This approach is especially helpful given the rulelessness of Japanese channel administration. The more experienced men, not necessarily the oldest, in the organization hold positions of wide responsibility. They are more likely to be decisive in a variety of channel situations. They tend to rely heavily on their past experiences.

Another example of nonfunctionality is the difference between stated job descriptions and actual job performance. At present, most Japanese manufacturers and wholesalers, on paper, have established clear, beautifully designed organization structures. This was accomplished because of the introduction of Western management technology and knowhow. Although job functions are clearly and explicitly stated, and positions are logically arrayed on organization charts, the actual functioning of operations is more obscure. Japanese channel members operate according to the working unit or job title (shokuba) rather than according to the job function (shokumu). This means that in administering channels of distribution they do not rely too much on organization charts.

The existence of nonfunctionality may be understood in terms of groupism or familialism, which is often cited as being so characteristic of Japanese behavior. Because of a group rather than an individual emphasis, the function of each individual is not clearly specified and well established. An example frequently used to contrast Japanese and Western management styles is the difference between a tug-of-war competition and a baseball game. Both are more or less group games, as is the corporate operation of a distribution channel. But the former deemphasizes individual merit and emphasizes the group's victory as a whole. The latter, the baseball game, appreciates both individual and group efforts. The

former has no hero, while the latter does. A tug-of-war, which is apparently nonfunctional on an individual basis, is more akin to the Japanese style of managing distribution channels.

From the same point of view, Japanese management style is referred to as "Omikoshi management." Omikoshi are the miniature shrines carried by many participants in the Shintoism festival. There is no preplanned route and no leader. Nevertheless, the shrines always reach the appropriate destination after following a route determined by the collective judgment of the carriers.

The four propositions and related selective phenomenal characteristics which are discussed above are summarized in Figure 6.1.

Directions for Further Research

Based on this exploratory investigation, some directions for future research are suggested. First, it is important to conduct a study using more adequate samples to obtain more detailed and precise data and information and to verify statistically the propositions and relationships discussed in this study. Second, the causal relationships imputed and inferred between each proposition and the phenomenal characteristics observed in this study could be explored statistically. Third, development of a mathematical model representing the distribution channels for the industries studied seems both highly

Propositions	Selected Phenomenal Characteristics
Pseudo-harmony	<ul style="list-style-type: none"> a) The economically stronger the wholesaler is, the stronger he will be. b) Tendency to economic emphasis by channel members. c) Harmony is the traditional, strong social norm, while economic efficiency is the emerging competitive and social force.
Eclecticism	<ul style="list-style-type: none"> a) Manufacturers' emphasize coexistence and codevelopment with wholesalers. b) Minimization of social and human disorder in the pursuit of the economic end.
Exceptionism	<ul style="list-style-type: none"> a) Adaptive and flexible behavior. b) Situational and tactical practice. c) Free-style approaches and overcompetition through overexpectations of dealers. d) Protection from foreign competition. e) Frequent, long meetings.
Economic nonfunctionality	<ul style="list-style-type: none"> a) Experience-orientation (seniority). b) Sometimes quick, sometimes slow decisions. c) Group orientation rather than individual merit. d) Some are busy while others are idle.

Figure 6.1.--Propositions and Supporting Phenomenal Characteristics.

desirable and feasible. It would permit the simulation of channel behavior resulting from various policies and strategies. It could result in the design of more economically effective and culturally compatible marketing channel systems.

In addition, contemporary environmental forces such as resource constraints, the energy crisis, the consumer movement, and the multinationalization of business will become areas of increasing concern. These factors are worthy of investigation. Obviously, these forces will continue to affect the Japanese business world. Therefore, it would seem desirable to investigate and monitor the impact of these forces on Japanese marketing channel systems.

Concluding Remarks: Some Future Implications

Pseudo-harmonism and eclecticism as part of the prevailing business philosophy among Japanese manufacturers' channel administrators seem to be concepts in transition. There is a move away from the traditional, warmer, gemeinschaft business system to the modern, gesellschaft economy. This tendency toward an economic orientation may be a healthy sign.

Today's industries need stronger economic measures in dealing with the pressures of various environmental forces such as consumerism, rising costs, inflation, the energy crisis, and so forth. When human associations

inherent in Japan's business world are understood, however, the fact that the shift to an economic emphasis will be slow and gradual seems more comprehensible. Too much criticism should not be made of the slow rate of change. What is important is that changes are occurring.

