



**EU-Japan Centre for Industrial Cooperation**

**日欧産業協力センター**

**Brief Guide for European Companies on Importers and Wholesale Distributors in Japan  
(food and wine; ICT; medical devices)**

Alice Tomaskova  
Minerva Fellow  
April – September 2015

#### Disclaimer and copyright

The information contained in this publication reflects the views of the author and not necessarily the views of the EU-Japan Centre for Industrial Cooperation, the views of the EU Commission or Japan authorities. While utmost care was taken to check and translate all information used in this study, the author and the EU-Japan Centre may not be held responsible for any errors that might appear. This report does not constitute legal advice in terms of business development cases. The author can be reached at [alice.tomaskova@japanbusinesssolutions.com](mailto:alice.tomaskova@japanbusinesssolutions.com)

© EU-Japan Centre for industrial Cooperation.

## Table of Contents

Disclaimer .....	p 2
Executive summary .....	p 4
List of figures.....	p 5
Acknowledgements.....	p 6
Methodology.....	p 7
Overview on EU-Japan trade and support for SMEs.....	p 8
I. Distribution systems in Japan .....	p10
1. An overview of key factors to succeed in Japan .....	p11
a) Japanese consumer preferences and tastes.....	p11
b) Position of your product in the Japanese market.....	p11
c) Direct sale or utilize distributors?.....	p11
d) General recommendations.....	p12
2. Food/wine/cheese distribution .....	p19
3. Computer/ mobile /medical software distribution.....	p36
4. Medical equipment distribution.....	p40
II. The most common market entry routes for EU products/services in Japan.....	p45
1. Using a distributor or an agent.....	p46
2. Establishment of an office.....	p46
3. Trading companies - sogo shosha and senmon shosha.....	p46
a) Logistics and distribution channel.....	p48
b) Sogo shosha and the retails sector (food).....	p48
4. Wholesalers (food sector).....	p50
III. Specific recommendations for Central European and East European Countries.....	p53
1. Challenges.....	p53
2. How to convince a potential distributor to carry out your product.....	p55
3. Way to approach your potential business partner.....	p55
4. HORECA sector opportunity.....	p56
5. ICT sector opportunity.....	p56
IV. Conclusion.....	p57
List of References:	
V. Annexes .....	p59
1. Recommended trade fairs in Japan with B to B matching event.....	p59
2. List of specialized organizations helping EU SMEs with import.....	p61
3. List of relevant associations helping imports to Japan .....	p62
4. Brief Analysis on EEN challenges and development potential in Japan .....	p65

## **Executive summary**

The aim of this Report is to facilitate market access to Japan for the European exporters in a number of selected sectors (food and wine, ICT, medical devices) through the sharing of comprehensive and practical information. There is no doubt that the Japanese market presents a huge potential for the committed, diligent and performing European SMEs with a clear and long term business vision. However, most SMEs cannot afford to establish a branch office in Japan, preferring to operate through Japanese business partners, distributors etc. In this context, the Report provides some background on distribution networks in Japan in the above mentioned sectors, identifies the most commonly used import routes for EU products/services and provides a number of recommendations from interviewed Japanese and European managers on key factors to succeed in Japan.

Another aim of the Report is to support the expansion and effectiveness of Enterprise Europe Network Service in Japan. In this context a large amount of interviews with relevant interlocutors in Japan were conducted throughout the research period. The main objective of the interviews with importers and distributors in Japan was to understand their view and learn their needs concerning the EEN database and related services. In order to promote EEN database services in Japan, an internal list of Japanese distributors, importers and wholesalers have been created, addressing the following sectors: food/wine (107 companies), ICT (105 companies), and medical devices (105 companies).

## List of figures

Fig 1: EU export to Japan according to the data from Japanese Min. of Finance.....	p 8
Fig 2. General distribution system structure.....	p10
Fig 3. Process of food/wine import to Japan.....	p17
Fig 4. Retail Channel Structure.....	p18
Fig 5. Food Service Channels.....	p19
Fig 6. Top 3 retail groups in Japan, data from 2012.....	p19
Fig.7. General food distribution scheme in retail sector.....	p20
Fig.8. Distribution Structure for National and Conventional Supermarkets.....	p23
Fig.9.Food distribution structure for department stores.....	p24
Fig.10. Manufacturer and distributor roles in a typical distribution channel.....	P25
Fig 11. General food distribution scheme in HRI sector.....	p28
Fig 12. Distribution channels of imported wine.....	p31
Fig. 13. Distribution channel of cheese.....	p33
Fig. 14. Multiple layers of software distribution in retail.....	p37
Fig. 15.Direct sales model.....	p37
Fig. 16. Medical/nursing care software solutions.....	p38
Fig. 17. Scheme of medical device distribution system in Japan.....	p40
Fig. 18. Sogo shosha expanding to retail business.....	p49

## **Acknowledgements**

The author wishes to thank Dr. Silviu Jora, General Manager (EU-side) of the EU-Japan Centre for Industrial Cooperation, Mr. Masanori Osumi, General Manager (Japan side) for giving her this opportunity to learn more about the Japanese distribution system. The author is also indebted to all the interviewees that found the time to meet the author, and provide her with useful information despite their busy schedule. I wish to express my thanks to Mr. Masao Fujita, Mr. Shinya Higashimoto and Mr. Fujio Matsumoto for reviewing of the Recommendations chapters and for their valuable comments.

## Methodology

This Report is primarily based on two pillars - review of literature and information regarding distribution systems in Japan regarding the three sectors – food, medical devices and ICT, as well as feedback from the European and Japanese managers regarding their success strategy in Japan. To supplement this, a large number of EU-member state representative organizations such as embassies and chambers of commerce were approached for interviews.

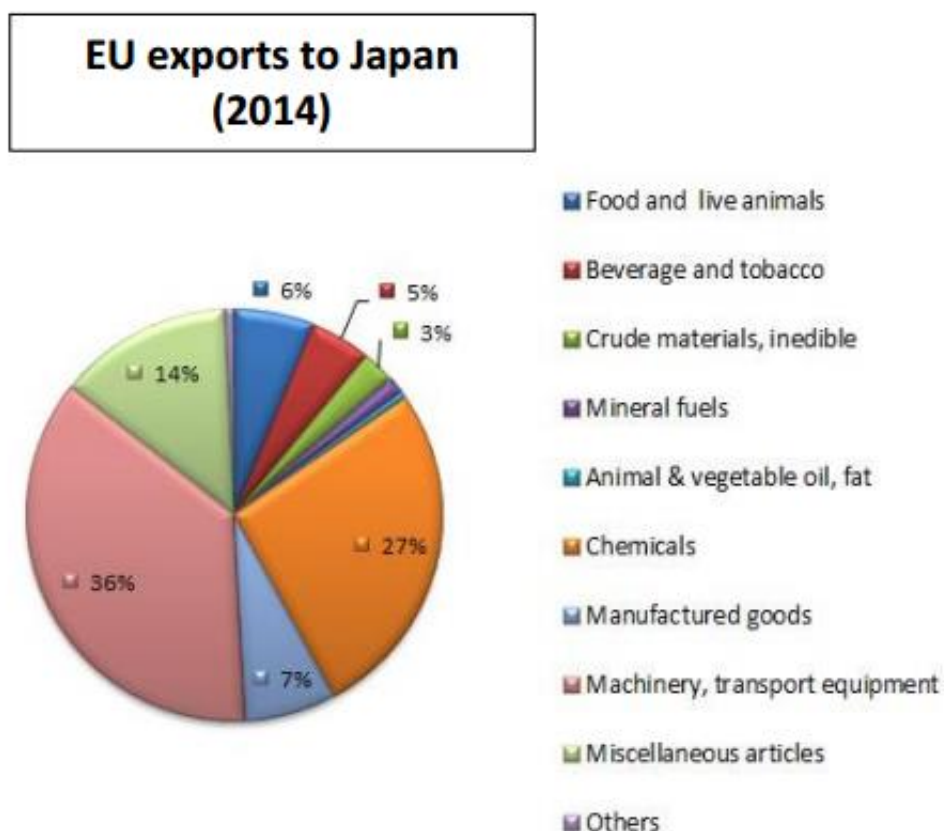
In order to get feedback from companies, a large number of Japanese as well as European managers in Japan was interviewed (84 organizations and companies were approached for their cooperation during the period of April 2015 to September 2015 for this study). When asked for recommendations, the majority of companies as well as organizations interviewed were willing to share their success stories, at least to some extent. As a result, it is possible to give a comprehensive picture of the situation for European SMEs looking for a business partners in Japan in the sectors mentioned.

This Report consists of four parts; the first part presents an overview of the distribution system in Japan in the food, ICT and medical device sectors, summarizes key factors to succeed in Japan and contains recommendations from the Japanese and European managers doing business in Japan. The second part is a compilation on the most commonly used import/selling routes for existing EU products/services. The third part consists of specific recommendations for Central and Eastern European Countries. In the annex an **internal list of importers** and distributors in Japan in the three covered sectors is included. Also in the annex a brief analysis is made on the function and expansion potential of the EEN service in Japan.

## Overview on EU –Japan trade and support for SMEs

From 2013 Japan and EU are negotiating a Free Trade agreement, to boost the commercial relationships. In 2014, EU exports to Japan were valued at 8151 billion yen, an increase of 6% from the previous year, while the total value of Japan’s exports was 7583 billion yen which represented an increase of around 8%. The EU’s main exports were machinery & transport equipment (36%) and chemicals (27%). Japan mostly exported machinery & transport equipment (68%), and their second-largest export was chemicals which comprised around 9% of the total exports value. [3]

Fig 1: EU export to Japan according to the data from Japanese Ministry of Finance. [3]



Regarding the total EU export to Japan, main EU exporters are as follows [24]

Germany	31,2%	Spain	5.3%
France	14.8%	Ireland	4.2%
Italy	11.2%	Belgium	3.3%
UK	8.3%	Sweden	2.8%
The Netherlands	5.6%	Denmark	2.7%

[3] “Trade of Goods Between the EU Member States and Japan 2014”, Report of EU-Japan Centre for Industrial Cooperation in Tokyo, March 2015.



