

VOLUNTARY CHAINS IN JAPAN

By KOICHI TANOUCHI*

First, I intend to show the present status of the voluntary chains (V.C.) in Japan, citing the survey results by Chūshō Kigyō Shinkō Jigyōdan (Governmental Corporation for Aiding Medium and Small-Sized Enterprises) done in September and October of 1971.

Of the 116 chains which are members of the Japan Voluntary Chain Association, the survey results include figures of 53 chains.

I. *Who Are the Sponsors? What Geographical Scope? What Lines of Business?*

TABLE 1. SPONSORS, GEORGRAPHICAL SCOPE, AND YEARS OF FOUNDATION

		Number of Chains	Geographical Scope			Years of Foundation		
			National Chains	Regional Chains	Local Chains	~1960	1961~66	1967~
	Total	53 (100%)	19 (35.8)	19 (35.8)	15 (28.3)	4 (7.6)	22 (41.5)	27 (50.9)
Sponsors	Single Wholesaler	22(41.5) (100%)	8 (36.4)	11 (50.0)	3 (13.6)	0	13 (59.1)	9 (40.9)
	Multiple Wholesalers	5(9.4) (100%)	2 (40.0)	1 (20.0)	2 (40.0)	0	1 (20.0)	4 (80.0)
	Retailer	26(49.1) (100%)	9 (34.6)	7 (26.9)	10 (38.5)	4 (15.4)	8 (30.8)	14 (53.8)
Lines of Business	Food	20(37.7) (100%)	3 (15.0)	5 (25.0)	12 (60.0)	1 (5.0)	7 (35.0)	12 (60.0)
	Wearing Apparel	14(26.4) (100%)	6 (42.9)	6 (42.9)	2 (14.2)	2 (14.3)	3 (21.4)	9 (64.3)
	Bed Room Ware	6(11.3) (100%)	2 (33.3)	4 (66.7)	0	0	4 (66.7)	2 (33.0)
	Other Specialty	8(15.1) (100%)	5 (62.5)	2 (25.0)	1 (12.5)	0	5 (62.5)	3 (37.5)
	Other Miscellaneous	5 (9.4) (100%)	3 (60.0)	2 (40.0)	0	1 (20.0)	3 (60.0)	1 (20.0)

* Professor (*Kyōju*) of Marketing.

As Table 1 shows, number of wholesaler-sponsored chains and that of retailer-sponsored chains are almost the same.

Geographical scope of the V.C. tends to be rather large, that is, national and regional chains are 19 each, and local chains are 15. 12 chains out of 15 local chains are mainly food sellers.

The lines of business of the V.C. are mostly food, wearing apparel, and bed room ware (blanket, seats, mattress, pillow, etc.), and these count for 75.4% of the total number of V.C.

Looking at years of foundation, 26 chains were founded before 1966 and 27 were founded after 1967. For Japanese V.C., the year of 1966 has a special meaning, namely, in that year the Japanese government decided it was the benefit of the consumers to promote the growth of V.C. and to give a special help (low interest special loan) for their rapid growth.

II. Breakdown of V.C. by Sponsors and Lines of Business

TABLE 2. BREAKDOWN BY SPONSORS AND LINES OF BUSINESS

	Number of Chains	Food	Wearing Apparel	Bed Room Ware	Other Specialty	Other Miscellaneous
Total	53 (100)	20 (37.2)	14 (26.4)	6 (11.3)	8 (15.1)	5 (9.4)
Single Wholesaler	22(41.5) (100)	7 (31.8)	6 (27.3)	4 (18.2)	3 (13.6)	2 (9.1)
Multiple Wholesalers	5 (9.4) (100)	2 (40.0)	1 (20.0)		1 (20.0)	1 (20.0)
Retailer	26(49.1) (100)	11 (44.0)	7 (28.0)	2 (8.0)	3 (12.0)	2 (8.0)

As shown in Table 2, no definite tendency can be seen in the numbers of single-wholesaler-, multiple-wholesalers- and retailer-sponsored chains among lines of business.

III. Organization Forms

Both cooperative and voluntary association forms have the same percentage and that of the incorporated form is the least in number. Looking at the breakdown of the percentages among sponsors, we notice that all of the retailer-sponsored chains except one are in the forms of either incorporated or cooperative, 70% of wholesaler-sponsored chains are voluntary associations. This can be interpreted as a reflection of a difference in solidarity in both chains.

