

CHANNELS OF DISTRIBUTION IN THE MANUFACTURER'S SALES COMPANY SYSTEM IN JAPAN

by

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There is a clear distinction between the sole MSC and the local MSC. The local MSC acquires and exploits new markets. It builds up channels of distribution to enlarge the market for its products, or to defend its market against competitors. Struggles for markets among manufacturing firms, which means struggles for the paths of distribution to retailers that were cleared by dealers, produce the local MSC. In many cases capitals of manufacturing firms and of dealers are incorporated into MSC.

The sole MSC has a double function to perform for its parent manufacturing firm: as sales agent and as financier. It sells or markets manufactured products as the former, while buys them from its parent on its own account as the latter.

The dominance of manufacturing firms in distribution process leads to select channels of distribution, which necessarily results in the exclusion of wholesaling firms. This exclusion counterbalances the financial advantage resulting from wholesaling firms' activities as financier. If manufacturing firms can exclude wholesaling firms

without offsetting this advantage, it is preferable for them. The role is allotted to the sole MSC.

My sample survey shows that 48%⁽¹⁾(88% in sales weight) of manufacturing firms on sole MSC can shorten the turnover period of its own capital put into the production process by 2.23 months in 1970. The parent manufacturing firms can reach the ordinary level of turnover, only if the sole MSC exist.

The channels of distribution of the local MSC system and the sole MSC system are given by

- 1) Parent Manufacturing firms—Local MSC—Retailer (=Agent)
- 2) Parent Manufacturing firms—Sole MSC—Local MSC—
Retailer (=Agent)

respectively.

It can be verified by the data that the sole MSC system can exclude wholesaling firms without offsetting the financial advantage resulting from wholesaling firms' activities as financier.

The ratio of the transactions in the local MSC system to the final demands for manufactured products is 1.097 and the ratio of the transactions in the sole MSC system to the final demands for manufactured products is 2.226. The ratio of the transactions in all the wholesaling firms to the final demands for manufactured products is 2.638.

REMARK The ratio of the transactions of Channel 2 and Channel 3 in the sole MSC system and of all channels in the local MSC system to all the transactions in both MSC system is 0.86 (=4,956,227.9/5,723,422.6).

(1) SETO H. (1974), "A Study of the Turnover of Circulating Capital and Manufacturer's Sales Company in Japan Based on a Sample Survey" *Research Paper* No. 3, Department of Information Science, College of Economics, Kagawa Univ.

Data Appendix

The channels of distribution and the transactions are given in the following tables.

Table 1 Channels of distribution (1970)

Sole MSC system

Channel 1	Parent manufacturer	— MSC —	Wholesaler	— Retailer —	User
Channel 2	Parent manufacturer	— MSC —	Local MSC	— Retailer —	User
Channel 3	Parent manufacturer	— MSC —	Local MSC	_____	User
Channel 4	Parent manufacturer	— MSC —	_____	_____	User
Channel 5	Parent manufacturer	— MSC —	_____	Retailer	— User
Channel 6	Parent manufacturer	— MSC —	Local agent	— Retailer —	User
Channel 7	Parent manufacturer	— MSC —	Wholesaler	— Local wholesaler —	User

Local MSC system

Channel 1	Parent Manufacturer	— Local MSC —	_____	_____	User
Channel 2	Parent Manufacturer	— Local MSC —	_____	Retailer	— User
Channel 3	Parent Manufacturer	— Local MSC —	Local wholesaler	— Retailer —	User
Channel 4	Parent Manufacturer	— Local MSC —	Wholesaler	— Local wholesaler —	_____
		— Retailer —	_____	_____	User

Source: My survey

Table 2 Transactions, Sole MSC system (1970)

(Million Yen)

Channel	Parent Manufacturer — MSC	MSC — Retailer
1	153,336.5	352,170.9
2	583,858.2	1,340,959.0
3	1,627,725.8	3,738,431.1
4	61,924.4	67,705.1
5	244,748.6	265,244.0
6	153,336.5	352,170.9
7	123,848.7	448,478.5
Total	2,948,778.7	6,565,159.5

Source: My survey

$$2.226 = 6,565,159.5 / 2,948,778.7$$

Table 3 Transactions, Local MSC system (1970)

(Million yen)

Channel	Parent Manufacturer — MSC	MSC — Retailer
1	56,723.0	61,473.0
2	2,659,457.9	2,882,162.5
3	27,155.0	61,819.1
4	1,308.0	4,694.9
Total	2,744,643.9	3,010,149.5

Source: My survey

$$1.097 = 3,010,149.5 / 2,744,643.9$$

105 CHANNELS OF DISTRIBUTION IN THE MANUFACTURER'S — 5 —
SALES COMPANY SYSTEM IN JAPANTable 4 Transactions in final demand sectors, All the wholesalers (1970)
(billion yen)

Sales to	
Wholesalers	34,007.4
Retailers	20,934.4
Industrial Users in final demand sectors	3,444.9
Consumers	530.0
Total	58,916.7

Source: My survey

 $2.638 = 58,916.7 / 22,333.4$ (final demands for manufactured products)**Acknowledgments**

I am grateful to Prof. Hitoshi Kimura and Kazuo Oyabu for their contribution to statistical treatments.