

## **LESTRA DESIGN (R1)**

*This case was prepared by Professor Dominique Turpin as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation.*

Claude Leopold, president of Lestra Design, was wondering what action he should take--for several years, Lestra had been trying to enter the Japanese market for duvets and eiderdowns. The Japanese market for these products was certainly the largest in the world, but Lestra had faced a number of obstacles that had cooled Leopold's enthusiasm. But recently, he had met with Daniel Legrand, a French consultant in Tokyo who had been supervising Lestra Design's activities in Japan for the last two years. Legrand had explained that despite the earlier difficulties, Lestra had several alternatives that could lead to success in Japan.

### **Lestra Design**

Lestra Design was a subsidiary of Leopold & Fils, a family business in Amboise, a medium-sized town about 250 kilometers southwest of Paris (France). Claude Leopold's father had established the parent company as a feather and down company. At first, the company traded mainly in down and feathers, but Leopold & Fils soon became a major French manufacturer of feather and down-filled cushions, pillows, bolsters and eiderdowns. When Claude Leopold took over the business from his father, he decided to establish two new companies: Lestra Design to produce and distribute feather and down duvets, and Lestra Sport to manufacture and distribute feather and down sleeping bags (*refer to **Exhibits 1 and 2***). By using more aggressive sales management and the talents of his wife Josette, a renowned French fashion designer, Lestra Design rapidly became the leading duvet company in France.

Josette Leopold's creative ideas for using innovative fabric designs with attractive prints helped Lestra Design and Lestra Sports quickly establish an international reputation for high class, fashionable products. Claude Leopold believed that the prospect of growth in international markets was extremely promising.

Sales over the past five years had experienced double-digit growth, and exports to England, Germany and other European countries had recently started to boom, representing 20% of Lestra Design sales. Lestra Design had also received an order in Japan from Kanematsu-Gosho Ltd., a "*sogo shosha*" (large trading company) affiliated with a major Japanese bank and traditionally strong in textiles. However, the Japanese trading company had not reordered any product from Lestra Design for the last three years.

### **Lestra Design in Japan**

Two years before, Georges Mekies, general manager, and Leopold had met with Daniel Legrand, a French consultant in Tokyo. That same year, Legrand had conducted a market survey for Leopold that clearly highlighted a major growth opportunity in Japan. With close to 130 million inhabitants and half of the population using duvets, Japan was clearly the largest market for duvets in the world.

During the last five years, Leopold had been preoccupied with developing Lestra Design sales in Europe. As a result, he had not investigated the potential of the Japanese market for Lestra Design products. He had wanted first to provide the French and other European markets with good service, before addressing the US or Japanese markets. During an exhibition in Frankfurt (Germany), Leopold and Mekies were approached by a manager from Ogitani Corporation, a Japanese trading company based in Nagoya. Hiroshi Nakayama, the representative of Ogitani Corporation, wanted to import and distribute Lestra Design products in Japan. He especially liked the unique designs of Lestra Design's duvets and eiderdowns. He told Leopold and Mekies that the innovative designs and the French image--the "*Made in France*" label--would be the two strongest selling points.

### **The Trademark Issue**

Ogitani ordered 200 duvets to be delivered to Nagoya. However, after the goods were shipped, Mekies did not hear anything from his Japanese distributor. By chance, on a trip to Japan the following year, Mekies discovered that Ogitani had registered the two trademarks, Lestra Sport and Lestra Design, under the Ogitani name. Mekies decided to call Nakayama and request a meeting in Nagoya to discuss the trademark issue. Nakayama responded that he was too busy. Mekies then insisted that another executive from the trading company talk with him, but he was rebuffed.

That same day, a furious Mekies called Yves Gasqueres, the representative of the French Textile Manufacturers Association in Tokyo, for advice. Gasqueres, who also represented the well-known Lacoste shirts in Japan, explained that Lestra Design was not the only such case. The best advice he could give Mekies was to contact Koichi Sato, a Japanese lawyer who specialized in trademark disputes.

Mekies also saw Legrand, who confirmed Gasqueres' advice. Legrand said that, although trademark disputes were rapidly disappearing in Japan, there were still some recent disputes between Western and Japanese firms, especially with several big French fashion houses like Cartier, Chanel, and Dior. Legrand also mentioned the example of Yoplait, a major French yogurt producer. A few years earlier, Yoplait had signed a licensing agreement with a major Japanese food company to manufacture and distribute yogurt in Japan. While negotiating the contract, executives at Yoplait discovered that the Yoplait name had been registered by another Japanese food company under various Japanese writing transcriptions.<sup>1</sup> Although the French company decided to fight the case in court, Yoplait finally decided to use another name ("Yopuleito" using the Katagana transcription) for its products in Japan.