By the lines of business, years of foundation, and number of member stores, we can see no systematic difference.

TABLE 3. NUMBER OF CHAINS BY THE FORM OF ORGANIZATION

	Number of Chains	Sponsors		Lines of Business		Years of Foundation		Number of Member Stores				
		Wholesaler	Retailer	Miscellaneous	Specialty	~1966	1967~	~29	30~49	50~99	100~199	200~
Total	53 (100.0)	27 (50.9)	26 (49.1)	25 (47.2)	28 (52.8)	26 (49.1)	27 (50.9)	5 (9.4)	9 (17.0)	12 (22.6)	13 (24.5)	14 (26.5)
Incorporated	13(24.5) (100.0)	6 (46.2)	7 (53.9)	6 (46.2)	7 (53.9)	8 (61.5)	5 (38.5)	1 (7.7)	3 (23.1)	2 (15.4)	3 (23.1)	4 (30.8)
Cooperative	20(37.7) (100.0)	2 (10.0)	18 (90.0)	11 (55.0)	9 (45.0)	8 (40.0)	12 (60.0)	2 (10.0)	4 (20.0)	6 (30.0)	3 (15.0)	5 (25.0)
Voluntary Association	20(37.7) (100.0)	19 (95.0)	1 (5.0)	8 (40.0)	12 (60.0)	10 (50.0)	10 (50.0)	2 (10.0)	2 (10.0)	4 (20.0)	7 (35.0)	5 (25.0)

IV. Number of Member Stores

TABLE 4. NUMBER OF MEMBER STORES

		Number of Chains	Number of Member Stores	Number of Member Stores per Chain
Total		53	13,433 (100.0)	253.5
Sponsor	Single Wholesaler	22	3,277 (24.4)	148.9
	Multiple Wholesalers	5	4,914 (36.6)	982.8
	Retailer	26	5,242 (39.0)	201.6
Geographical Scope	National	19	8,679 (64.6)	456.8
	Regional	19	2,557 (19.1)	134.6
	Local	15	2,197 (16.3)	146.5
Lines of Business	Miscellaneous	25	9,219 (68.6)	368.7
	Specialty	28	4,214 (31.4)	150.5

53 chains surveyed have 13,433 member stores. This means average chain has 253.5 member stores. The growth of average numbers of member stores for a chain were as follows:

1968	1969	1970	1971
160.8	156.9	212.1	253.5 (stores)

Retailer-sponsored chains are almost the same as wholesaler-sponsored chains in number but in scale measured by the number of member stores, the former is much smaller than the wholesaler-sponsored one. Incidentally, sale per member store in wholesaler-sponsored chain is 50,000,000 yen per year and that of retailer-sponsored chain is 150,000,0000 yen.

National chains are bigger than regional and local chains in number of stores.

V.C. whose main merchandise lines are miscellaneous (this means every consumer goods other than specialty goods) are much bigger in number than those which deals with specialty goods.

V. *Percentage of Buying through Sponsor (central office of a chain)*

Average percentage of buying through sponsor (central office of a chain) is 39.87%. But two of the retailer-sponsored chains have exceptionally high percentage of almost 100%. After excluding these two extreme cases, the average goes down to 32.41%. The average

TABLE 5. PERCENTAGE OF BUYING THROUGH SPONSORS

		Number of Chains	Sale to Chains (A)	V.C. Member Stores' Total Buying (B)	A/B
Total		31	(million yen) 58,021 (41,962)	(million yen) 145,543 (129,484)	39.87% (32.41)
Sponsors	Wholesaler	14	20,622	47,938	43.02
	Retailer	17	37,399 (21,340)	47,605 (81,546)	38.32 (26.17)
Lines of Business	Food	11	14,608	37,129	39.34
	Wearing Apparel	8	6,742	21,948	30.72
	Bed Room Ware	3	19,570	19,748	99.10
	Other Specialty	5	14,007	44,449	31.51
	Other Miscellaneous	4	3,094	22,269	13.89

figures for wholesaler- and retailer-sponsored chains are, 43.02 and 26.17%, respectively. The figure for retailer-sponsored chains is after excluding the two extreme cases.

The average percentage for chains handling bed room wares is very high.

VI. *Percentage of Sale of Sponsors to Their Chains Compared with Sale to Their Non-Member Customers*

These percentages were computed by the following ways:

Sale to the Chain / Total Sale of the Sponsor.

The average figure is 25.75%. The older the year of foundation, the bigger the percentages.