Needless to say, in reality, both economic and cultural factors must be blended. The actual proportions of the human-economic mix of factors in channel administration will be determined by an industry's or a society's needs, wants, and traditions. Moreover, the values of each individual channel administrator influence his attitude toward the system. For example, those who love the more traditional, humanistic channel administration may regret that warmth, or the human factor, in business gradually is diminishing. Those who believe that business is strictly an economic matter, and nothing more, may consider an economic tendency fairly healthy and may be concerned at present because uneconomic human considerations still prevail. Between these two extremes, the realistic channel administrator who understands Japanese cultural tradition and uniqueness as well as the keen economic competition so characteristic of the present international age, would feel that a moderate rate of change toward the economic emphasis is appropriate. Most likely, this tendency will be strengthened in Japan and will become more dominant as the human orientation is deemphasized.

While an economic emphasis seems to be more common at a philosophical level, it is not spreading rapidly in actual practice. Thus, while exceptionism and economic nonfunctionality in Japanese channel administration may eventually receive less emphasis, they are still important in a pragmatic way. As the interviews revealed, some traditional business customs with a costly human aspect, such as rebates, deferred payment, and liberal return privileges, are only slowly decreasing because of several environmental pressures as well as government regulations. The reduction of exceptionism and nonfunctionality, although slight, may be healthy.

As was discussed earlier, exceptionism and economic nonfunctionality have both advantages and disadvantages. Their apparent advantage is that they permit great adaptability to changing business situations. The ability to change is partially responsible for Japan's present accomplishments in business and industry. Their disadvantage is the high cost associated with not having rules and a functional base, emphasizing the human factor in doing business, with such customs as gift giving, special rebates, and entertaining. Eventually, the problem will become one of how much business and society are willing to pay for some of the advantages of flexibility.

To the manufacturers who have the power to control improvements in the channel system, the costs of the flexible, human orientation can be viewed as offering

some returns. Flexibility and adaptability create stronger wholesaler loyalty and, through wholesalers' excessive expectations, stronger control by manufacturers of wholesalers. Needless to say, most weaker manufacturers suffer more from such increased costs because their power is not increased in proportion to the additional costs. As far as wholesalers are concerned, some benefit in specific instances and others do not.

It would be difficult to determine whether or not human-oriented practices are beneficial to the nation or society as a whole. The answer depends on a total assessment of the gains and losses of channel members and the impact on society. No evidence currently exists and no research efforts have been made to estimate which is greater, benefits or losses. Judging from the current government and industry attempts designed to correct present practices, backed by the evidence of government hearings and reports and the self-regulatory efforts of industry, one might infer that the majority may not necessarily be benefiting from these practices. If this is the case, then perhaps some additional, stronger industry self-regulation or government regulation may be required. These efforts should come from industry groups or the government because the pressure of keen competition often makes it impossible for individual firms to correct the situation.

Although no one knows the degree of or balance between economic and cultural emphases that is most desirable, it seems safe to say that exceptionism and economic nonfunctionality gradually will diminish in the future because of the impact of environmental forces. Human practices will still be regarded by business participants, both channel administrators and follower members, as an indispensable and unavoidable aspect of doing business in Japan. The future business environment, however, will probably not permit such human considerations to be given full play. Today's market situation seems to point in that direction: "The stronger will become even stronger."

If an economic emphasis is seen as tomorrow's necessity, Japan's culturally unique practices may have to be altered substantially. Realistic rules that enforce some business activities and practices may require a much stronger emphasis. A philosophy which encompasses the entire group of channel members also may be necessary to a much greater degree in order for Japanese channel administration to pursue economic progress for the whole group while maintaining strong ties with members. A shift to a functionally based rebate system and an appropriate division of work among dealers recently has occurred and may become increasingly popular. Continuous efforts to persuade, educate, and innovate by manufacturers could be furthered through the effective operation of the kai in order to create more efficient and stronger channel members.

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APPENDICES

APPENDIX 1

CLASSIFICATION OF LITERATURE REVIEWED

CLASSIFICATION OF LITERATURE REVIEWED

(1) Japan's Distribution Channel Structure

Books

Adams and Kobayashi, 1969; Fukami, 1966; Kobayoshi, 1971; Kataoka, 1967; Miyagawa, 1974; Nakamura and Tajima, 1969; Nikkei, 1973; Saito and Nakada, 1971; Shiizuka, 1973; Tajima, 1971; Yoshino, 1971.

