

# A STUDY OF MANUFACTURER'S SALES COMPANY IN JAPAN BASED ON A SAMPLE SURVEY<sup>(1)</sup>

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## Abstract

Manufacturer's Sales Company (MSC) peculiar to Japanese economy fulfils its function as financier to its parent as commercial capital to industrial capital. This is verified by the data collected in a sample survey. Selection of marketing channels by big manufacturers results necessarily in the exclusion of commercial capital. This exclusion counterbalances the financial advantage given by commercial capital. The MSC system is an effective means against this counterbalance. Parent manufacturer can recover its circulating capital more quickly by 2.23 months (1970) by means of the MSC system.

## 1. INTRODUCTION<sup>(2)</sup>

Manufacturer's sales company (being abbreviated to MSC) is a phenomenon peculiar to Japanese economy after World War II. It is an independent manufacturer's sales division. Officers are often sent into

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(1) I am grateful to Administrative Management Agency and Ministry of Finance for their permission of Statistics of Incorporated Enterprises, to Prof. H. Kimura and Ass. Prof. K. Oyabu for their contribution to statistical treatment, to Prof. K. Matsuda and Ass. Prof. N. Sato for their valuable comments and to interviewees of my sample survey for their friendly responses.

(2) I use "manufacturer" and "wholesaler" in the abstract. "Manufacturer" means an individual form of industrial capital and "wholesaler" means an individual form of commercial capital. It would be more adequate to use the word "manufacturing capital" or "wholesaling capital."

from the parent. There is ample room for doubt as to a general assertion that MSC is incorporated in order that parent capital may dominate domestic market in Japanese economy.

Most of the manufacturers which own MSC are big businesses and are often oligopolistic in their industries. Conversely are not always true. We have had enough experience to explain this. One half of automobile manufacturers and household electrical apparatus manufacturers own no MSC in our sense respectively, though all the manufacturers belonging to these industries have local MSC.

REMARK The reason why the residual half own no MSC could be explained by two factors: turnover of circulating capital and organizational problems. Some of manufacturers can recover that circulating capital as quickly as a cash liquidation. Some of them cast doubt on an assertion that the advantages derived from independent MSC far outweigh the disadvantages which they entail. These disadvantages may derive from organizational problems.

Local MSC acquires and exploits new markets and helps the increase of a market share, in short, marketing. Consequently MSC is to discharge another function. MSC fulfils its function as commercial capital, that is, wholesaler. The reader could understand such a situation from marketing channel (Table 3).

REMARK I classify MSC as follows:

*Stratum*

1. Exclusively dealing with all products manufactured by parent company (for example, Toyota Motor - Toyota Motor Sales). Covering the whole Japan. Sales divisions of manufacturers became independent

and take the form of MSC.

2. Exclusively dealing with all or almost all products manufactured by the operation division of parent (for example, Tokyo·Shibaura Electric - Toshiba Trading (exclusively dealing with household electrical apparatus manufactured by parent), Hitachi - Hitachi Household Electrical apparatus). Covering the whole Japan.
3. Local (territorial) MSC (prefectural or sub-prefectural). They cover the whole Japan, though the individual covers a prefectural or a smaller district than it.
4. MSC at special districts (strategic points in many cases).
5. Others.

MSC of stratum 1 and 2 are called here MSC. MSC of stratum 3 and 4 may be connected with marketing directly, in other words, they fulfil its function as dealer or local wholesaler, while MSC of stratum 1 and 2 may be connected with some role of wholesaler.

## 2. COMMERCIAL CAPITAL AND MSC

Commercial capital has a double function to perform for industrial capital: as sales agent and as financier. It sells or markets manufactured products as the former, while buying them from industrial capital on its own account as the latter, in other words, investing circulating capital in its business. A sales division of manufacturer itself may fulfil its function as sales agent, but cannot fulfil its function as financier. The dominance of manufacturers (industrial capital) in circulation process leads to select marketing channels, which necessarily results in the exclusion of commercial capital. This exclusion counterbalances the financial advantage. If manufacturers can adopt some effective means which does not counterbalance the advantage, it is pre-

ferable for them. MSC of stratum 1 and 2 may fulfil its hope. The transaction between a parent capital and its subsidiary (MSC) is settled by a promissory note drawn by MSC. When MSC fulfils its function only as sales agent, the transaction is settled by a note endorsed by MSC. A cash settlement applies to in both cases of financier and sales agent. When the transaction is settled by a note endorsed by MSC, the turnover period of circulating capital of parent must equal that of MSC in length. This is verified by the data (Table 2). The proportion of the promissory note settlement is 0.48 (0,1) or 0.88 (sales weight). The proportion of the endorsed note settlement is 0.40 (0,1) or 0.09 (sales weight). If we intend to investigate any influence of MSC on social reproduction, it is more reasonable to regard the promissory note settlement as the subject.