Before going back to France, Mekies arranged for Legrand to supervise the trademark dispute with Ogitani. A few weeks later, Legrand learned from Nakayama at Ogitani that the Japanese firm had registered the Lestra Design and Lestra Sport brands under its own name only to prevent other Japanese competitors from doing so. Mekies was not fully convinced, however, that this was the truth. One month later, he learned from Legrand that the legal department of the French Embassy in Tokyo was going to intervene in Lestra Design's favor. Finally, a few months later, Legrand informed Leopold & Fils that Ogitani had agreed to give up the two trademarks in exchange for full reimbursement of the registration fees paid by Ogitani to the Tokyo Patent Office.

### **Looking for a New Distributor**

During his short stay in Japan, Mekies was able to size up the many business possibilities offered by the Japanese market. Despite the bad experience with Ogitani, Leopold and Mekies felt that Lestra Design had a major opportunity for business development in Japan. The Lestra Design trademark was now fully protected by Japanese law. Leopold then commissioned Legrand to search for and select a new Japanese partner. To shorten the traditional distribution chain and reduce costs (*refer to Exhibits 3 and 4*), Legrand decided to use his personal contacts at some of the major Japanese department stores. Department stores such as Mitsukoshi, Takashimaya and Seibu, which sold luxury products, enjoyed considerable prestige in Japan. Moreover, department stores had branches all over Japan, which would enable Lestra Design to cover the whole Japanese market. Most of these department stores were already carrying competitive duvets from Germany and France, including prestigious brands like Yves Saint Laurent and Pierre Cardin. Legrand thought that department stores would be the right outlet for Lestra Design to position its products in the upper segment of the Japanese duvet and eiderdown market.

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<sup>1</sup> The Japanese use three different types of transcription, together with the occasional use of the Roman alphabet. In addition to Chinese ideograms ("Kanji"), "Katagana" is used for the exclusive transcription of foreign words and names. "Hiragana" is used for all other words not written in "Kanji."

Legrand also went to various Japanese companies in the bed and furniture industry as well as to several large trading companies such as Mitsui & Co., Mitsubishi Corporation, and Itochu. He also visited Mr. Inagawa, who was in charge of the Home and Interior Section of Kanematsu-Gosho. While Kanematsu-Gosho had imported from Leopold & Fils in the past, Mr. Inagawa said that his company did not intend to import any more duvets from Lestra Design because its products were too expensive.

The general reaction from potential Japanese buyers was that Lestra Design's colors (red, green, white) were not appropriate for the Japanese market. However, most of these buyers agreed that, with some modifications to accommodate the Japanese market, the "*Made in France*" image was a great asset. Duvets and eiderdowns under names like Yves Saint Laurent, Courreges or Pierre Cardin were being manufactured in Japan under license. They were selling successfully because Japanese distributors and potential customers viewed French interior textiles as another fashion product for which France was renowned.

To attract distributors, Legrand had advised Leopold & Fils to participate in the yearly Home Fashion Show held in Tokyo; however, Leopold and Mekies had not responded to this suggestion. Some potential distributors had already been identified, but most of them wanted to license the design and then manufacture in Japan rather than import the final products from France. Leopold clearly preferred to export directly from France and thus create more jobs for his own employees.

### **Akira Arai**

One of the main prospects for distributing Lestra's products in Japan was Akira Arai, President of Trans-Ec Co. Ltd., Japan. Trans-Ec specialized in importing and exporting down and feathers.

Arai was enthusiastic about French duvets and quilts and Lestra Design products mainly because of the "*Made in France*" label and the prestige attached to French textiles. Like most of the potential distributors Legrand had talked to, Arai also perceived Lestra Design products as French fashion products similar to the duvets and quilts sold in Japan under prestigious names. Some French fashion designers almost unknown in France had built very strong reputations in Japan. Both Arai and Legrand felt that there was room in Japan for Lestra Design to achieve strong brand recognition.

Arai had had some experience working with other French firms. In the past, he had imported down and feathers from Topiol, a French company that was an indirect competitor of Leopold & Fils. Legrand thought that Arai, who had already heard about Lestra Design, could be a potential partner. Arai knew the down and feather industry thoroughly, and he had good connections in the complex distribution system of the Japanese duvet industry. Arai had also been highly recommended by Mrs. Eiko Gunjima, who was in charge of fashion items at the Commercial Section of the French Embassy in Tokyo.

## **Meeting Japanese Tastes**

Two weeks after their first meeting, Legrand and Arai met again in Roppongi, a fashionable district of Tokyo where Arai's office was located. Arai explained that it would be difficult to sell Lestra Design duvets in Japan as they appeared in the current Lestra Design catalogue. In his opinion, Lestra would have to adapt its products for the Japanese market. He proposed that Lestra Design send him a sample that would meet the market requirements (i.e., sizes, colors, fillings, etc.). In particular, he felt that the choice of colors was very important. Although Arai liked the innovative motifs and the colors of Lestra Design products, he told Legrand that Japanese customers would rarely buy a red, pink or black duvet. Most duvets sold in Japan were in soft colors with many flowers in the design. Legrand emphasized that Lestra Design was introducing something really new to the Japanese market, but Arai insisted that most Japanese customers preferred floral motifs. Indeed, Legrand had noticed that almost all the Japanese duvets in Tokyo stores had floral motifs.