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(2) Japan's Distribution Channel Behavior

Books

Abegglen, 1970a; Abegglen, 1970b; Adams and Kobayashi, 1969; Ballon, 1971a; Doing Business in and with Japan, 1969; Ejiri, 1973; Fujieda, 1974; Fukami, 1966; Glazer, 1968; Kobayoshi, 1971; Kokubu, 1974; Kataoka, 1967; Miyashita, 1970; Miyagawa, 1974; Miyashita and Saito, 1972; Nakamura and Tajima, 1969; Nikkei, 1973; Shiizuka, 1973; Tajima, 1971, 1973, and 1974; Takada and Hosoi, 1974; Yanagisawa, Saito, and Nakada, 1974; and Yoshino, 1971.

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Government Documents and Institutional Research

Busshibetsu Ryūtsū Jittai(1): Keshō-hin, Keshō-sekken no Ryūtsū (Current states of distribution categorized by product group (1): Distribution of cosmetics and toiletry soap), 1971; 70-nendai Ni Okeru Ryūtsū (Distribution in the 1970s), 1971; Growth Opportunities in World Markets for Health Products, Country Report No. 82: Japan, 1971; Iyakuhin no Nagare: Sono Torihiki-Kanko no Jittai ni Furete (Flow of pharmaceutical products: Its trade practices), 1971; JETRO, Marketing Series 4, Planning for Distribution in Japan; JETRO, Marketing Series 5, Retailing in the Japanese Consumer Market; Keizai and Iinkai, 1972; Keshō-hin, Toiletry no Ryūtsū Sengo-shi (Postwar history of distribution in cosmetics and toiletries), 1972; Kesho Sekken no Ryūtsū (Distribution of toiletry soap), 1970; Korekara no Ryūtsū (Future distribution), 1972; Outline of Japanese Distribution Structures, 1973; Ryūtsū Chōsa Report No. 16: Detergent and Dentifrice, 1972; Ryūtsū Chōsa Report No. 21: Pharmaceutical Product, 1973; Ryūtsū Kikō Ni oderu Kouri-gyō no Genjō to Shōrai no Tenbō (Current states and future perspectives of retailers in distribution system), 1970; Shiseido Handbook, 1969;

Tagenka Suru Ryūtsū Sangyō Shisutemu (Diversifying distribution industry system), 1970; and Torihiki Jōken no Tekiseika (Toward a justification of trade conditions), 1973.

(3) Japan's Management System

Books

Abegglen, 1970a; Abegglen, 1970b; Ballon, 1971a; The Economist, 1963; Doing Business in and with Japan, 1969; Momose, 1971; and Yoshino, 1968.

Articles and Papers

Barret and Gehrke, 1974; Brochier, 1973; Butterfield, 1974; Cole, 1973; "Death in the Family," 1974; DeBettignies, 1973; Drucker, 1971; Grasshoff, 1969; Hackley, 1969; Honda, 1968; Hosoi, 1974; Horie, 1966; Imai, 1969; Ingoldsby, 1971; Itoh, 1971; Japan Economic Journal, 1974a; Japan Economic Journal, 1974b; Japan Economic Journal, 1974c; Japan Economic Journal, 1974d; Krisher, 1973; McDowell, 1974; "Nihon no Business-fudo to Marketing" (Japanese business climate and marketing), 1970; Kediya, 1974; Taira, 1973; Takada, 1974; Tsuda, 1965; VanZandt, 1970; and "When in Japan, Put a Japanese at the Top," 1972.

APPENDIX 2

REQUEST FOR DECISION (RINGI-SHO)

Request for Decision (Ringi-sho)

稟 議 書

1	8 附記	9 附記	10 附記	11 附記	12 決議番号	第 号
2	13 決議 昭和 年 月 日					
3	14 結算会議 昭和 年 月 日					
4	15 部長会議 昭和 年 月 日					
5	16 役員 昭和 年 月 日					
6	17 決 議					
7	18 附記 月 日					
8	19 附記 月 日					
9	20 附記 月 日					
10	21 附記 月 日					
11	22 附記 月 日					
12	23 附記 月 日					
13	24 附記 月 日					
14	25 附記 月 日					
15	26 附記 月 日					
16	27 附記 月 日					
17	28 附記 月 日					
18	29 附記 月 日					
19	30 附記 月 日					