Since most EU SME's cannot afford to establish their office in Japan, the support from the EU Member States and the European Commission should further focus on providing easily accessible, adequate (concrete, up to date) information on market opportunities and business environment in Japan and particularly on providing assistance for identifying business partners/distributors through info services and cost effective electronic partnership tools such as EEN. The physical (face to face) element, which is particularly important in the context of Japan, can be assured through B2B meetings and business match-making opportunities by further facilitating EU SMEs participation in international trade fares, training programs (such as those organized by the EU-Japan Centre: HRTP, WCM..), cluster mission, market research missions and concrete "soft landing" support schemes such as the "Step in Japan" initiative launched by the EU-Japan Centre. The opening of a local branch in Japan is quite common for large sized companies. On the other hand, EU SME's manufactures of medical devices, machinery as well as software related companies have also an office presence in Japan in order to fully utilize the Japanese market potential.

---

[24] Export-Import Data from Japanese Ministry of Finance statistics 2014, [http://www.customs.go.jp/toukei/info/index\\_e.htm](http://www.customs.go.jp/toukei/info/index_e.htm)

## I. Distribution systems in Japan

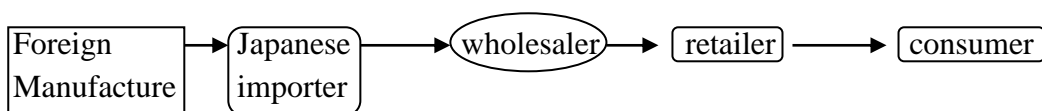
One of the main characteristics of the Japanese distribution system is its degree of fierce competition, due to three main reasons:

1. Persisting deflation that has been hitting Japan for several years gradually eroded profit margins of intermediaries within the distribution channels as well as producers and has therefore led to a shortening and concentration of the distribution channels.
2. The new market entry of food and beverages wholesalers and retailers has increased the number of market players and has therefore it forced specialized wholesalers and retailers to restructure themselves and rationalize their distribution channels.
3. More recently, due to the high level usage of IT tools, the possibility to create efficient online shops has also increased.

Complexities of the Japanese distribution systems are well known. Japan has long been seen as a very difficult market to enter for foreign companies and to deal with its distribution system. Generally, the distribution system in Japan involves complex, inter-organizational and highly interdependent relationships among various firms. On the other hand, many foreign firms successfully established themselves in the Japanese market.

Although, the characteristics of the Japanese market and business culture would normally require a physical presence in Japan, due to the costs, distance and other obstacles, most SMEs cannot afford to establish a branch in Japan at the first stage of the Japanese market approach, preferring to operate through Japanese business partners, distributors etc. Thus, selecting the right distributor for a particular product on the Japanese market is the most difficult task. Many western companies are leaving this decision to their Japanese partner to decide on. Westerners usually think that the Japanese distribution system is difficult to understand for them. Some years ago, a product passed through several stages on its way to the consumer see Fig 2. below. Usually the manufacturer sold to a Japanese importer, who sold to a wholesaler, who sold to a retailer, who sold to the consumer. The present distribution system has been somewhat streamlined, but still there are usually one to three go-between companies before the product reaches the final consumer.

Fig 2. General distribution system structure



Therefore, it is extremely important to understand the Japanese market and what the distributor can do for your product before signing the contract with some distributor. Quite a lot of European companies signed a contract with the wrong distributor or switched to another one and, as a result, their sales dropped even more. Also it is important to understand that distributors in Japan take a relatively high margin. Therefore, the distribution system for a concrete product must be carefully studied before making any decision.

## 1. An overview of the Key factors to succeed in Japan

### a) Japanese consumer preferences and tastes

- Highly concerned about food safety and traceability: commonly used terms are “anzen” and “anshin” meaning ‘safety’ and ‘peace of mind’, respectively
- High importance on quality: producers that fail to recognize this will not succeed
- Appreciation of taste: will pay for delicious foods and often view food as an art. A food product’s aesthetics is important in building consumer acceptance
- Highly brand-conscious: a brand with a quality image will sell
- Preference of seasonal foods and freshness: promotion of these characteristics can significantly build product sales and value
- Increasing health-consciousness
- Long shelf life: there is so called 1/3 rule. In reality, it’s almost impossible to sell a product in Japan, having 3 months consumption period only. Therefore, many of major retailers do not accept the product, which has already passed 1/3 of its shelf duration period as their own rule. The main reason for this is the very high Japanese consumer’s sensitivity to the product shelf life.

### b) Position of your product in the Japanese market

Traditionally, Japan has been a very competitive market, with substantial import barriers for foreign companies. This is still valid in many of the traditional industries, including the food sector. Therefore, the most important requirement is that EU SMEs, which want to enter Japan, should be market leaders in Europe, because brand names sell itself in Japan. It can be also in a niche market, but at least in that niche market they must be among the best in the world or must have a unique product. Japanese people are willing to pay extra for beautifully designed/presented products. As said by many foreign executives in Japan, the Japanese companies are not so innovative, but they are excellent in developing high quality products according to customer needs. On the other hand, this characteristic makes Japanese products very similar. Therefore, European companies should take advantage of their creativity which will help them sell their product in Japan. The easy way to determine if your product is suitable for the Japanese market is to see if other imported products are being sold successfully in the same product segment.

### c) Direct sale or utilize distributors?

Many European SMEs, who initially started business in Japan through distributor agreements, have ended up establishing local representation or liaison offices in Japan. For cost reasons, it is probably easier to set up a liaison office in Japan. For instance, setting up your liaison office with two local employees will cost around 20-50 million yen annually. Direct sales puts a foreign company directly in control of its business in Japan. Generally, European manufacturers expect that their appointed Japanese distributor will focus primarily on selling their product. On the contrary, Japanese distributors usually view themselves as a supportive company,

handling logistics, orders and stock. The Japanese distributors are expecting that manufacture will do marketing and sales activities.

Most distributors are loyal to their business connections, therefore, for European SME's is important to know whether the potential distributor has contacts to their target customer segment. The ideal Japanese importer/distributor must already import and distribute complementary products (purchased by the same end-user that uses your product) to your product. For instance, companies selling the complementary products are easier to approach as they are usually interested in increasing their sales by adding additional products that their customers might be interested in. A common mistake many foreign companies new to Japan make is trying to sell to the large Japanese wholesaler and retailer chains. Unfortunately these companies are rarely interested in dealing directly with a foreign company unless they have an office in Japan.

On the other hand, using distributors as a secondary channel, especially in lower price-per-unit and higher volume markets is a good choice and they do play a role in certain situations, as listed below:

1. if selling your product is capital intensive
2. if your product's price is low relative to the effort required to sell it
3. if it is more tax efficient to distribute than to sell directly
4. if your home market business model is distributor sales only
5. if you operate in an industry which is tightly regulated by the Japanese government and the only way to compete in Japan is through a Japanese partner

#### **d) General recommendations**

These general recommendations are based on interviews held with Japanese managers working with/doing business with Europeans and from Europeans doing business in Japan.

1. Having your own **web page at least in English** is a must; of course having it in Japanese is the best to appeal to Japanese importers. However, many Japanese managers have said that European **will face a cultural problems as well as a linguistic problem** in Japan. For instance, whether your meeting with a Japanese partner is successful, mostly depends on the personalities involved. Also, if you are speaking Japanese, do not act as a Japanese - take advantage as a foreigner to ask "difficult questions". You should ask directly, what you need to know (numbers, details of contract etc.....). Japanese salespeople are bound by the Japanese business culture and customs and will not be forgiven for breaking the rules. They do not typically push for results, but instead, wait for results to come to them. Executives of foreign companies are allowed a lot more flexibility in matters of corporate protocol and business etiquette, because most Japanese do not expect foreigners to understand the intricacies of Japanese business customs, and tolerate far more directness when dealing with them. A key fact to understand about Japanese companies is that they are typically far more internally regulated and disciplined than their foreign counterparts. The objective is not to break Japanese corporate business protocol or etiquette but rather to flex it to your advantage. Always be sensitive about how you deal with the Japanese. If you earn a bad reputation in the Japanese market, it will stay with you for many years. If you deal tactfully, sensitively, honestly ethically,

and are backed by an honest and ethical company with good products and services, you will without doubt succeed in Japan.

2. Be prepared for **very hard times** – as Japanese themselves are saying. Today, even for a new Japanese company, it is not easy to enter the mature and strongly competitive market segment in Japan. Also, **customer expectation management** is important. For example, if late comers to the market want to sell their product, they need to take much time to explain their product specification, speciality of the product, plant equipment, price and so on first and after that, they need to answer a lot of trader's questions. Japanese traders always compare potential new products with the ones they are already dealing with. Therefore it takes up to one year for a foreign company to start business with Japanese traders. Keep in mind that the decision making process is very time consuming in Japan.
3. The best is to have a **totally independent business**, regarding the import and distribution in Japan. It is possible to be successful this way, staying outside of the so called "Japanese system". "Don't get trampled down by the Japanese" – as one European interviewee said. However, if you cannot afford/manage to do it your own way, you have to follow the Japanese rules.
4. **Liaison office/subsidiary** - your physical presence in Japan is viewed by the Japanese as a sign that you are really committed to do business in the country. Your chance to find out new business partners and nourish your relationships with them is much higher. Your direct support from distributor as well as up to date market feedback increase the potential for your business. Regarding food sector, establishing an office in Japan depends on your business volume. Usually, in case of smaller scale businesses, Japanese importers take care of all aspects, such as import procedures, dealing with authorities for compliance with Japanese law and regulations, marketing etc. Concerning the office running expenses, you should constantly have 10 M Euro in your account, at your disposal. For more capital intensive businesses such as machinery, your (manufacture) management has to assure your Japanese customers, that the Japanese market is important and that you intent to stay. This strong commitment for long term businesses is critical, because the manufacturer has to provide customer support and after sales service. Such commitment to Japanese customers can be made only by the manufacturer, not by the local distributor. In general, the **Japanese cannot deal with uncertainty**. In addition, "Japanese ways" to satisfy customers are different from western countries. Japanese customers are very demanding in the beginning before the product sales, but once provided with good support, then they keep very high loyalty to your product. These are the very attractive parts of business in Japan – compared to many other countries. Thus, it is important to understand your Japanese customers and follow the Japanese way of customer support and service.
5. Importing food to Japan through **sogo shosha** (big trading house – see pp.52-55) is not recommended in case of small-volume businesses, because shoshas are looking either for standard but big volume businesses, brands or some unique products to do business with. On the other hand, the majority of EU SMEs' products is for the niche market segment, and it is not such a profitable business for parties involved, small SMEs as well as the shosha. Also, if some problems occur and the shosha is not satisfied