TABLE 6. PERCENTAGE OF SALE OF SPONSORS TO THEIR CHAINS COMPARED WITH SALE TO THEIR NON-MEMBER CUSTOMERS

	Total	Annual Sale of Sponsors		Lines of Business			Years of Foundation	
		Under 390,000,000 yen	Over 400,000,000 yen	Food	Wearing Apparel & Bed Room Wares	Others	~1966	1967~]
Total	14(10.0)	7	7	5	5	4	8	6
Under 9%	2(14.3)	—	2	1	1	—	—	2
10~19%	1 (7.1)	—	1	1	—	—	—	1
20~39%	5(35.7)	3	2	1	2	2	3	2
40~59%	4(28.6)	4	—	1	2	1	4	—
Over 60%	2(14.3)	—	2	1	—	1	1	1

VII. What Kinds of Customers Are Asked to Join a Voluntary Chain by Sponsor-Wholesaler ?

TABLE 7. A FEW EXAMPLES OF SPONSOR-MEMBER STORE AND SPONSOR (WHOLESALE)-CUSTOMER RELATIONS

		To Member Stores			Sponsors			A/B
		Buying through Sponsors	Number of Member Stores	Sale per Store (A)	Annual Sale	Number of Customers	Sale per Customer (B)	
		million yen		ten thousand yen	billion yen		ten thousand yen	
Food	A	7,031	305	1,911	106	1,300	815	2.34
	B	600	53	1,132	45	1,000	450	2.52
	C	517	22	2,350	18	510	353	6.66
	D	410	107	383	13	824	158	2.42
	E	782	235	333	53	2,000	265	1.26
	F	95	76	125	2	90	222	0.56
Wearing Apparel	G	690	106	651	14	251	558	1.17
	H	120	89	135	14	600	233	0.58
	I	93	60	155	40	750	533	0.29
	J	355	82	433	15	650	231	1.87
Bed Room Ware	K	1,400	123	1,138	66	450	1,467	0.78
	L	1,800	185	973	60	850	706	1.38
	M	140	60	233	4	150	267	0.87
	N	620	187	332	38	800	475	0.70
Others	O	240	30	800	6	200	300	2.67
	P	720	31	2,323	81	2,000	405	5.74
	Q	996	427	233	40	1,500	267	0.87
	R	502	190	264	30	1,500	200	1.32
Total	(18)	17,111	2,262		645	15,425		
Average		951	126	756	36	857	418	1.81

Majority of sponsors have made their better customers members of their chains. This is shown by the difference in the average amounts of sale per member store and non-member store. The sale to the former is 7,560,000 yen and the latter 4,180,000 yen. The sale to the member is 1.81 times more than the sale to the nonmembers.

VIII. *Kinds of Business V.C. Put Emphasis*

TABLE 8. KINDS OF BUSINESS V.C. PUT EMPHASIS

	Answers	Central Buying	Merchandise Development	Storage Delivery	Total	Sales Promotion	Advertis- ing	Store Display	Total
Total	52 (%)	38	23	16	77 (29.8)	47	22	26	95 (36.8)
1st	52 (%)	19	4	—	23 (45.3)	17	1	2	20 (37.9)
2nd	52 (%)	9	9	1	19 (35.8)	11	6	5	22 (43.4)
3rd	52 (%)	3	4	3	10 (19.2)	13	4	5	22 (42.3)
4th	51 (%)	6	2	5	13 (25.5)	3	7	5	15 (29.4)
5th	51 (%)	1	4	7	12 (23.5)	3	4	9	16 (31.4)

90.4% of V.C. puts emphasis on cooperative sales promotion, 73.1% central buying, and 61.5% cooperative study of management improvement, followed by store display consulting, cooperative management education, cooperative merchandise development, cooperative purchase of equipment, and cooperative storage and delivery, cooperative welfare facilities and cooperative market research have low scores.

Wholesaler-sponsored chains have more emphasis on promotion and consulting, but retailer-sponsored chains have more emphasis on merchandising like central buying, merchandise development and storage.

VIV. *Problems Confronting V.C. in Japan*

At the end of 1971, 116 V.C. are enrolled in the Japan Voluntary Chain Association. Since number of member stores per chain is roughly 300, all stores organized in V.C. must be about 36,000. It is estimated that about 100 chains are not members of the association and those chains supposedly are smaller in the number of member stores, number of stores per chain may be guesstimated as 150. Thus, in total, the number of stores organized in V.C. is about 50,000. Since the number of retail stores in 1971 is estimated roughly as

1,500,000, the share of V.C. member stores is about 3%. The share of V.C. sale in the total retail sale is about 20%. (Computed from the statistics which don't appear in this article.)