1. Final Decision
2. Directors Committee Decision
3. Approval of Divisions Concerned
4. Nature of Decision
5. Conditions for Decision
6. Opinions Concerning Decision (With seal of another)
7. Record of Administrative Section
8. President
9. Vice President
10. Senior Managing Director
11. Director in Charge
12. Decision Number
13. Date of Decision
14. Date of Report to Management Committee
15. Date of Report to Directors Committee
16. Date of Request Initiation
17. Conditions Satisfied/Not Satisfied
18. Date of Circulation to Related Division
19. Date of Approval for Circulation
20. Date Received
21. Section Chief
22. Person Responsible
23. Division Originating Request
24. Most Closely Related Division
25. Sections Chief Responsible
26. Originator
27. Other Division Consulted
28. Number of Original Plan
29. Date of Original Plan
30. Section Originating Request

Order of Circulation

Division Originating Request

↑
Administrative Section

Directors

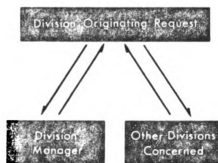
Administrative Sections

Divisions Concerned

↑
Administrative Section

Division Originating Request

Discussion Prior to Formal Circulation of Ringi-sho



Source: JETRO Marketing Series No. 8, Doing Business in Japan, Japan External Trade Organization, p. 11.

APPENDIX 3

**CLASSIFICATION OF PERSONS INTERVIEWED BY
INDUSTRY AND POSITION**

CLASSIFICATION OF PERSONS INTERVIEWED BY
INDUSTRY AND POSITION

Pharmaceutical Industry	Dentifrice/detergent Industry
1. Manager in charge if distributive relation	Branch Manager
2. Deputy director in charge of marketing and sales	Senior staff in charge of product planning
3. Deputy director in charge of production (formally in charge of marketing and sales administration)	Director in charge of distribution planning Research staff in planning division
4. Senior administration staff in R & D division Planning staff in president's office	Deputy director in charge of Tokyo office
5. Director in charge of marketing and sales administration	
6. Deputy director of marketing Four staffs in charge of market and distribution planning	
7. Director in charge of general business administration Sales manager	
8. Executive director of planning office	

APPENDIX 4

INTERVIEW GUIDE

INTERVIEW GUIDE

To permit the interviewees to express their opinions freely and gather data to test the basic hypotheses the following interview guide was used. Starting with the broad perspectives of corporate and channel administration policy, the interview was designed to investigate several philosophical attitudes of channel administrators. The opening broad and rather easily answered questions seemed to establish a comfortable atmosphere for the rest of the interview. By permitting the interviewees to talk rather freely, with some guidance from the interviewer, a relaxed atmosphere was created and the desired areas of study were covered.

After the philosophical questions were posed rather specific inquiries were made about actual practice--about the behavioral aspects of channel administration. The specific questions investigated give basic and typically Japanese practices in channel administration: the rebate and margin system, the use of promissory notes (Tegata), return of goods privileges, delivery methods, and dealer contracts.

Relationships Among Hypothetical Concepts,
Operational Hypotheses, and
Related Questions

<u>Hypothetical</u> <u>Propositions</u>	<u>Operational</u> <u>Hypotheses</u>	<u>Related</u> <u>Questions</u>
Pseudo-Harmonism	{ H1----- { H2----- { H3----- { H4----- { H5----- { H6-----	-----Q1 -----Q3,Q4 -----Q2 -----Q5,Q6 -----Q7,Q8 -----Q16
Eclecticism	{ H7----- { H8----- { H9----- { H10----- { H11----- { H12-----	-----Q9 -----Q10,Q11 -----Q12 -----Q13 -----Q14 -----Q15
Exceptionism	{ H13----- { H14----- { H15----- { H16----- { H17----- { H18-----	-----Q17,Q18 -----Q19,Q20 -----Q21,Q22 -----Q23,Q24 -----Q25 -----Q26
Non-functionalism	{ H19----- { H20----- { H21-----	-----Q27 -----Q28 -----Q29

Interview Guide*

1. Does your company have an expressed corporate philosophy or motto?

1-1 _____ yes

1-2 _____ no

If yes, please explain.

2. What are the main philosophies (attitudes) of the company's marketing channel administration policy? Please state any which you think apply to the current channel administration policy of your company.

3. If you had to select only one of the following two alternatives, which are you likely to prefer judging from the company's present situations? Why?

3-1 _____ Harmonious cooperation and mutual growth with present wholesalers, which might involve some cost in economic efficiency.

3-2 _____ The pursuit of economic efficiency by the company's distribution channel as a whole, which might involve some cost in human relationships.