with how the business is going, they will cease their business relations immediately. Regarding how to approach sogo shosha, the best way is to be introduced by third party, who can recommend you personally. In this case, if introduced and recommended, you can go directly to HQ or to their particular subsidiary dealing with your product. The main reason for this policy is the elimination of the risk of doing business with unknown people/company. In countries where the particular sogo shosha does not have an office, you should contact your Embassy in Tokyo first. The Embassy should contact shosha HQ/subsidiary with your offer. Otherwise, shoshas themselves prefer to be contacted through the following way: look at their product portfolio of what they are selling, then contact the person in charge at their European office in your country and then the European office will send your offer to the person in charge in the Tokyo HQ. Of course, you can directly contact the person in the relevant department in Tokyo HQ. However, only sending the offers by e-mail directly to HQ in most cases will not work. As explained before, the best way is to be introduced and recommended by a 3rd party. Also, when targeting the sogo shosha, you have to have a Japanese partner who is taking care of all formalities and procedures as well as taking all the risk. There is a rule, that if the business volume exceeds certain level of money, the subsidiary has to ask the HQ for permission to start. Depending on the particular business case, the sogo shosha imports directly from EU or uses small trading company/senmon shosha to do so. This is for risk elimination. The importers in Japan are always in a risky position, since they are accountable for any problems. The importer pays in advance, and is in charge of the custom clearance, as well as the analysis of the content. If some problems occur, then the name of the importer is on the so called black list for 3-4 years due to the violation of Japanese law. Therefore, if the above mentioned risks are secured by dealing with a reliable partner, shosha can concentrate primarily on marketing in order to get a new product to the Japanese market. As shosha workers said, if they are interested in some product, they will reply/react very quickly. Another advantage of using the sogo shosha expertise is that their people can write/speak English.

6. Targeting the **senmon shoshas** (smaller, specialised trading house- see pp.52-55) instead of sogo shoshas is also a good way to proceed, having in mind the reasons stated above.
7. You must be ready and prepared to **innovate your product** or introduce a new product design (if applicable to your product) at least once a year. Otherwise, you will lose your position on the market. On the other hand, this is a very risky part for European companies, because no such demand on the market in Europe exists or is much more limited. This requirement is very hard to meet and for the food business it is an endless process. Also, due to Abenomics measures, yen is weak and at a three year low against the EURO, which causes quick price increase of imported goods and raw materials. Therefore in reality, Japanese customers demand innovation, but some European companies may not have enough resources to innovate their products year by year. However, if you intend to import basic food – raw meat, milk, honey, vegetables, fruits, oils etc. instead of product innovation you have to concentrate on the steady supply of excellent quality product and nourishing your relationship with Japanese partners. If done correctly and tactfully, your business will show slow, but constant signs of growth.

8. Language barrier - your **sales people must be Japanese** or at least must have a business level of Japanese. The person on the position to take decisions must understand the Japanese business culture. Foreign representatives in Japan must behave as a bridge between EU and Japan. They must take care of good relationship with Japanese clients. Even if a foreigner speaks fluent Japanese, they can still experience a certain level of distrust. **Customer support** should also be done by a Japanese representative, because Japanese ways to satisfy customers are different from western ones.
9. **Relying on the big customers only**, for instance on **department store (DS)** is a big risk. The payment system in DS is only for the items sold. Big DS often ask to provide a person who will introduce a new product to their customer. Also, DS ask for a commission of about 40%. DS mostly do not buy directly from overseas, although wine may be an exception. In order to contact DS, you have to have good connections with store owners or special importers with connections to the retailers in DS. Importers can suggest buyers for DS to advertise your product. Mostly luxury products are sold in DS. One possibility to approach a big DS is to invite them to an event at your Embassy, for instance. It is quite a successful and effective way. If they come, it means they are interested in your country's products.
10. **Results expectation** – some Europeans starting business in Japan are very pushy for results only after 3 months of a new product launch. According to the Japanese, this is not a realistic term. Commonly, 6 months to 1 year is the amount of time to give, before considering the company's future on the market. In case of food, usually within one year you can get a contract if your food samples go through the checking, matching regulations and packaging stages without any issues. However, the signed contract and establishment of your sales channel is in reality just the beginning of your relationship with the Japanese partner. More difficult is to continue on and produce continuously better sales results. However, if your product is very innovative, you would need to plan for two to four years to establish your sales channel. Also, before starting the business officially, the Japanese companies ask foreign companies to provide product samples a few times. The reason behind this is that the Japanese companies want to develop/adjust your product to 100% the taste of Japanese consumers. Usually, foreign companies expect that Japanese companies can start/find business quickly once they receive samples, but in fact, it takes much time to officially begin business operations. Unfortunately, the vast majority of foreign SMEs' feel frustrated with having to tolerate such time-consuming procedures, and give up with further negotiations. Therefore, it is very important for the foreign companies to wait for a final response and, at the same time, they should often contact the Japanese companies and push them to make a decision.
11. **Many Japanese companies** when looking for new business opportunities **contact Embassies or Chamber of Commerce's in Japan**. According to the Japanese, they are checking the reputation of potential business partners and searching for information about them. Unfortunately, in some cases, these authorities do not provide a list of relevant domestic companies.

12. **Success in Japan mostly depends on your relationship with your partners.** Your commitment to your partners and mutual trust is a must. Using intermediaries (trader or agent) whom the Japanese partner knows, will drastically expedite business talks. To find out a good and reliable partner who has contact on retailers /wholesalers is absolutely necessary in Japan. Unfortunately, there is no easy way to find a reliable business partner in Japan. It is a difficult and systematic process with no shortcuts. In order to find out the right one, you have to have a list of candidates and interview them. The right distributor should not deal with your competitors, since the issue of exclusivity is also important.
13. **JETRO services in Japan** are of limited practical use. At the same time, JETRO provides a huge amount of information in English, a lot of quality printed materials and regulatory information useful for foreign companies. JETRO can also help find office space.
14. **Layered distribution system** - sharing the risk + in time small volume supply demand. Your Japanese distributor may pass your products through one or more layers of sub-distributors prior to it reaching its intended consumer or corporate buyers. In some situations, it is unavoidable - for example, if your distributor sells to a large Japanese company, you can expect that the customer will mandate a trading company (usually one of its subsidiaries) to handle the purchase and take a 5% - 15% fee for its efforts.
15. **Customer is God** - Japanese are typically very loyal to their customer, but less to their supplier.
16. **Legal contracts** - Japanese would always prefer Japanese contract terms and conditions, when buying directly from a European supplier. The contract is generally a mutual agreement, neither too specific nor binding. The actual product orders are placed individually after the contract is signed. Be aware, that the Japanese are very punctual. Therefore, it is a common case that if your product delivery is delayed by more than 3 days, the order may be even cancelled. The distributorship agreement is attractive as a transitional form of market entry to Japan. However, it has a main disadvantage: smaller potential profit margins, minimum opportunities to build up your corporate identity or brand name as well as minimum direct feedback regarding your product. However, under partnership with a distributor, a European company usually can develop knowledge about the market and a greater ability to act on its own in Japan in the future. It is quite common that trading firms take all responsibility regarding some problems with customers.
17. **"An easier" start in Japan** - is to find an established partner in Japan who has a foreigner as a company decision maker, while sales and distribution is done by the Japanese. The foreigner acts as a bridge and such an established foreign company would be able to sell and introduce your product to Japan. A number of non-Japanese importers have opened subsidiaries in the Japanese market - and the SME's could take advantage of this possibility. Another way is to have Japanese sales representatives with very good contacts in your product segment. Also, the import of "raw materials" – oil, grains, meat etc. is easier than the food products, because you do not need a brand in this case.
18. **Marketing** – without a brand product name, you have to produce a good story and/or mascot in order to sell in Japan. The Japanese customers are always looking for something new and unique. However, if



your product does not have brand recognition yet, then you should establish **your brand recognition in Europe first** and then in Japan.

19. **Do your homework properly and utilize all available resources** – this recommendation was often cited by Europeans doing business in Japan. According to their experience, many European companies do not take the preparation period too seriously and do not wish to invest any money during the preparation period i.e., market study, product assessment etc. Consequently, without detailed preparation and market study they have failed in Japan.
20. **Business model** – simply copying your successful business model in Japan does not work. Therefore, try as much as possible to **learn in advance** how Japanese are doing business. It is necessary to understand the vast differences. Also, you must visit Japan for your own better understanding of this market. Sending e-mails and cold calling (sufficient enough for the other market) does not work in Japan.

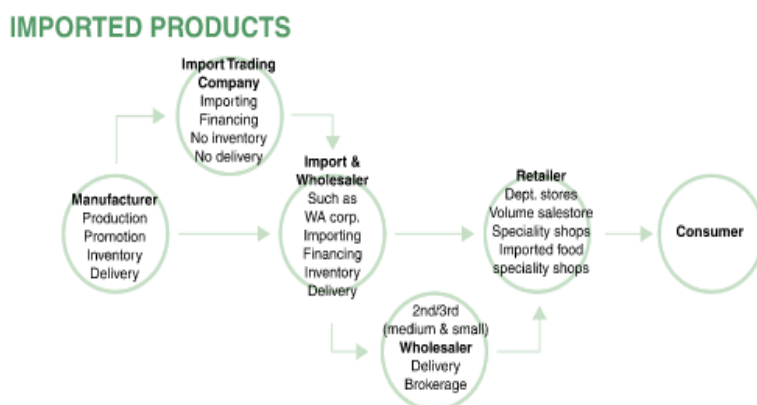
## 2. Food /wine/cheese distribution

The Japanese retail sector is presently in a state of over competition.