MSC is owned or controlled by parent capital, most often through the ownership of voting stock. Often the president of the parent holds also the post of its subsidiary. The promissory note drawn by such a subsidiary is usually called a "house bill." Such a bill is given no credit, consequently cannot be discounted by bank.

### 3. VERIFICATION BY THE DATA

#### 3.1 Values of turnover (Table 2,3)

The following discussion is based on the assumption that the turnover period of parent's accounts & notes receivable is approximately equal to that of MSC, if MSC does not exist. How many months can the parent shorten the turnover? It amounts to 2.23 months (March 1971) (Table 2 and 3). The difference between the value (3.38) of the turnover period of parent's accounts & notes receivable to MSC and the value (4.63) of the turnover period of accounts & notes receivable of

MSC is 1.25 months and the value of the turnover period of notes receivable (drawn by MSC) discounted by bank is 0.98 month. The value (1.15) of parent's borrowed money (short-term) from bank is significantly shorter than that (1.97) of all the manufacturers. The sum (1.96) of the value of MSC's borrowed money (short-term) from bank and the value of MSC's notes receivable discounted by bank is as large as the value (1.82) of all the wholesalers. This large value of MSC's borrowed money (short-term) from bank not only shortens parent's turnover, but also make this mechanism of turnover sound. All in all the parent manufacturer can reach the ordinary level of turnover, only if MSC exist. The value of parent's turnover period of accounts & notes receivable is definitely smaller than the value of all the manufacturing firms (March 1972).

### 3.2 The variance of the turnover period of circulating capital

A large variance is characteristic of the turnover period of circulating capital of MSC. An estimate of the mean period of turnover is accompanied by a large variance. Besides the recovery time of the sample point is distributed largely.

REMARK The turnover period is the mean recovery time. Circulating capital is represented by accounts & notes receivable or current assets.

The meaning of the large variance will be explained in the next final section. The ratio of manufacturers of consumer durables of which MSC fulfil their functions as financier in all the manufacturers owning MSC is 0.74 in sales weight, and the ratio of manufacturers of consumer durables of promissory note settlement of which MSC fulfil their

functions as financier is 0.69. The recovery time of accounts & notes receivable industries manufacturing consumer durables is to be much longer than that in the other industries, because installment selling prevails in these industries. It is natural that manufacturers of consumer durables make the best possible use of MSC. This is verified by [1], but omitted in this paper.

#### 4. CONCLUSION COMMERCIAL CAPITAL AND MSC

Our discussions developed until now grow into a proposition: MSC is to its parent manufacturer what commercial capital is to industrial capital.

Commercial capital has a double function to perform for industrial capital: as sales agent and as financier. It sells or markets manufactured products as the former, while buys them from industrial capital on its own account as the latter, in other words, invests circulating capital in its business. (It is to be noted that a manufacturer's sales division can properly fulfil its function as sales agent.) If industrial capital excludes commercial capital from sales agency and sells on its own account, the advantage resulting from commercial capital's activities as financier is counterbalanced. If manufacturers can exclude their wholesalers without offsetting this advantage, it is preferable for it. The role is allotted to MSC.

A parent manufacturer - a MSC owner - can quickly recover his capital invested in a productive process with profit on a great scale at a time, with regularity and at the will of his own. This has been of course, a hypothesis. But my sample survey accomplished satisfactory results to verify that.

1) "Quick recovery". The parent manufacturer can recover more qui-

ckly by about 3 months.

2) "On a great scale at a time." Let us consider a typical example of this condition. In the automobile industry installment selling prevails. MSC pays its parent in full for its account, while a dealer pays MSC in installment papers which were drawn by consumers.

3) "With regularity." The average value of recovery time of him is accompanied by a small variance, whereas that of MSC by a large variance.

4) "At the will of his own." He is able to have discounted the note drawn by MSC by bank, if it is necessary for him.

It is a statistical fact that all of the MSC do not perform such a useful function. MSC which do not perform this function are classified apart, that is, classified as sales agent. This class has no characteristic as remarkable as that class said above. Why is it necessary to make a manufacturer's sales division independent as sales agent? An answer given by interviewees in this: The sales division became independent in order to distinguish profit gained in circulation process (sales efforts) from that in production process. Consideration from a management as distinguished from an economic point of view would be more useful for this purpose. The principal point is, however, that the proportion of this class is negligibly small in sales weight (from an economic point of view of social reproduction), but not so in (0,1) weight (management view).

1. *Preliminary survey*

Purpose: Determination of population (manufacturers owning MSC) for the sake of sample survey of interview.

Date : From July 1971 to December 1971

Method : By mail

Subject : All the manufacturing business companies (except publication, printing and the related) whose capital stocks are greter than or equal to 100 million yen.