Arai further recommended that Lestra Design duvets be smaller than French duvets and "paving blocked" (quilted) to prevent the down from moving too freely inside. He provided all the technical details needed to manufacture the duvet. Arai's product was quite different from those manufactured by Lestra Design, but Legrand was confident that the French company was flexible enough to adapt its products to the Japanese market. Arai also requested that Lestra Design deliver the sample within a month. Legrand had trouble explaining that Lestra Design, like most French firms, would be closed during the whole month of August for its summer holidays. Arai joked about the French taking so much holiday time in summer, but he agreed to wait until the beginning of September.

## **The Dust Problem**

At the beginning of October, Legrand went to Arai's office with the sample that he had just received from France. With almost no hesitation, Mekies had agreed to completely redesign a duvet to meet the Japanese customer's expectations. The fabric was printed with floral motifs, paving blocked and exactly the requested size. Arai seemed pleased when he first saw the product. Then, as Legrand watched, Arai picked up the sample, carried it to the window, folded it under his arm and then slapped it vigorously with his hands. Both men were surprised to see a small cloud of white dust come from the duvet. Arai placed the sample on his desk, shook his head in disappointment and stated, "This is not a good product. If Lestra Design wants to compete against the big Japanese, German and other French brands, the product must be perfect."

Legrand immediately telexed Arai's reaction to Mekies. In Arai's opinion, the problem had to do with washing the duvet. Although Mekies was surprised by the result of Arai's test, he agreed to send a new sample very soon.

Just after New Year's Day, Legrand arrived at Arai's office with a new sample. Naoto Morimoto, who was in charge of the Bedding and Interior section of

Katakura Kogyo,<sup>2</sup> a major textile trading company, had also been invited by Arai to examine the new sample. Morimoto was an old friend of Arai's as well as a potential customer for Lestra Design products. After the ritual exchange of business cards between Legrand and Morimoto, Arai proceeded with the same test. Again, some dust came out, although less than the first time. Arai and Morimoto decided to open the duvet and look inside for an explanation. In their opinion, the feathers had not been washed the same way as in Japan. Morimoto suspected that the chemicals used to wash the duvet were very different from those traditionally used in Japan. Moreover, Arai found that the duvet was filled with both gray and white down. He asked Legrand to recommend that Lestra Design use only new, white down and no feathers at all, even very small ones. In front of Legrand, Arai also demonstrated the same test with several Japanese and German duvets. No dust came out. As a result, Legrand and Arai decided to send Mekies samples of both a Japanese and a German duvet so that he could test the dust problem himself. With the two samples, Arai attached a note emphasizing that "to compete successfully in Japan, Lestra Design products must be perfect, especially since the Japanese customer generally believes that textiles and fashion products from France are of high quality."

At the end of March, a third sample arrived in Tokyo. Mekies had phoned Legrand beforehand, emphasizing that the utmost care had been given to this sample. But again this time, the sample failed Arai's test. Legrand immediately phoned Mekies to inform him of the situation. Arai was frustrated and, as he listened to Mekies' voice on the telephone, it sounded as if Leopold & Fils were about to give up on the Japanese market. Mekies could not fully understand Arai's problem, because in his whole career at Lestra design, he had not heard a single complaint about dust coming out of Lestra Design duvets.

Legrand thought that the only way to save the Japanese business would be for Mekies to visit Tokyo. Legrand emphasized again the considerable opportunities offered by the Japanese market and thus convinced Mekies and Jacques Papillault, Lestra Design's technical director, to board the next flight for Tokyo. Mekies said they would only be able to stay 48 hours in order to meet with Arai.

### **Mekies' Trip to Tokyo**

A few days later, Mekies and Papillault were in Tokyo. Arai claimed that he was genuinely interested in selling Lestra Design products in Japan, but he explained that in order to compete with Japanese duvets, Lestra Design products had to meet the local standards of quality. Arai and Morimoto insisted that, since French textile products carried such a high image in Japan, they should be of the finest quality. Arai also stressed that only new white goose down should be used to fill the duvet.

In a side conversation with Legrand, Mekies asked if this requirement came directly from the final customer. Legrand replied that it did not seem to be the

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<sup>2</sup> In 1983, Katakura Kogyo had profits of US\$5.5 million, sales of US\$2.8 billion and employed 1,852 people.

case. He himself had interviewed Japanese customers in down and duvet shops and had found that the average customer did not know about different qualities of down or even seem to care whether the down was gray or white. Mekies was therefore a bit surprised by Arai's requirement. In France, as in most European countries, the customer was usually only concerned about price and design. Legrand explained that Arai meant to use "new white goose down only" as a major selling point to market Lestra Design duvets as a high quality product to the distributors and the retailers. From previous conversations with both wholesalers and retailers, Legrand explained that "new white goose down only" was indeed a reasonable expectation, consistent with the upper positioning of European products in Japan as well as with the high quality associated with French fashion items.