In your opinion are these two policies in conflict or compatible with each other? Please explain.

4. Does the company use any type of ranking system (such as "juten-ka" or "keiretsu-ka") for wholesalers?

4-1 _____ yes

4-2 _____ no

*This interview guide is translated from the Japanese "equivalent." In some cases the exact English-Japanese counterpart is hard to establish. Since the interviews were conducted in Japanese with Japanese executives, major importance was given to the phrasing of questions and word meanings from the Japanese perspective. Some word choices and questions might be criticized from an American perspective but they may have been the most appropriate in a Japanese context.

If yes, what are the criteria for that ranking?

- a. Historical length of partnership with wholesalers.
- b. Financial strength of wholesalers (for example, payment ability).
- c. Sales volume of your company's products and brands.
- d. Degree of cooperation and loyalty (human association).
- e. Strategic importance and strength of wholesalers in your company's territory coverage.
- f. Other ().

5. Does your company have any subsidized wholesalers?

5-1 yes

5-2 no

If yes, please explain how they became subsidized wholesalers.

6. Suppose that a financially troubled wholesaler, who has long and harmonious trade relations as a channel member with your company comes to your office asking for acquisition as a subsidiary wholesaler. What action (such as subsidization, loan, special rebates, or neglect) is your company most likely to take, judging from recent experience or company policy?

7. What kinds of services or aids are you offering to wholesalers?

7-1 Personnel (detailmen and managers).

7-2 Material (sales promotion material and in-store equipment).

7-3 Money (special rebates and financial help).

7-4 Management information (seminars and information materials).

7-5 Other.

8. What do you think was and is or will be the most important effort of your company to attract wholesalers as your channel members? Please answer for the past and future.

a) Product strength:

Manufacturer's present position in the market,
such as market share and sales volume.

Manufacturer's capability of product development,
such as research and development.

Wide range of product lines.

Good corporate image from the final user's
perspective.

High turnover rate of the product.

Large-volume advertising.

Other.

b) Human relations:

Close and friendly human contacts.

Dealer aids (as stated in Question 7).

c) High margin/rebate/discount rates:

High margin, rebate and discount rates.

9. Which image does your company prefer to have from the wholesaler's point of view about your channel policy?

9-1 _____ An emphasis on promoter of innovations for
an economically efficient distribution
channel.

9-2 _____ An emphasis on human-based distribution
channel.

Please explain.

10. To what degree do manufacturers' managers in charge of
channel administration and wholesalers' managers have
personal contacts as friends?

10-1 _____ Very closely.

10-2 _____ Moderately.

10-3 _____ Seldom.

11. If you answered 10-1 or 10-2 in Question 10, how do
they associate?

11-1 _____ A business friend (over business matters
only).

11-2 _____ Social friends (golf, dinner, and other
entertainment).

11-3 _____ Personal friends (family involvement in
purely private or confidential matters).

12. Among the wholesalers you have as trading partners, are there any who are willing to sacrifice some of their own interests to a certain degree for your company's sake?

12-1 ☐ yes

12-2 ☐ no

If yes, please explain.

13. What will the role be of human considerations in the provision of dealers aids in the future?

13-1 Very important

13-2 Important

13-3 Not too important

13-4 Not at all

Please explain.

14. How are you satisfied with your present wholesalers as a whole? Why so?

		<u>Why</u>	
14-1	<input type="checkbox"/> Very satisfied	()
14-2	<input type="checkbox"/> Rather satisfied	()
14-3	<input type="checkbox"/> Rather unsatisfied	()
14-4	<input type="checkbox"/> Very unsatisfied	()

If you answered 14-2, 14-3, or 14-4 above, does your company now intend to cut some of the economically weak wholesalers?

a. ☐ yes

b. ☐ no

c. ☐ not sure

15. Has your company changed its distribution channel substantially to improve economic efficiency in terms of the number of wholesalers or its channel policy and system in the past decade? Please explain.

A. The number of wholesalers

		<u>How</u>	
<input type="checkbox"/>	yes	()
<input type="checkbox"/>	no	()

B. Policy/system

<input type="checkbox"/>	yes	()
<input type="checkbox"/>	no	()

16. What are the basic criteria for deciding the rebate rate for wholesalers?

16-1--size of wholesaler.

16-2--sales volume of your company's goods sold by wholesaler.

16-3--sales share of your company held by the wholesaler.

16-4--degree of cooperation in price maintenance.