There are no hidden formulas for new market exporters to enter the Japanese retail food market. Strategies will vary depending on the type of food product being introduced and the current competitive environment. However, looking into the current distribution systems for different products may help to prepare a feasible market entry into Japan.

The process of food/wine import to Japan is described in Fig 3. below. It has a several stages, when the product is handled by importer, wholesalers and retailers before finally reaching consumer. In every stage, there are specific obligations as described for each party involved. For instance, the manufacturer is responsible not only for production, but also for promotion, inventory and delivery.

Fig 3. Process of food/wine import to Japan [25]

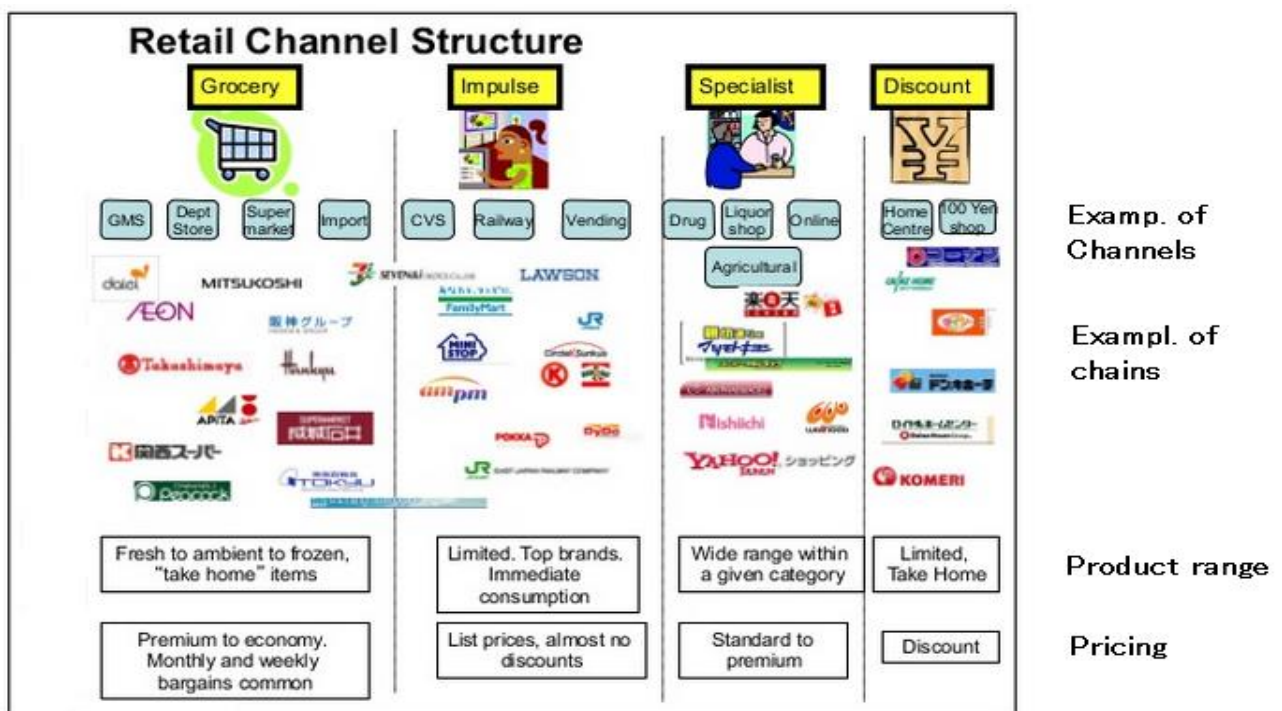


If the trading company is omitted, then the wholesalers import the goods and take care of financing, inventory and delivery issues. Often, 2nd or 3rd wholesalers are involved in the process and their function is delivery for commission only. There are several reasons for that, personal ties within Japanese business environment as well as delivery on small quantities in time required. [25]

One of the exporter’s important strategic decisions—other than those dealing with the product itself—is how to position the product and get it to the Japanese consumer, i.e. through retail, food service, and/or food processing channels, for instance.

**The retail channel structure** provides excellent access to the leading retail organizations throughout Japan (supermarkets, department stores, specialty shops, leisure parks etc.) as shown in Fig 4. below.

Fig 4. Retail Channel Structure [26]



**The food service channels** provide supply of food for catering use such as hotel chains (restaurants), foreign food serving restaurants & confectionary manufacturers as shown in Fig 5.

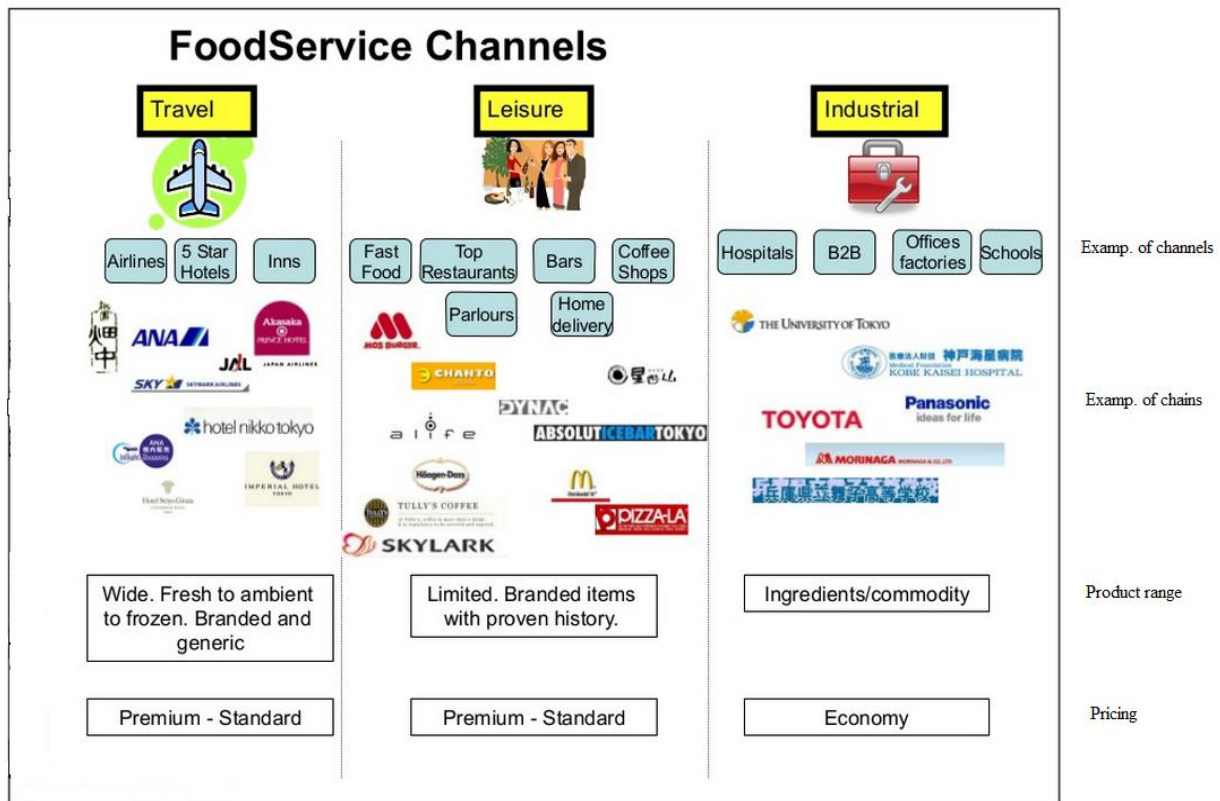
The current situation on Japanese food market was influenced also mainly by March 2011. The post March 2011 consumer adapted to new preferences in reaction to the events, changing retail market demands significantly. First, Japanese consumers began eating out less, while having meals at home more. Second,

[25] <http://www.wingace.jp/e/dis.html>

[26] <http://www.slideshare.net/exigomarketing/intro-fmcg-in-japan-30022899>, Exigo Marketing Ltd., 2014

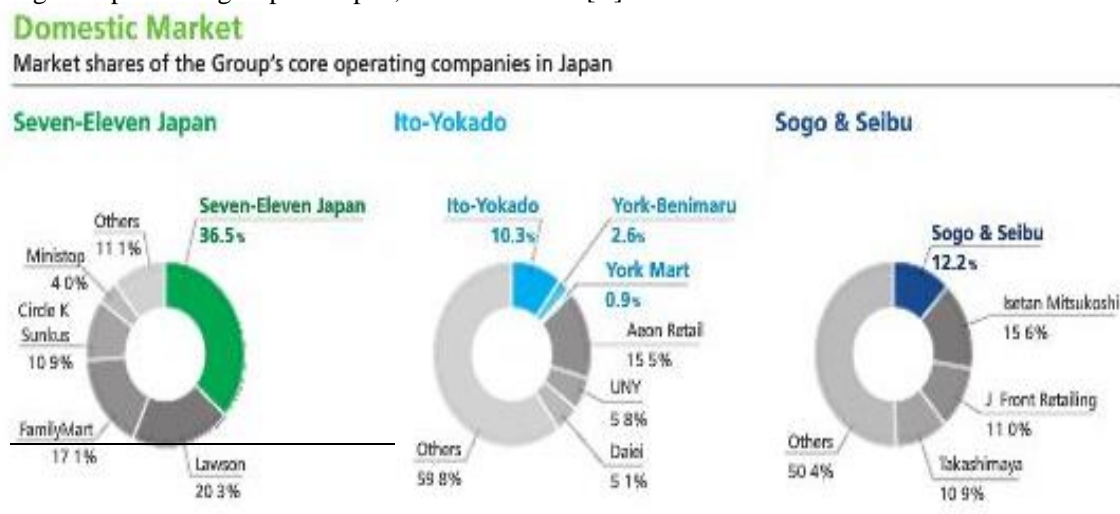
Japanese consumers are more attentive to products with longer shelf life, in case of future emergency situations. Moreover, the Japanese retail market is dominated by two demographics: young career seeking individuals in single person households, and the fast growing elderly population

Fig 5. Food Service Channels [26]



After 2011, supermarkets and convenience stores continued to be the primary distribution channel for food in Japan. Below are the top 3 retail groups in Japan. [27]

Fig 6. Top 3 retail groups in Japan, data from 2012 [27]



[27] <http://www.japanretailnews.com/japans-retail-market.html>

7-Eleven Japan maintained its leading position in 2014, with a 12% value share in grocery retailers. The company had over 17,900 outlets in 2014, which is the largest number across all channels within the Japanese retailing industry. After the 2013 opening of the first store in Shikoku, 7-Eleven outlets are present in virtually all areas of Japan, and the company sets an ambitious target to increase the number of outlets in the Shikoku area to 630 by February 2019. [28]

Japanese grocery retailers are expected to face numerous challenges imposed by such factors as changing demographics and operational difficulties. The operational difficulties include factors like the rising costs of ingredients due to the weak Japanese yen, higher operational costs due to lack of human resources and the higher costs of opening new stores, etc., which are already affecting other industries, such as foodservice and logistics. In order to fight against such negative circumstances, grocery retailers may attempt to expand in size and diversify business portfolios. For this reason, the realignment and collaboration trends seen in 2014 are forecast to remain significant in both short and medium terms over the forecast period. [28]

### **Food distribution system in retail**

There are no general formulas for new-to market exporters to enter the Japanese retail food market. Strategies will vary depending on the type of food product being introduced and the current competitive environment.