According to the trade, the "new white goose down only" argument would also justify the premium price charged by the retailers for Lestra Design products. Retail prices for Lestra Design products in Japan were expected to range from ¥100,000 to 250,000 and to be comparable to competitive, high quality products imported from West Germany. However, prices varied greatly, from a retail price index of 100-300, depending on the quality of the down and feathers and their mixture inside the duvet. In fact, some stores, both in Japan and Europe, allowed customers to choose the filling for their duvets and eiderdowns, a policy that gave the customer a lot of pricing flexibility.

Retail prices for Lestra Design in Japan were more than two times higher than in France. Such a difference could be explained by the typically lengthy distribution system in Japan, which contributed to inflating the price of imported goods (*refer to Exhibit 4*). For an ex-factory price index of 100, cost, insurance and freight would add 4%, and duties an additional 6%.

Arai would price the goods so that he could gain a 12% markup on his selling price to Morimoto, who would receive a 10% commission from the smaller wholesalers. In turn, the small wholesalers would put a 20% markup on their selling price to the retailers, who would finally sell Lestra Design products at a price which would allow them a 40% to 60% markup. On a retail price basis, Lestra Design products in Japan would be about 30% to 50% more expensive than most local products of similar quality. Cheap models (either made locally or imported from China) would sell for ¥60,000. On the other hand, Nishikawa, the market leader, offered many models in Lestra Design's price range as well as a few prestigious models over ¥3,000,000. In selling competitive products from West Germany in Japan, the German tradition in making duvets was strongly emphasized. Advertising for these products would often carry the German flag, feature the "Made in Germany" label and include a commercial slogan in German.

### **The Washing Formula**

The conversation between Arai and Mekies then moved to the dust problem. Arai explained that, in his view, the problem lay with the composition of the chemical formula used to wash the down. Arai had already made arrangements to visit a Japanese duvet and eiderdown manufacturer in the afternoon. To get this Japanese company to open their doors, he had simply told the plant manager that a group of

French importers was interested in buying the company's products. As a result, the Japanese manufacturer was quite willing to let the French group visit the factory. Mekies and Legrand were impressed by the state-of-the-art equipment used by the Japanese firm. Papillault noticed that the Japanese were using microscopes and some very expensive machines that he had never seen in Europe to determine, for example, the greasiness of the down. Mekies was also amazed to observe three Japanese employees in white smocks separating down from small feathers with medical tweezers. According to Papillault, not a single Western manufacturer was as meticulous as this Japanese company. During the visit, Mekies also picked up some useful information about the chemical formula used by the Japanese manufacturer to wash the down and feathers.

The next day, Mekies and Papillault flew back to France fully aware that much remained to be done to crack the Japanese market. Before leaving, Mekies told Arai that this trip had been extremely useful, and that Leopold & Fils would work hard to make a new sample that would meet the Japanese quality standards. Arai also promised Mekies that he would try to get more information about the chemical formula used by the Japanese company they had visited.

### **New Challenges**

Two weeks later, Arai sent Leopold & Fils some additional information on the chemical formula. Mekies then contacted a large French chemical company that immediately produced an identical formulation for Lestra Design. At the end of April, Arai told Legrand that Lestra Design should hurry with its new samples. Most wholesalers would be placing orders in May for late October delivery to the retail shops. Arai also indicated that Morimoto from Katakura Kogyo had already selected some designs and had basically agreed to order 200 duvets provided that Lestra Design solved the dust problem.

In late May, three new duvet samples arrived in Japan. Arai found them much better than the previous ones. However, he still felt that the dust problem was not completely solved. Arai and Morimoto decided to have the fabric inspected in the laboratories of the Japanese Textile Association in Osaka. They both explained to Legrand that the fabric used by Lestra Design did not have the same density of threads per square inch as most Japanese duvet fabrics. Legrand reported this latest development to Mekies, who was obviously upset by this new complaint from the Japanese. Legrand was also worried that the time required to have the fabric inspected would further delay the manufacturing of the 200 duvets that Morimoto was planning to order. In the meantime, Lestra Design had been obliged to order the fabric with the printed design selected by Morimoto in order to get exclusivity from its French supplier.

### **“Gokai” (Misunderstandings)**

At the end of June, Takeshi Kuroda, an executive from Katakura Kogyo who was on a business trip in the southern part of France, visited Mekies and Leopold in Amboise. Mekies had trouble communicating with Kuroda because of the Japanese executive's limited ability in English. However, Mekies understood from Kuroda that Lestra Design had the green light to manufacture 200 duvets

using Morimoto's selected fabric. Mekies communicated the good news to Legrand, who phoned Morimoto to thank him for the order. Morimoto was surprised by Legrand's call because he personally had not taken any steps to confirm the order. Morimoto had first wanted to have the results of the Osaka test. Finally, in early July, the report from the Japanese Textile Association brought bad news for Lestra Design. The Japanese laboratories found that the density of Lestra Design's fabric was far below that of most Japanese duvet fabrics.