The ratio of response: 0.9754(2969/3044)

Result : The number of manufacturers owning MSC is given:

Stratum	1	2	3	4	5	unclassi- fiable	Sum
Number	123	79	35	142	125	33	537

2. *Sample survey of interview*<sup>(3)</sup>

Date : From August 1971 to December 1972

Object : Stratum 1 and 2

Sampling Fraction: The sampling fraction is

St. \ Sc:	A	B	C	Sum
1	31/94	7/21	12/12	
2	13/38	10/29	16/16	
Sum				208

Note: Stratum and Scale are abbreviated to St. and Sc. respectively.

(3) I could not collect every data of sample points in this survey. The data here consist of my own and schedules of Statistics of Incorporated Enterprises.



- A: 100 million yen-1000 million yen  
(0.1246 million pound-1.2460 million pound)<sup>(4)</sup>
- B: 1000 million yen-5000 million yen  
(1.2460 million pound-6.2301 million pound)<sup>(4)</sup>
- C: 5000 million yen and more  
(6.2301 million pound and more of capital stock)<sup>(4)</sup>

Formula of Estimation:

The method of ratio estimate is used:

$$\bar{z} = \frac{\sum_{i=1}^R \bar{x}_i N_i}{\sum_{i=1}^R \bar{y}_i N_i} = \frac{\sum_{i=1}^R \bar{x}_i P_i}{\sum_{i=1}^R \bar{y}_i P_i}$$

$$\tau_{z^2} = E(\bar{z} - z)^2 = \left( \frac{\bar{X}}{\bar{Y}} \right)^2 \sum_{i=1}^R \frac{N_i - n_i}{N_i - 1} \frac{1}{n_i} p_i^2 \left( \frac{\sigma_{x_i}^2}{\bar{X}^2} + \frac{\sigma_{y_i}^2}{\bar{Y}^2} - 2\rho_i \frac{\sigma_{x_i}}{\bar{X}} \frac{\sigma_{y_i}}{\bar{Y}} \right)$$

where  $\bar{Y} = \frac{N_u}{N}$ ,  $\bar{X} = \frac{N_v}{N}$ ,  $\bar{y}_i = \frac{n_{iu}}{n_i}$ ,  $\bar{x}_i = \frac{n_{iv}}{n_i}$ ;  $N$  is the size of population,

$N_u$  is the number of sample points of some attribute, for example, the number of parent companies of promissory note liquidation,  $N_v$  is the whole number of manufacturers owning MSC,  $n_i$  is the sample size of stratum  $i$ ,  $n_{iu}$  is the number of sample points of some attribute, for example, the number of parent companies of promissory note liquidation is stratum  $i$  of sample and  $n_{iv}$  is the whole number of parent companies owning MSC in stratum  $i$  of sample,  $\tau^2$  is the mean square error.

Turnove period: The turnover period of accounts & notes receivable (drawn by MSC) to MSC is computed as follows:

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Ministry of Finance and Administrative Management Agency of Japan permitted me to use them.

(4) Our exchange rate (£ 1 = ¥802.56) comes from the par value of central rate in the "IMF, IFS, April 1972."

accounts & notes receivable / average monthly sale to MSC

The other turnover periods are computed as the above.

Outline of result

Table 1  
 Estimated ratio and 95% confidence intervals

Terms	Ratios		Sales*	
	(0,1)		Estimate	95% IC
	Estimate	95% CI	Estimate	95% IC
1) Method of the liquidation between parent and MSC, a note drawn by MSC	0.48	0.15	0.88	0.07
2) Method of the liquidation between parent and MSC, a note or a bill endorsed by MSC	0.40	0.15	0.09	0.07
3) Method of the liquidation between parent and MSC, cash	0.11	0.10	0.06	0.02
4) Parent has the note drawn by MSC discounted by bank	0.40	0.15	0.73	0.07
5) Rediscounted by The Bank of Japan	0.11	0.08	0.44	0.10
6) MSC borrows money (for circulating capital) or has a bill or a note receivable discounted by bank	0.68	0.14	0.93	0.03
7) MSC deals with consumer durables	0.27	0.13	0.74	0.14

\* Oct. 1979~Mar. 1971

Table 2  
Turnover periods of the parent manufacturer

(month)

	March 1971			March 1972			
	A		B		A		B
	Estimate	95% CI			Estimate	95% CI	
(1)	3.38	0.17	(1)' 3.58	(1)	3.22	0.29	(1)' 3.81
(2)	2.40	0.14	(2)' 2.47	(2)	2.18	0.13	(2)' 2.71
(3)	0.98	0.28	(3)' 1.11	(3)	1.08	0.37	(3)' 1.10
(4)	1.15	0.31	(4)' 1.97	(4)	1.20	0.28	(4)' 2.16