1. Traditional entry points via importers are beginning to make way for other more diverse avenues. For example, even within one food retail organization (i.e., large-scale supermarket, convenience store chain, etc.), there may be several routes – including importers, wholesalers, etc.
2. Large-scale supermarkets still rely primarily on importers and wholesalers. Most are engaged to some degree in developing and maintaining private labels, which they tend to outsource to food processors.
3. Conventional supermarkets tend to depend more on wholesalers. They usually procure from a number of regional/local and national wholesalers who buy imported food products from trading houses and importers. Wholesalers and big trading houses are generally interested in handling high volume products, not niche market oriented products. [12]

Japan's food retail market is highly fragmented. Unlike in the EU, Japan's retail food sector is characterized by a relatively high percentage of specialty/semi-specialty stores, including “mom-and-pop” stores and local grocery stores. Such small retailers, however, are losing ground to larger general merchandise stores (GMS), supermarkets (SM), and convenience stores (CVS).

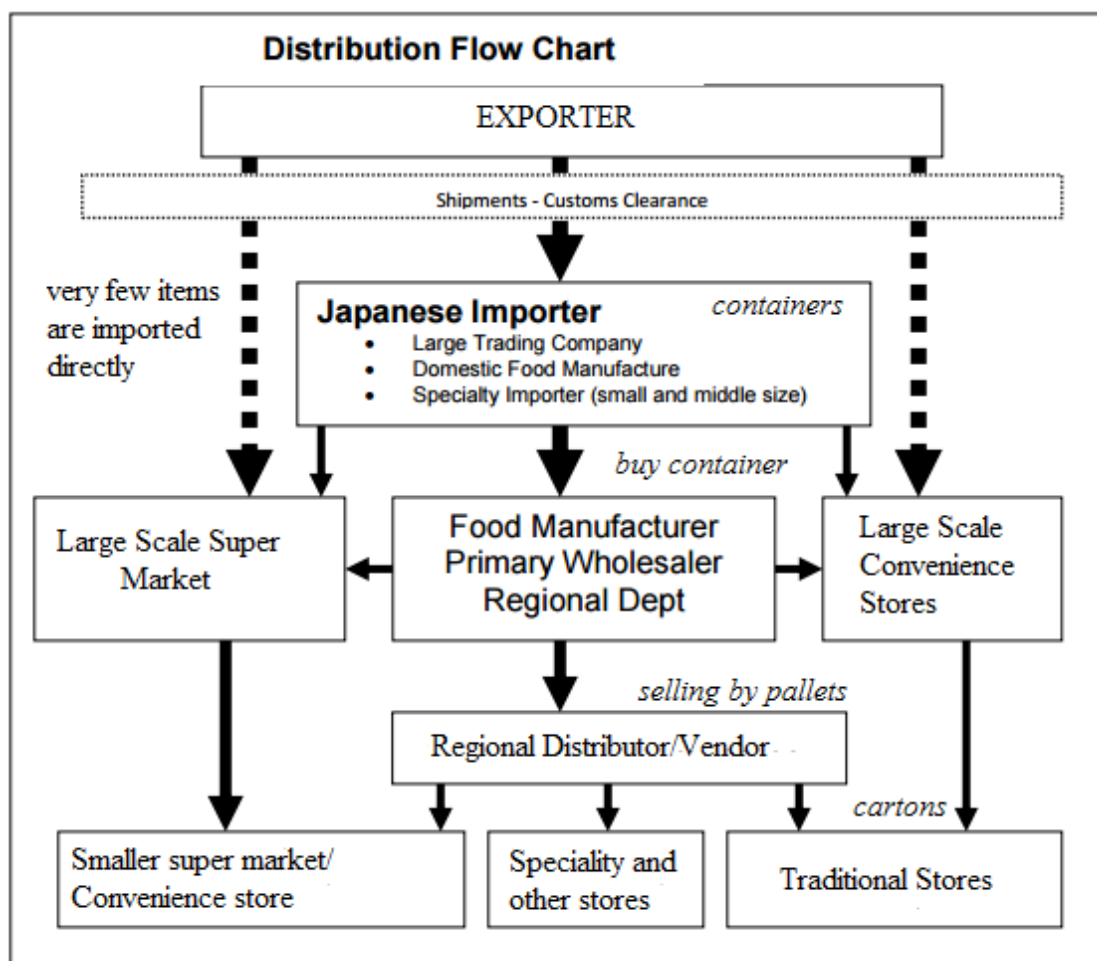
Fig. 7: General food distribution scheme in retail sector. [9]

---

[28] <http://www.euromonitor.com/grocery-retailers-in-japan/report>

[12] <http://www.japan-distributor.com/japan-retail-market.html>

[9] Exporter Guide 2012, USDA GAIN Report 2012



These three categories offer excellent opportunities to EU food exporters although there is stiff competition with suppliers of other countries as well as domestic manufacturers. Food retailers in Japan are classified into several major segments having the following retail food distribution channel share [4].

- General Merchandise Store/GMS/Supermarkets SM 19.6 %
- Department Store 4.3%
- Convenience Store 13.8%
- Specialty shop including mom-and-pop 62.4%

**General Merchandise Stores / GMS** Japan's general merchandise stores (GMS) offer shoppers the convenience of one-stop shopping for groceries, perishables, clothing, household goods, furniture, and electrical goods. Food sales, which typically used to make up one third of the total sales at GMS's, now reach a

[4] USDA GAIN report 2013

half of the total sales or even more at some chains. GMS's are operated by major national chains that have nationwide networks with hundreds of outlets and central purchasing is typical. GMS's are generally receptive to foreign products, although they often demand product modification to suit market tastes and preferences. They often purchase foreign products via trading companies. Inventory risks, long lead times, and communication problems make GMS buyers hesitant to import products directly. However, as Japan's retail market becomes more competitive, some GMS's are opting for direct purchase and offering excellent opportunities to EU food exporters.

**Supermarkets (SM)** stores are smaller in size than GMS's and are more specialized in food and household goods. On average, food items such as perishables, readymade-meals, bakery, and refrigerated foods account for 70% or more of the total sales of these stores. The supermarkets are shops without sales assistance, with low-cost management. Due to their low-cost management, they return unsold merchandise, do not have stocks and are linked to their HQ and suppliers through the Electronic Data Interchange system that handles orders automatically with a maximum efficiency from the point of view of logistics and supply. They are seeking a way to survive in the market through product/service differentiation, private brand development, and global sourcing. Regional supermarkets are forming alliances, such as joint merchandising companies, with non-competing retailers. Thus, although individual retailers are not large enough to engage in direct offshore sourcing, through joint merchandising companies, they offer excellent opportunities to EU food exporters. These retailers carry imported products particularly as a mean to differentiate themselves from other competing stores in their region.[<sup>8</sup>]

- *Seven & I Holdings* [www.7andi.com/](http://www.7andi.com/)
- *Aeon Co. Ltd.* [www.aeon.info/](http://www.aeon.info/)
- *Ito-Yokado Co. Ltd.* [www.itoyokado.co.jp/](http://www.itoyokado.co.jp/)
- *Uny Co. Ltd.* [www.uny.co.jp/](http://www.uny.co.jp/)
- *The Daiei Inc.* [www.daiei.co.jp/](http://www.daiei.co.jp/)
- *Izumi Co. Ltd.* [www.izumi.co.jp/](http://www.izumi.co.jp/)
- *Life Corporation* [www.lifecorp.jp/](http://www.lifecorp.jp/)
- *Heiwado* [www.heiwado.jp/](http://www.heiwado.jp/)
- *Izumiya Co., Ltd.* [www.izumiya.co.jp/](http://www.izumiya.co.jp/)
- *Valor* [www.valor.co.jp/](http://www.valor.co.jp/)

### **Supermarket store structure**

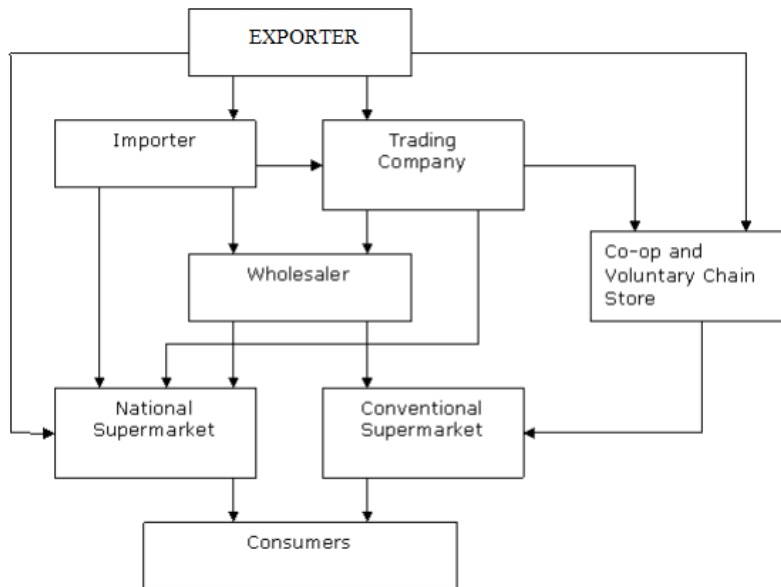
Supermarkets in Japan represent the largest provider of food and, within the supermarket sector, the top 5 companies (AEON, Ito Yokado, Uny, Daiei, and Life Corp.) represent more than 60% of all sales. The two main players, AEON & Ito Yokado, account for cca 40% of all supermarket sales. These companies are the driving force behind innovation and expansion. Giant nationwide supermarket chains including AEON and Ito Yokado mainly purchase their foods through three channels [source<sup>12</sup>]

---

[8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy Advisory Group SA, Japan, 2013

1. Direct from the importers
2. Direct from the manufacturers and processors
3. Wholesalers and distributors

Fig. 8. Distribution Structure for National and Conventional Supermarkets [4]



Conventional supermarkets purchase through similar distribution channels, although they mainly purchase from wholesalers, whereas the major national chains rely more on direct routes.