The test results confirmed the fears of Arai and Morimoto that the fabric problem was a major obstacle for selling Lestra Design duvets in Japan. Although the test could not legally prevent Lestra Design from selling on the Japanese market, Arai and Morimoto insisted that the French products had to be perfect to be sold in Japan. Thus, Morimoto told Legrand that he would not be able to proceed with importing the 200 duvets into Japan. Legrand tried to counter with the argument that the test was merely a non-tariff barrier for Lestra Design products in Japan. However, Morimoto answered that Lestra Design had to meet the market requirements to succeed in Japan.

When Legrand phoned the Lestra Design office in Amboise, Mekies was very upset. As far as he knew, the Japanese were the only ones in the world to conduct this kind of investigation, which he believed was a non-tariff barrier to prevent non-Japanese products from entering the Japanese market. Mekies' exasperation grew because, following Kuroda's visit, the 200 duvets for Katakura Kogyo had already been manufactured. Because the duvets had been made to fit Japanese specifications, they could only be sold in Japan. Legrand replied that he would explain the situation to Morimoto and that he would try to convince him to do something about it. During the following days, Legrand tried hard to persuade Morimoto to accept the order. It seemed to him that Kuroda was directly responsible for the misunderstanding. But Morimoto remained inflexible and said that he could not buy products inferior in quality to those sold by Japanese competitors.

During the latter half of the year, little communication took place between the French and the Japanese. Leopold and Mekies were upset by the attitude of the Japanese. On the Japanese side, Arai and Morimoto said that it was too late to meet with the distributors as most of their orders had already been placed in late July for the winter season. However, Legrand and Arai had remained loosely in touch. Arai later confirmed that he was still interested in importing Lestra Design products. Both Legrand and Arai were also convinced that, despite all the setbacks, there was still hope for Lestra Design to grasp a share of the huge Japanese market for duvets. Legrand had learned that Lestra Design's major French competitor had faced similar problems in Japan and had decided to give up the Japanese market. On the other hand, he knew that several German competitors were operating successfully in Japan.

Legrand took advantage of a business trip to France to visit Leopold and Mekies in Amboise. He was aware that Lestra Design was making a successful start in the US. In fact, Leopold was just back from an exhibition in New York where a major order had been placed. Legrand emphasized again the great potential of the Japanese market and the need to take a long-term view of this market. Legrand recognized that, although Japan was a tough market to crack, persistence would eventually pay off. Leopold said that he had already tried hard and confessed that

he was still quite disappointed by the Japanese market. However, at the end of the meeting, Leopold said that he would consider one last try.