Note: A--Manufacturers owning MSC (drawing a promissory note)

B--All the manufacturers in Japan of which capital stocks are equal to 100 million yen and more\*

- (1) Turnover period of accounts & notes receivable (drawn by MSC) to MSC (including notes receivable drawn by MSC discounted by bank)
- (2) Turnover period of accounts & notes receivable (drawn by MSC) to MSC (excluding notes receivable drawn by MSC discounted by bank)
- (3) Turnover period of notes receivable (drawn by MSC) discounted by bank
- (4) Turnover period of borrowed money (short-term) from bank
- (1)' Turnover period of accounts & notes receivable (including notes receivable discounted by bank)
- (2)' Turnover period of accounts & notes receivable (excluding notes receivable discounted by bank)
- (3)' Turnover period of notes receivable discounted by bank
- (4)' Turnover period of borrowed money (short-term) from bank

573 A STUDY OF MANUFACTURER'S SALES COMPANY IN JAPAN — 63 —  
BASED ON A SAMPLE SURVEY

\* Source: Statistics of Incorporated Enterprises Ministry of Finance  
Finance 1972, 1971

Table 3

Turnover period of MSC (drawing a promissory note) (month)

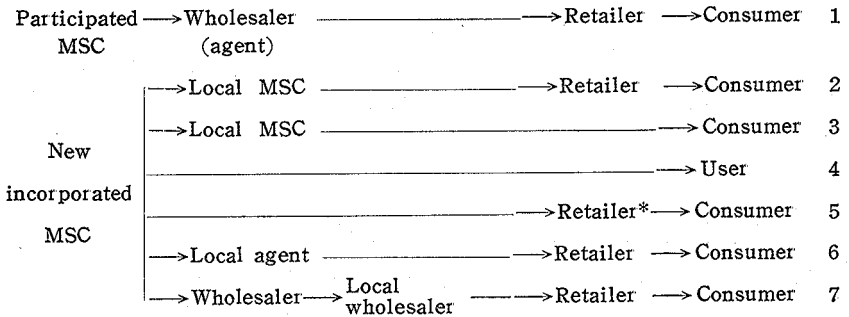
March 1971				March 1972			
	(A)		(B)		(A)		(B)
	Estimate	95% CI			Estimate	95% CI	
(1)	6.23	2.17	5.38	(1)	6.00	2.44	5.47
(2)	4.63	1.68	2.86	(2)	4.11	1.73	2.71
(3)	0.42	0.06	0.40	(3)	0.42	0.04	0.43
(4)	0.29	0.46	—	(4)	0.37	0.45	—
(5)	0.10	0.03	0.83	(5)	0.10	0.04	0.82
(6)	1.86	0.99	0.99	(6)	1.72	1.08	1.08
(7)	0.44	0.34	0.40	(7)	0.40	0.44	0.51

Note:

- (A) MSC (drawing a promissory note)  
 (B) All the wholesalers in Japan of which capital stocks are equal to 10 millions of yen and more\*  
 (1) Turnover period of current assets (including notes receivable discounted by bank)  
 (2) Turnover period of accounts & notes receivable (excluding notes receivable discounted by bank)  
 (3) Turnover period of stockholder's equity  
 (4) Turnover period of borrowed money (long-term) from parent  
 (5) Turnover period of notes receivable discounted by bank  
 (6) Turnover period of borrowed money (short-term) from bank  
 (7) Turnover period of borrowed money (long-term) from bank

\* Source: Statistics of Incorporated Enterprises Ministry of Finance  
1971, 1972

Table 4 Marketing channels



Note: \* --dealing with products of higher price, and being nearer to Local MSC

Table 5 Estimated ratios of marketing channels

Chan.	Prop. (0,1)	Sales (Oct. 1970 ~ Mar. 1971)
1	0.15	0.05
2	0.05	0.19
3	0.06	0.53
4	0.13	0.02
5	0.18	0.08
6	0.24	0.05
7	0.05	0.04

Note: To channel 1 belongs the camera and film industry. The endorsed note liquidation prevails in this industry. To channel 2 belongs the household electrical apparatus industry. The promissory note liquidation prevails in this industry. To channel 3 belongs the automobile industry. The promissory note liquidation prevails in this industry. At channel 4 government and local government and so on are users of MSC belonging to this channel. To channel 5 belongs

575 A STUDY OF MANUFACTURER'S SALES COMPANY IN JAPAN — 65 —  
BASED ON A SAMPLE SURVEY

the construction machinery industry. The promissory note liquidation prevails in this industry. For channel 6 and 7 any particular industry cannot be specified.

REFERENCE

- [ 1 ] HIROAKI SEIO (1975), "Industrial Characteristics of Manufacturer's Sales Company in Japan", *The Kagawa University Economic Review*, Vol. 47, No. 4 • 5 • 6.