**Department Stores** sales have been declining in recent years due to increasing competition with GMS's and other retailers. Food sales made by department stores currently account for less than 5% of the total retail food sales. Nevertheless, department stores offer excellent opportunities for imported high-end food products. Most department stores have extensive basement concessions (i.e., small, independently operated retail stands), otherwise known as 'depachikas'. There are also outlets operated by department stores themselves, offering an opportunity for EU exporters to launch pilot stores or to conduct marketing trials. Department stores provide a showcase of imported, novelty, and high-end products and thus provide EU exporters of high-quality and fancy foods with an excellent opportunity to showcase their products [4].

In the past years, the Japanese department stores, in order to address the ongoing crisis, have gone from shops that used to sell anything to shops that sell high end products or famous brands. There are three different kinds of contracts for the department stores' suppliers: purchase without return, consignment, and sales managed directly by the provider. In the two other cases, which cover about 80% of situations, unsold merchandise is

[4] USDA GAIN report 2013

[4] USDA GAIN report 2013

[8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy Advisory Group SA, Japan, 2013

[12] <http://www.japan-distributor.com/japan-retail-market.html>

sent back to the supplier [8].

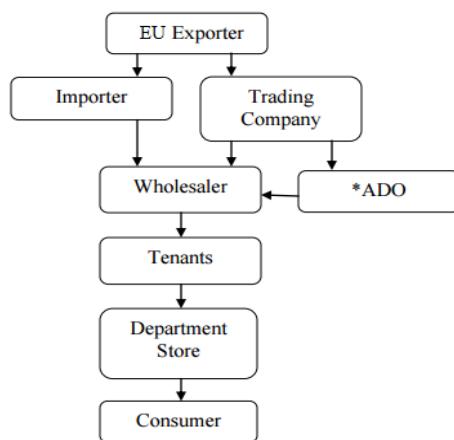
Examples of the department stores in Japan:

- Isetan Mitsukoshi Holdings [www.imhds.co.jp/](http://www.imhds.co.jp/)
- J. Front Retailing Co., Ltd. (Daimaru, Matsuzakaya) [www.j-front-retailing.com/](http://www.j-front-retailing.com/)
- Seven & i Holdings Co., Ltd. (Sogo, Seibu) [www.sogo-seibu.co.jp/](http://www.sogo-seibu.co.jp/)
- Takashimaya Company, Limited [www.takashimaya.co.jp/](http://www.takashimaya.co.jp/)
- Tokyu Department Store [www.tokyu-dept.co.jp/](http://www.tokyu-dept.co.jp/)
- Marui Group [www.0101maruigroup.co.jp/](http://www.0101maruigroup.co.jp/)
- Kintetsu Department Store [www.d-kintetsu.co.jp/index.html](http://www.d-kintetsu.co.jp/index.html)
- Parco Co., Ltd. [www.parco.co.jp/parco/](http://www.parco.co.jp/parco/)
- Odakyu Department Store Co. Ltd. [www.odakyu-dept.co.jp/](http://www.odakyu-dept.co.jp/)

### Department Store Structure

Food items at department stores are procured almost entirely through wholesalers and tenant merchants. Imported products reaching department store “tenant merchant” shelves is dependent upon the wholesaler purchasing these products from importers or trading companies. Tenant merchant companies mainly purchase the ingredients for their products from wholesalers and then manufacture the products to be sold [12].

Fig. 9: Food distribution structure for department stores [4]



\*ADO - All Nippon Department Stores Development Organization  
Source: ATO

Japanese large retailers, such as department store and supermarkets have strong purchasing power. The department stores usually do not take risk of holding unsold stock. Retailers usually expect that their suppliers will support in store promotion of their goods. As seen in the picture below, generally in Japan manufacturers must do sales activities directly to the large retailers. On the other hand, distributors usually do not do sales activities for a particular product to the large national chain stores. Distributors specialize in logistics and

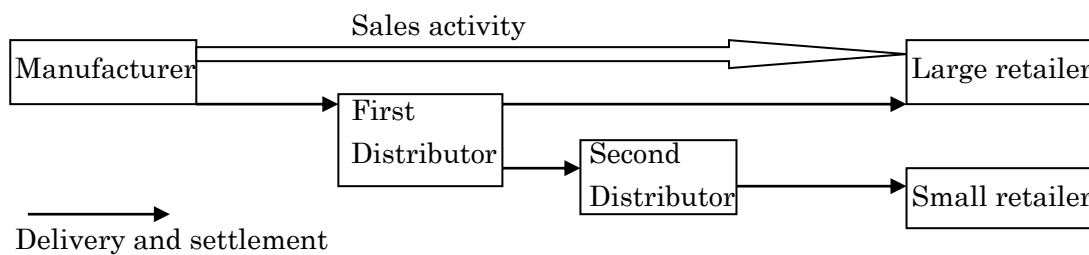
[4] USDA GAIN report 2013

[5] Tips for Finding a Distributor in Japan, presentation of Orrisa International



settlement functions.

Fig. 10. Manufacturer and distributor roles in a typical distribution channel [5]



**Convenience stores (CVS)** are becoming an extremely important sales channel in Japan. They have small floor space, about 100 m<sup>2</sup> on average and typically stock about 3,000 products. They are linked to the large groups of supermarkets or to the trading companies. [4]

Convenience stores derive their competitive advantage from high turnover and efficient supply chains. Thus, short lead-time and nationwide distribution are essential in dealing with major CVS operators. While this presents a significant challenge to many overseas companies, indirect business with CVS, nevertheless, offers huge potential to them. Global sourcing of ingredients and raw materials, especially for the use of fast food, has become more popular. CVS operators not only work with consumer product manufacturers but also with trading firms and ingredients manufacturers. In order to differentiate themselves from their competitors, major CVS operators are constantly searching for novelty items and new concepts, which offer good opportunities to EU food exporters. [4]

Convenience store chains utilize trading companies and wholesalers, depending on the type of product. Due to limited space, convenience stores can only handle a few brands per category. Product performance is reviewed continuously, and slow moving products are replaced quickly, ensuring the highest turnover possible.

It should be noted, that CVS's management systems present the most significant challenges for imported packaged processed foods, since they require that the exporters: [9]

1. Modify product taste/specifications to fit the tastes of Japanese consumers
2. Shorten delivery time to ensure freshness
3. Update and introduce new products frequently

**Local General and Specialty Stores** offer limited market potential to exporters. They are served by secondary or tertiary wholesalers, which, in turn, are supplied by Japan's major wholesalers. This sector has been shrinking as the food market has become more competitive. Deregulation of liquor licensing, for example, led to the closure of many small family-owned liquor shops. There are only a small group of retailers who

---

[9] Exporter Guide 2012, USDA GAIN Report 2012

specialize in imported products in Tokyo and other metropolitan areas who may be able to offer opportunities to the exporters [9].

### *1. Co-Ops and Voluntary Chains*

These use a variety of sources, including importers, wholesalers and direct importing. Serving voluntary chains, there are several major joint procurement organizations: CGC Japan, Nichiryu, All Japan Supermarket Association (AJS) and Consumer Cooperatives (Co-ops). Their major role is to develop private brand products with Japanese food processors and overseas sources to sell to member retailers. Some of these organizations directly import non-branded food products that are “volume” oriented in nature [12].

### *2. Traditional Stores*

These are Mom & Pop or “one category” stores that typically depend on wholesalers. Penetration of imported foods into these shops and stores is relatively low.

### *3. Specialty Shops*

These shops (i.e., foreign foods, discount foods, etc.) also primarily depend on wholesalers. Selected coffee shop chains, discount stores and natural food specialty stores with chain operations may be an opportunity for EU food exporters.

*4. Specialty supermarkets* are important for export products because these stores carry products with higher prices. Below is a list and some background information for these specialty supermarkets. [9]

- **Kinokuniya:** First self-service supermarket in Japan.  
<http://www.e-kinokuniya.com/kinokuniya2.pdf>
- **Meidi-ya:** First supermarket to specialize in imported products.  
<http://www.meidi-ya.co.jp/en/>
- **Seijo Ishii:** Combination of specialty products and convenience store.  
<http://www.seijoishii.co.jp/>
- **Dean & DeLuca:** Premium product and prices. Emphasis on delicatessen.  
<http://www.deandeluca.co.jp/>
- **Queens Isetan:** Special shelf space for imported products.  
<http://www.queens.jp/pc.html>
- **Kaldi Coffee:** Specializes in premium imported products.  
<http://www.kaldi.co.jp/english/>
- **National:** One of the favorites for expats.