### **The Alternatives**

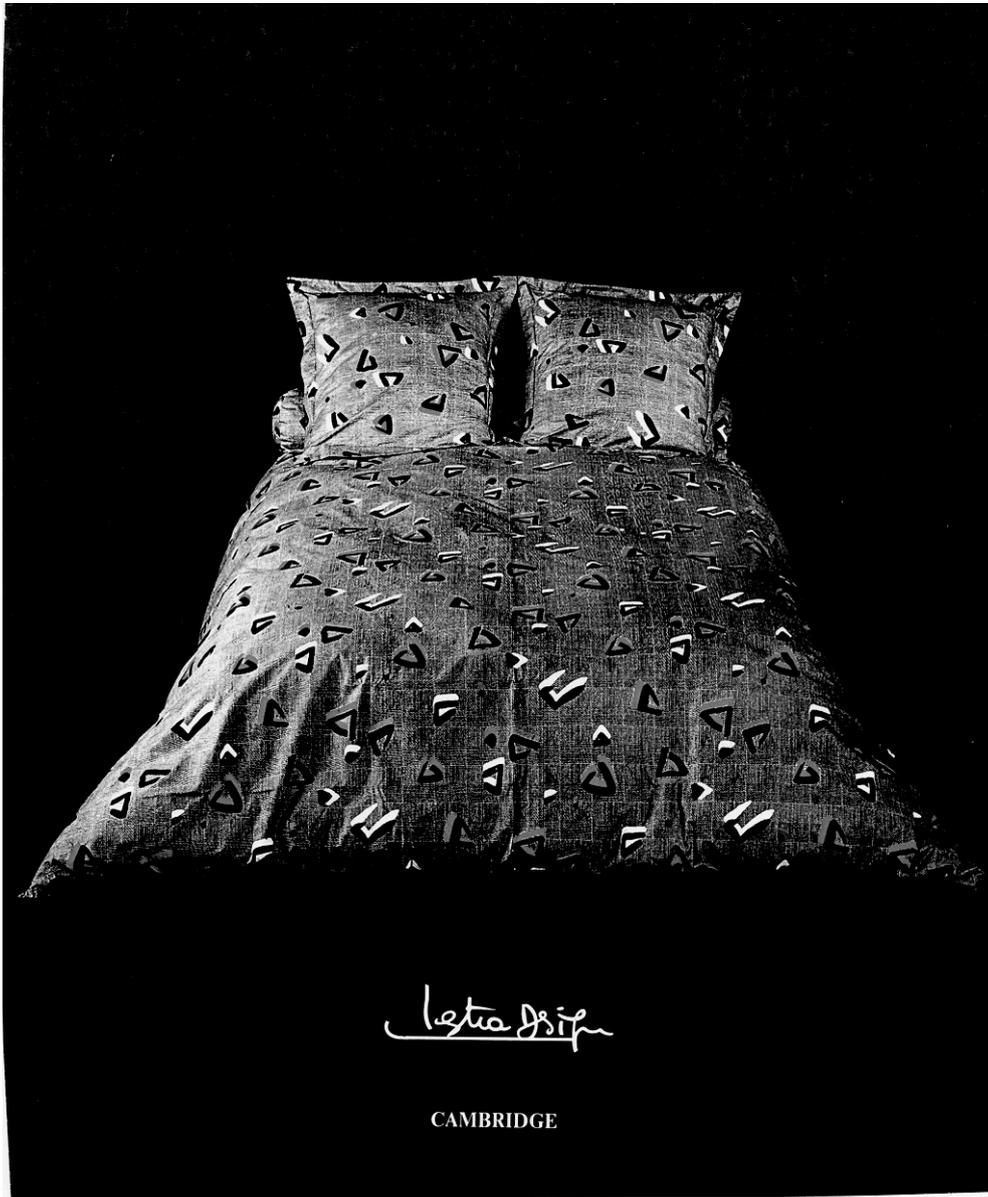
A few weeks later, Legrand met once again with Arai and Morimoto. Morimoto said he would be interested in buying the original designs from Josette Leopold and then have the duvets manufactured in Japan under license. Claude Leopold was not keen about this idea. He knew that Yves Saint Laurent, Lanvin, and Courreges duvets were manufactured this way in Japan. Leopold also knew that Lacoste shirts, although considered a universal product, had been completely adapted to suit the Japanese market. The colors, shape and even the cotton material of Lacoste shirts sold in Japan were different from the Lacoste products sold in the rest of the world. Bernard Lacoste, the son of the famous tennis player and a personal friend of Leopold, ran the Lacoste business around the world. A few months earlier, Leopold had heard from Lacoste himself that in the previous year, the Lacoste company had had trouble with its Japanese licensee. Gasqueres, the French consultant in Tokyo who was monitoring Lacoste's operations in Japan, had discovered that the licensee had at one point in time "forgotten" to pay the full amount of royalties due to Lacoste in France. Leopold was therefore wondering if licensing would be the best solution.

Arai had also proposed that Lestra Design buy some Japanese fabric and manufacture the duvets in France. He argued that this would definitively solve the dust problem. That way, Lestra Design products could still carry the "Made in France" label that was so appealing to Japanese customers.

Another alternative recommended to Mekies was buying fabric for the duvets from West Germany, where textile standards were similar to the ones in Japan. Lestra Design could then print Josette Leopold's designs on the German cloth and make the duvets in France. Because the Japanese insisted on floral motifs, Lestra Design could even buy fabric with floral prints in West Germany. Arai had found that many Japanese companies like Nishikawa (the leading duvet manufacturer in Japan) were already buying a lot of German fabric for duvets. However, in order to be granted the design exclusivity, Mekies needed to buy a minimum amount of fabric, the equivalent of 300 duvets.