16-5--historical length of partnership.

16-6--other ()

What are the range of rebate rates of your company?
Why so for the highest?

Why

Average () ()
Highest () ()

17. Does your company have an explicit fixed formal rebate system at the corporate level?

17-1 _____ yes

17-2 _____ no

If no, how do you provide rebates to wholesalers?

18. [Please answer if you answered yes to Question 17.]
Is there some possibility of changing the formally stated rebate rate at the corporate level when determining actual rebates?

18-1 _____ some

18-2 _____ not at all

if Yes,

Who has the responsibility for determining the actual rebate in the organization? How is it determined?

What is the possible range of difference between the formal and actual rates?

19. What kinds of rebates do you provide to wholesalers?
On what occasions?

20. On the average, what is the ratio between the rebate rate and wholesaler's margin?

21. Are there some variations in length of payment period in the provision of Tagata terms among wholesalers?

21-1 _____ yes

21-2 _____ no --How many days? ()

If yes,

a) Days:

Longest ()

Shortest ()

Average ()

b) Reasons:

Longest ()

22. In your company, is it possible to change the predetermined length of Tegata payment period for wholesalers?

22-1 _____ yes

22-2 _____ no

If yes, under what circumstances?

In the organization, who can decide the change?

In the organization, what kinds of situations are permissible?

23. How often do you deliver merchandise to each wholesaler?

a) Average ()

b) Highest frequency ()

c) Lowest frequency ()

24. How do you deliver merchandise to each dealer?

a) Based on the dealer's request.

b) Based on the manufacturer's logistical plans and schedule.

c) Based on both (a) and (b).

25. Does your company permit dealers to return merchandise they could not sell even though there is no damage to the merchandise?

25-1 _____ yes (average rate: _____)
 25-2 _____ no

If yes, under what conditions?

- a) without any charge to the wholesaler.
- b) with some charge to the wholesaler;
 Please explain.

26. Please explain how trade or sales contracts are used in marketing channel administration.

(Probe in depth)

27. How important are the human and personal characteristics of managers in charge of channel administration in dealing with business? (For example, how important is warmth in dealing with local wholesalers.) Please explain. (Probe)

28. In general, how do you think the wholesaler's manager tends to identify and contact with the manufacturer's manager in charge of channel administration (including you)?

- a) individually by personal name, such as "Mr. _____ (interviewee's name) "
- b) as a company employee by organizational position, such as "(Interviewee's position in the company organization) "
- c) by both (a) and (b)
- d) other

29. To be a good manager in channel administration what kind of activities, private and formal, are necessary to maintain good relations with your wholesalers?

APPENDIX 5

SELECTED EXAMPLES OF CORPORATE MOTTOES

SELECTED EXAMPLES OF CORPORATE MOTTOES

A Large-Sized Dentifrice Company

Shaze (a general principle):*

1. Corporate development through the founder's spirit (pioneer and new frontier spirit)
2. Contribute to the people's health and to people's dental hygiene through quality goods
3. Serve the public with honesty, fairness, and kindness
4. Mutual respect and mutual friendship through practicing Christian love**
5. Promotion of peoples' welfare, a happier life, and enriched culture.

A Medium-Sized Pharmaceutical Company

Honryō (basic corporate principles):***

1. The primary goal is to contribute to human and social welfare all over the world, fighting against disease and at lower cost

*Each of the five principles are followed by brief interpretations.

**Because the founder of this company was a sincere Christian, this general principle was added, according to the interpretation provided.

***Each Honryō (basic principles) is followed by two to six amplifying comments (or interpretations), not shown here. The Honryō is described in a small pamphlet, which is delivered to all employees. Some part of the Honryō is recited by them at every morning meeting.

2. We seek the maximum happiness of people
3. Don't fall into a profit orientation, but promote human love
4. Follow the natural law of the universe
5. Promote stronger organizational ties and peoples' unity and cooperation
6. Belief is stronger than anything else
7. Do not rely on others, but try to overcome all obstacles by yourself
8. Remember that business depends on human beings
9. Combined efforts are mightier than those of genius
10. Competition brings progress
11. Appreciate your job
12. Those who do not reflect make no progress
13. Connect your company with your family
14. Respect modesty and simplicity

A Large-Sized Pharmaceutical Company

Shaze (a general principle)

1. First of all, serve the public
2. Harmony and cooperation
3. Sincere efforts and continuous trial
4. Modesty and simplicity
5. Politeness and respectability