If you compare this figure with the share of department store and supermarket of roughly 10% each, you may get the impression that V.C. is doing quite good. But that's not the case.

As mentioned before, the percentage of the member store buying thorough a chain's central office is about 26% and the share of V.C. sale in the total retail sale in Japan is roughly 20%. If you take the 20% of the 26%, that is, the share of genuine V.C. share

Management Study	Management Education	Cooperative Purchase of Equipments	Cooperative Research	Welfare	Total	Others		Total
						Central Office Strengthening	Others	
32	25	21	2	5	85 (32.9)	1	—	1 (0.4)
6	1	1	1	—	9 (17.0)	—	—	—
7	3	—	—	—	10 (18.9)	1	—	1 (1.9)
6	8	5	—	1	20 (38.5)	—	—	— (—)
9	7	5	—	2	23 (45.1)	—	—	— (—)
4	6	10	1	2	23 (45.1)	—	—	— (—)

in the total retail sale, you will understand that only about 5% is the share V.C. This is not big at all for the number of retail units included in it.

Why is this so, especially when compared with the American and European counterparts? One of the main reasons is that, in Japan, V.C. was late to start. They must be given time to develop.

The second reason is that, in Japan, supermarkets and other kinds of large scale retail stores are yet as powerful and omnipresent as in the U.S., and consequently, small independent stores are not as much hard-pressed.

It is worthy to note that the motivation to organize V.C. came, at least I hope, in its earlier days of V.C., from wholesalers and not from retailers. Retailers were not feeling that their trade were in peril. Wholesalers were feeling that their strength were being undermined by manufacturers who were, and still now, trying to have direct contacts with retailers bypassing wholesalers. To cope with this developing situation, what could wholesalers do?

They tried to establish more strong connections with good retailers whom manufacturers should want to have contacts. If they succeeded in this, manufacturers must use wholesalers to contact with good retailers. Wholesalers position in the distribution system couldn't be shaken.

This made member retail stores to look at V.C. as something given by someone, and not something they themselves must organize with toil and moil.

The retailers buy through a chain's central office when they feel an offering price of a merchandise is profitable. When they don't, they just don't buy. They don't care if that attitude hinder a chain from growing. They don't feel affiliated with a chain. Some of them are even members of more than one V.C. systems.

This feeling is reflected in the amounts they pay monthly to central offices.

TABLE 9. MONTHLY FEE (IN YEN)

Wholesaler-Sponsored Chains			Retailer-Sponsored Chains		
highest	lowest	weighted average	highest	lowest	weighted average
1,500	200	2,000	75,000	1,000	11,000

As shown in Table 9, in the case of wholesaler-sponsored chains, the highest amount is 15,000 yen (approx.\$50), the lowest is 200 yen (70 cents) and the weighted average is 2,000 yen (\$7). Similar figures for retailer-sponsored chains are relatively (not absolutely) high. The highest monthly fee is 75,000 yen (\$250), the lowest is 1,000 yen (\$3.3) and the weighted average is 11,000 yen (\$37). The difference between the two types of V.C. is explained by the difference in the affection to the chains.

As we already saw, wholesaler-sponsored chains are ready-made, and member retailers rely on it only when they think it profitable. They don't think chain's growth is their life-and-death problem. In contrast with this attitude, retailer-sponsored chains are organized by a retailers' own initiative. Although it is questionable that these retailers think the development of the chain is their life-and-death problem, they, at least, feel more affection to the chain and willing to pay more money for the chain.

X. *Future of V.C. in Japan*

The future of V.C. depends mainly on the pressure exerted by large-scale retailers on the existence of small independent retailers. Growth of large-scale retailers are quite fast, and even faster after legal restrictions to the new branch store openings came in sight in recent months. Under this pressure, independent retailers and retailers who are members of V.C. but independent in their mind and behaviors, have begun to feel a need to cooperate. V.C.'s future development depends on how good and efficient is the central office's functioning and it depends, in turn, how much money the member stores pay as fees to the central office. This is yet to be seen at this moment.

Retailer-sponsored chains as opposed to wholesaler-sponsored chains seems more promising, because their main emphasis is on merchandising, and the affection and solidarity to the chain is stronger.