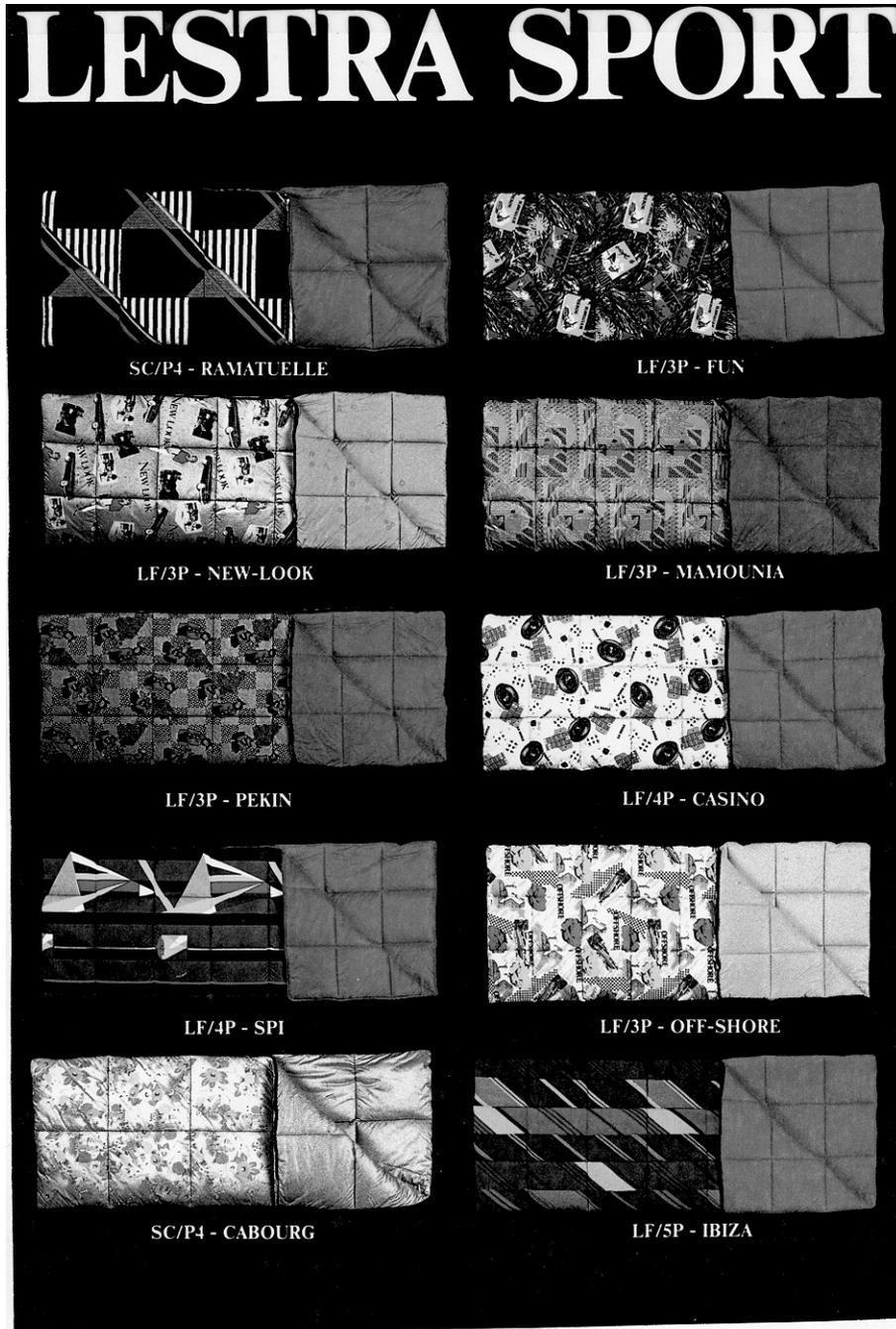
As he was reviewing these alternatives for Lestra Design, Leopold wondered if he should continue trying to gain a foothold in the Japanese market, or should he simply forget about Japan and focus more on Europe and the United States?

**Exhibit 1**  
**Feather and Down Duvet**



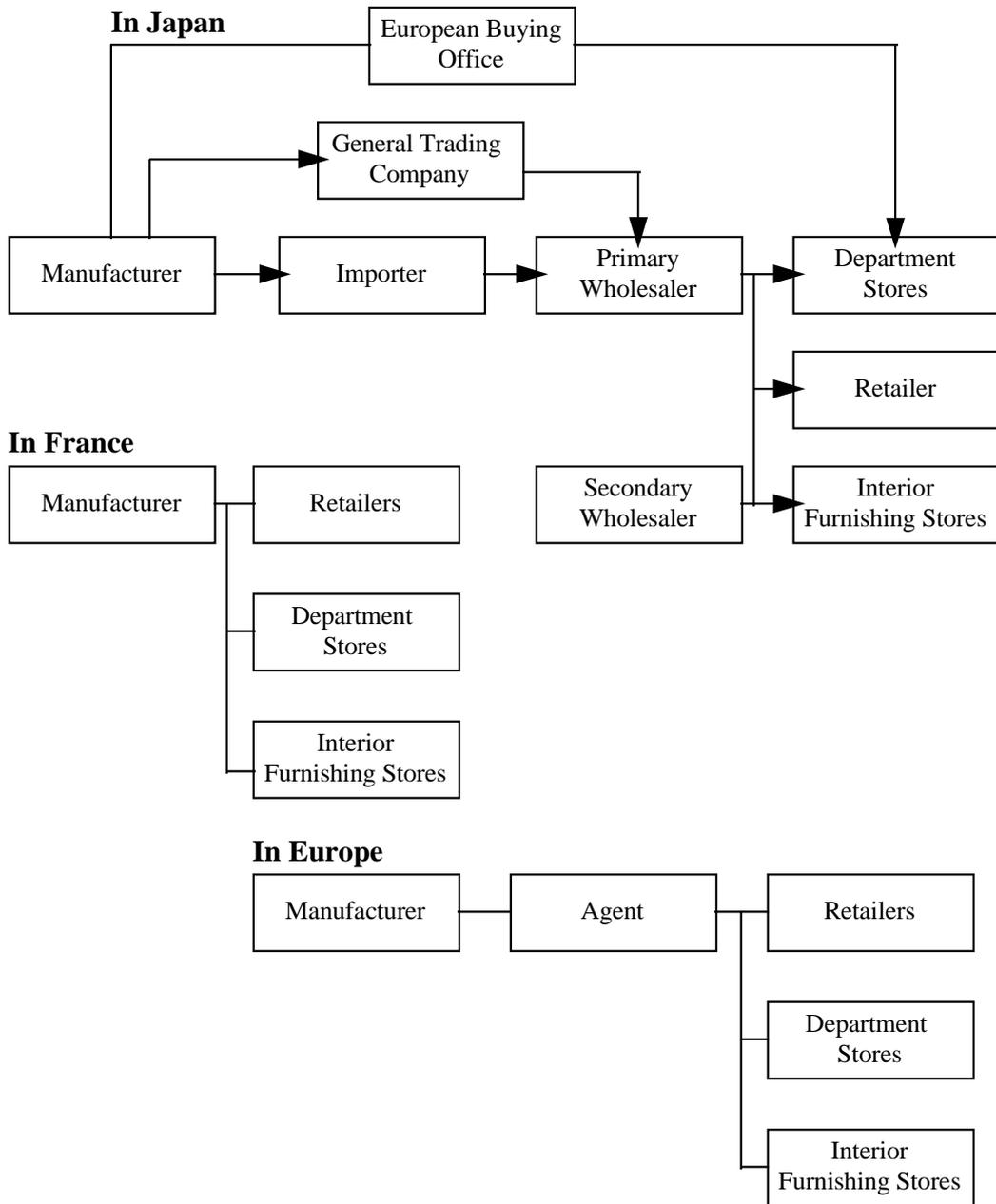
Source: Lestra Design, company brochure.