---

[12] <http://www.japan-distributor.com/japan-retail-market.html>

[9] Exporter Guide 2012, USDA GAIN Report 2012

### 5. *Online*

Finally, online sales including TV promo, mail order offers yet another possible channel that EU exporters can consider for retail food distribution. Majority of the sales are still non foods, but food and beverage are increasingly being purchased online. Specialized and non-specialized shops, importers, as well as large companies and SMEs use the online shops. Online shopping's market share among retail channels is starkly increasing, notably thanks to smart phone penetration rate. Orders and deliveries are made possible 24/7 throughout the country thanks to a highly efficient logistics network and distribution system operated by different private companies such as Sagawa or Yamato. In order to be allowed to sell on Amazon Japan or Rakuten, it is required to have an office with an address registered in Japan for payment purposes and legal responsibility, but also to be able to handle after-sales issues in Japanese. [8]

### **HRI (hotel, restaurant and institutional) food service distribution channels**

Most imported food products still pass through trading companies. The large general trading companies such as Mitsubishi, Marubeni, Itochu, Mitsui and Sumitomo have many divisions specializing in a wide variety of imported food products, while small importers tend to specialize in a limited line of high value-added items. Trading companies function as legal importers of the products and serve a variety of functions including clearing customs, handling documentation, product testing, warehousing the product, and financing the inventory. In the past, trading companies would normally sell the product to first line wholesalers who in turn would sell it to secondary wholesalers and even to third line distributors before the product finally reached the food service operator. [6]

This pattern has changed in the past decade, particularly for chain food service customers who have substantial buying power. In order to reduce food costs, most large food service operators now take possession of the product or use designated distribution centers rather than use wholesalers. In addition, more food service operators import product directly, while the majority still use trading companies. The deflationary environment of the past two decades has intensified price competition among food service chains, and has accelerated the trend to eliminate middlemen. [6]

Meanwhile, a written food safety assurance is now the standard in Japan. Food venders, not manufactures, are responsible for food safety even if they just deliver food products. Food suppliers are required to provide affidavit like assurance to chain restaurants. This causes food service operators to use several distributors in Japan to hedge risks.

The Cash & Carry trades, including wholesale clubs, such as COSTCO, are becoming popular as resource of

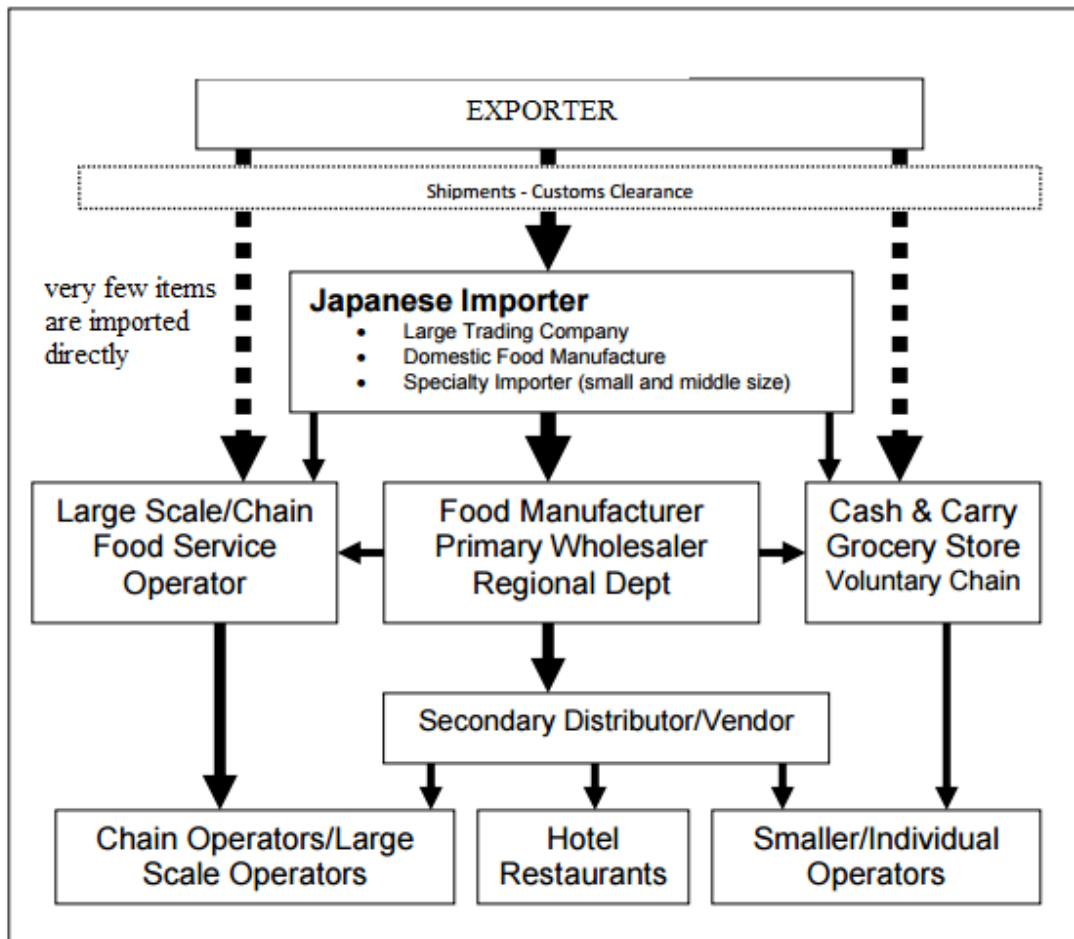
---

[8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy Advisory Group SA, Japan, 2013

[6] Report USDA 2015, Food Service - Hotel Restaurant Institutional

food products among Japan's smaller size food service operators in order to reduce food costs. The biggest is Gyomu Super (Business Supermarket), which has a total of 600 outlets throughout Japan. Additionally, regional food wholesalers have formed a strategic purchasing alliance and have opened cash & carry outlets in the region. These local outlets substitute historical food vendors for food service operators. [6]

Fig 11. General food distribution scheme in HRI sector. [6]



### Wine Distribution System

Approximately 60 percent of wine consumed in Japan is distributed through retail, and the rest through on-premise channels including bars and restaurants. Traders expect more of the volume growth in the wine market to occur off-premise as more consumers purchase wine for home consumption. Consumers of mid-range and premium wine (above 1000 yen) are becoming more knowledgeable and placing more importance on distribution practices as purchasing criteria. There is an increase in demand for wine shipped at cool temperatures, which can raise shipping costs up to 50 percent [11].

[11] Wine Market Report, USDA 2011

[8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy

[22] Guidebook for Export to Japan (Food Articles) 2011

In the case of exports to Japan, manufacturers first sell through agents to wholesalers, and the wholesalers sell to retailers and restaurants. In some cases, importers play the role of agent, and in other cases, overseas manufacturers set up their Japan office to serve as the agent. Also, in some cases, major manufacturers in Japan serve as an agent for distribution. In the case of spirits and liqueurs that are used as a cocktail base, overseas brands have a higher reputation and demand than domestic ones. Hence, there are many cases in which Japanese manufacturers serve as an agent for the distribution of big name liqueurs.

Imported wines enter Japan usually through trading companies and other importers of food products. Before reaching end-clients (in particular restaurants and specialized wine shops), wines often go through two levels of wholesalers. Other points of entry for imported wines are: [8]

- Direct importation from Japanese producers
- Direct importation from specialized wine shops
- Importation for B2C sales. During the past years, direct sales from importers to end consumers, on mail catalogues or through the internet, have increased.

This multi-layered distribution system, combined with transportation costs and various taxes leads to a situation where, depending on the kind of wine and the number of intermediaries, retail price reaches between 3 to 5 times the ex-works price [8].

Recently, distributors have been more aggressive in seeking ways to increase margins. While the major wine distributors have previously purchased from various specialty importers, they are finding it more profitable to send buyers to wine producing regions and import and distribute directly to retail shops [22].

## **Retail**

Distribution of wine and all other alcoholic beverages is regulated under the Liquor Tax Law which is applied to retailers that hold liquor licenses. Domestic wine distribution is generally a three or four tier system from manufacturer to retailer with one or two wholesalers in between. [8]

## **Import Wine Shops**

The number of import wine specialty shops in Japan has grown over the last decade having started with the expatriate community in Tokyo. Most are located in the upscale urban areas and have staff increasingly knowledgeable about wine and are educating their customers about wine types, consumption and storage practices. [8]

## **Supermarkets**

Supermarkets are allotting an increasing amount of shelf space for wine and are projected to increase wine sales. The majority of bottles sold in supermarkets are in the 700 – 1000 yen or 1000 – 2000 yen ranges with limited shipments of more expensive bottles. In terms of future sales, traders are optimistic about supermarkets

---

[8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy

as this is the channel to offer a wide alcoholic product selection, has a broad distribution network, and a full wine selection. [8]