**Exhibit 2**  
**Feather and Down Sleeping Bags**



Source: Lestra Sport, company brochure.

**Exhibit 3  
Comparative Distribution Channels for Duvets & Interior Textiles**



Source: Company documents.

### **Exhibit 4 Short Note on Distribution in Japan**

According to Daniel Legrand, Japan's distribution system was still considered lengthy and complex when compared to U.S. or European practices. Common criticisms were that:

- Distribution channels are long and complex
- Some distribution channels are controlled by large manufacturers
- Some import agents prefer high margins and low volume, leading to high prices for imported goods
- Costs of setting up one's own distribution are high and time consuming.

#### **The Japanese Retail Market**

By Western standards, the Japanese retail market remained very fragmented. Despite recent legal reforms from the Japanese Administration to ease the entry of foreign goods into the Japanese market, independent stores accounted for more than one third of retail sales in Japan compared to a few percentage points in the US and in the UK. Japan had twice as many as in most European countries.

According to a number of officials from the Japan External Trade Organization (JETRO)<sup>3</sup>, the reasons for the fragmentation of retailing were closely related to Japan's social, cultural and economic environment:

- ***Shopping patterns:*** The typical Japanese housewife usually shops once a day. This custom is directly related to the size of the average home in Japan, which cannot accommodate large quantities of food.
- ***Economics:*** The price of land in Japan precludes establishing Western-style supermarkets. Most retail sales in Japan are still handled by small independent retailers who own the land on which the store is located. These family stores do not have to consider return on investment as a supermarket setting up a large-scale operation on the same site would.
- ***Regulation:*** Opening a supermarket requires that a company make cumbersome applications for many separate approvals under several different laws.

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<sup>3</sup> "Planning for Distribution in Japan", Jetro Marketing Series, Tokyo.

### Exhibit 4 (continued)

- **Service:** Smaller stores are located near one's home and give housewives a place to socialize. Small retail stores also have longer business hours, which make it easier to shop at night. Independent retailers will also deliver orders for their customers and extend credit. The neighborhood shopping center near a subway or train station is a firmly established institution in Japan.

The same JETRO officials argued that given the Japanese preference for more convenience and service, the retailing sector in Japan was not necessarily a backward and underdeveloped system.

### Implications

The implications of greater fragmentation in retailing were that either the manufacturer or the wholesaler must provide the services for small stores that they cannot provide themselves. Some of the most important examples were: finance, collection of bills, inventory, risk absorption, marketing and merchandising, and marketing feedback.

### Trade Practices

- **Margins:** For duvets, the margin for the primary wholesaler (as a percentage of retail price) is approximately 15% and that of the secondary wholesaler about 10%.
- **Rebates:** Payments from the manufacturer to the wholesaler and from the wholesaler to the retailer on such factors as sales performance are a common practice in Japan.
- **Physical distribution:** Construction of delivery centers has been encouraged to modernize physical distribution. When a distribution center has been constructed, typically the merchandise flows directly from the manufacturer to the center and then to retail outlets, even though orders and other information may pass through wholesaler intermediaries.
- **Payment terms:** Payment periods run from 60-180 days after delivery of goods.
- **Consignment sales:** Sales on consignment is the rule in most Japanese industries. Retailers and wholesalers can reserve the right to return unsold goods to the manufacturer.
- **In-channel sales promotion:** Wholesalers engage in sales promotion activities similar to those of manufacturers.