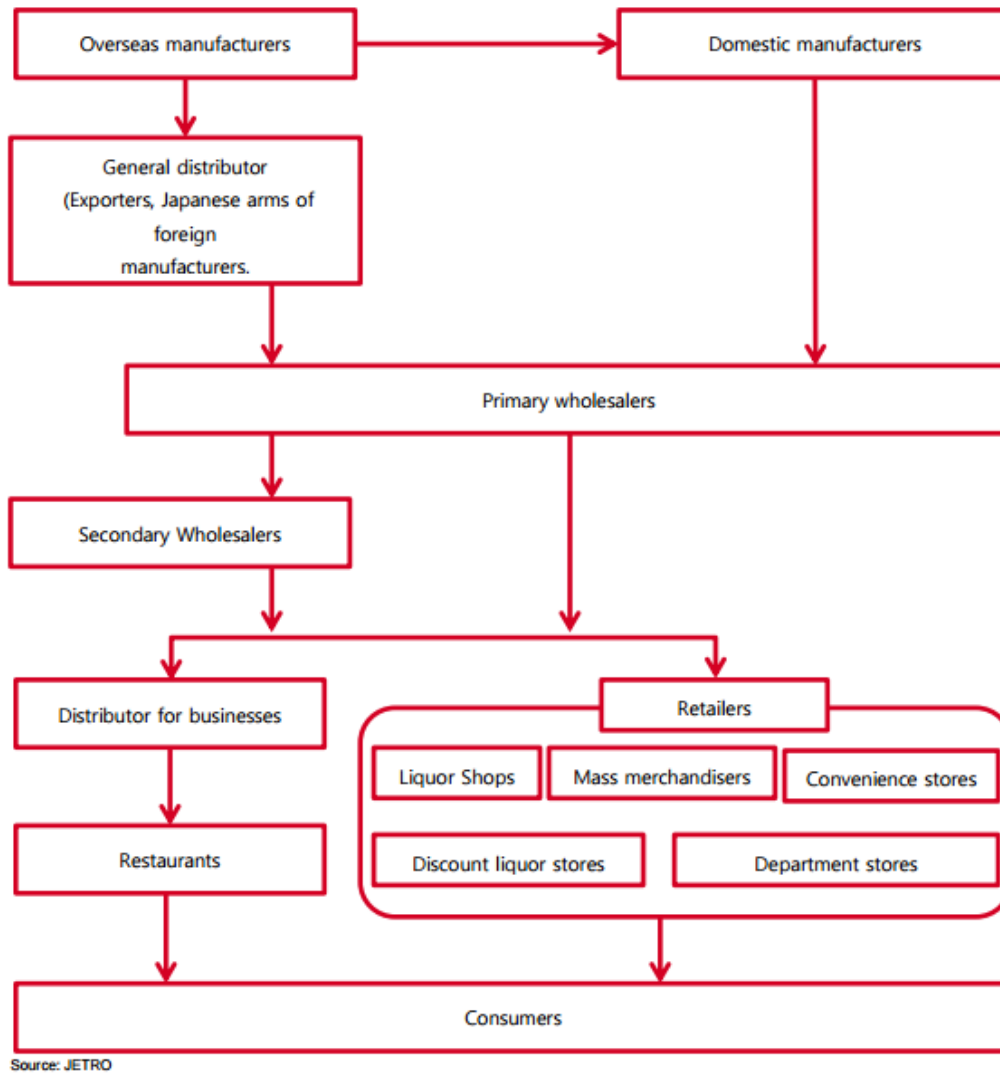
### **Convenience Stores**

Most convenience stores carry a selection of very inexpensive domestic wines (less than 700 yen) and mid range imported wines (1000 – 1500 yen). Convenience stores carry wines from most major supplying countries. [8]

### **High Volume Sellers**

Costco wholesale supermarket has been mentioned by traders as possibly having an influence on market prices and related consumer perceptions. With nine locations in Japan, Costco trades volumes of wine necessary to profit from selling some imported bottles at a steep discount, sometimes under 500 yen per 750ml bottle. Some traders note that this may change price perceptions held by some consumers regarding wine as well as other food products. Another outlet able to offer discounts on imported wine is Yamaya, a liquor store chain with over 200 locations nationwide. Yamaya sells imported and domestic wine, beer, spirits, beverages, and food products. Yamaya may also have an effect on price point perceptions, and may also be an opportunity to build exports of higher quality wines at competitive retail prices. [8]

Fig 12. Distribution channels of imported wine [22]



Even in case of domestic manufacturers, wines usually follow a pattern "producer - first and second wholesalers - retailer". However, in case of an exclusive agent contract (most of the time), wines go through two levels of wholesalers. The first level wholesaler distributes to second-level wholesalers.

### Cheese Distribution System

Most natural cheeses are sold through supermarkets, department stores, or specialty stores. The reasons for this include the amount of shelf space required to offer a variety of natural cheeses, the short shelf life of natural cheeses compared to processed cheeses (and the resulting need for quick product turnover), and the need for product knowledge on the part of store sales people. Recent years have seen more and more cheese specialty stores open and more supermarkets are setting up special cheese sections. [7]

[22] Guidebook for Export to Japan (Food Articles) 2011

[7] The Japanese Cheese Market – Opportunities and Challenges, OSEC 2011

*Supermarkets* - have a larger sales volume (as they have a larger number of stores) but carry a smaller variety of cheeses.

*Department stores and specialty stores* - have an overall lower sales volume (due to a smaller number of stores) but carry a larger variety of cheeses.

Cheese distribution is expected to expand in the coming years; nowadays it is common to buy cheese through a wide variety of sales channels, including the internet. About 1/3 of imported natural cheese is sold to large Japanese manufacturers, like Snow Brand Milk Products Co., Ltd., Rokko Butter Co., Ltd., Meiji Dairies Corporation, and Morinaga Milk Industry Co., Ltd., etc. to make processed cheese. Another third is sold to both food manufacturing companies (bakeries, ready-made dish manufacturers, etc.) and professional users (pizza chain stores, family restaurants, Western-style restaurants, hotels, etc.). The remaining one third goes to direct consumption, B2C market. [7]

Natural cheese used as a raw ingredient for making processed cheese is mainly imported by general trading companies – so called *sogo shoshas* by their food divisions. This channel supplies mainly domestic processed cheese makers. Some of these makers also import directly themselves. Natural cheese for direct consumption on the other hand is mainly imported by speciality trading companies or importers. Natural cheese requires more specific transport conditions than normal fresh food due to the presence of living organisms. This is why cheese specialty trading companies handle proper storage conditions at every stage of the distribution process; such is importation, customs clearance and domestic distribution. Also, each variety of cheese ages at a different rate, therefore because of all these factors, specialty trading companies handle this import. [7]

Especially for imports of natural cheese used as raw ingredients, leading Japanese cheese makers (Snow Brand Milk Products Co., Ltd., Morinaga Milk Industry Co., Ltd., and Meiji Milk Products Co., Ltd.) have close working relationships with particular cheese trading companies that handle raw ingredients procurement on their behalf. Nearly all European producers of raw ingredient cheeses have similar arrangements under which their products are imported through particular general trading companies or sole import agents.

However, cheese specialty trading companies such as Nosawa & Co., Ltd., Chesco, Ltd., and Tokyo Dairy Co., Ltd., play an important role in the import of natural cheese for direct consumption, in addition to the above mentioned general trading companies. They also handle distribution management for every phase of the process from shipment and customs clearance and distribution processing to domestic delivery (for food product wholesalers, hotels and restaurants, as well as retail channels such as department stores, supermarkets and specialty stores). [7]

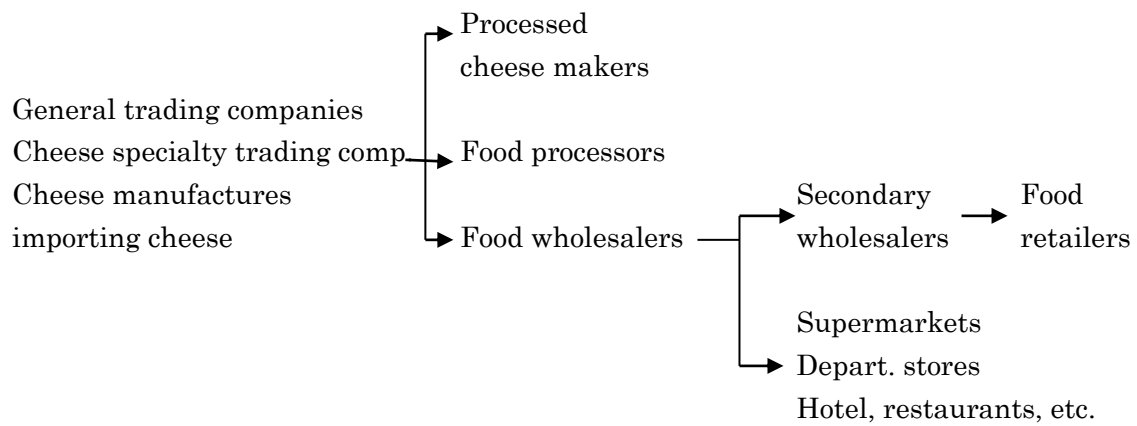
Natural cheese for direct consumption is imported whole or cut, by air freight or reefer container. When imported whole, natural cheese is cut into standard sizes and then distributed to food wholesalers, and sometimes directly to retail stores. Distribution to retail stores usually goes through dairy product wholesaler routes, since they possess the necessary refrigerated storage equipment, refrigerators and the like, after which the cheese is sold to department stores, large mass merchandisers and specialty stores.

---

[7] The Japanese Cheese Market – Opportunities and Challenges, OSEC 2011



Fig. 13. Distribution channel of cheese [7]



In the food and beverage product distribution system in Japan, convenience stores play a very important role as a distribution route for products aimed at single people and young adults. Whether or not a product can get on the shelf at a convenience store chain has a major impact on its overall sales in the marketplace. However, convenience stores mostly only carry processed cheeses in small package sizes, and only rarely do they sell natural cheeses in standard cut sizes on any major scale.

## **Recommendations – food sector**

These recommendations are based on interviews held with Japanese managers working with/doing business with Europeans and from Europeans doing business in Japan.

**Business style is different for different food items.** For instance, coffee business is a "monopoly" of Marubeni Corporation; processed food is imported and distributed through senmon shosha as well as Mitsubishi Corporation etc. Generally, specific information about trading companies' product segments are available in English on their internet web pages. It is important to understand that distributors in Japan are usually restrictive in some way and to find out a good one takes time and effort. For instance, some distributors only work with certain products and therefore may not be interested in your complete product range. Other distributors have privileged relationships with only one company – selling basically everything to that company, but have no relations with other companies. Some distributors in Japan do not perform initial sales calls but expect manufacturers to do that. This can become a potential misunderstanding between the foreign manufacturer and the Japanese distributors, and it could create friction.

**Focus more on the regional companies.** Companies in Tokyo are "spoiled" with availability of business proposals they are receiving. They do not need to look actively for new business opportunities. On the contrary, people in the various regions of Japan are more flexible and open about new products. As everywhere else, these regional companies must put in more effort to find new business opportunities. Therefore, a recommended strategy especially for those companies not having an established brand-name product, is to focus on establishing a presence in a region outside Tokyo first. Then, if successful, they can try to approach the Tokyo market.

Another reason why the European companies should be focusing more on the regions is that, historically, regions especially south of Tokyo have been more progressive and open minded. Generally speaking, Tokyo and Tohoku regions are very conservative, especially regarding the way the business is managed.

**Participation in trade fairs** - more recently the Foodex Trade Fair has lost part of its appeal for both, Japanese and European companies. Too much wine promotion as well as no B to B matching events is the main reasons cited. However, if B to B meetings can be arranged by some 3rd party, it is still a very useful event. As for 3<sup>rd</sup> parties, your agent or distributor should introduce you to potential business partners. In case you do not know anybody and you are looking for first contacts, instead of Foodex, focus your attention on Super Market Trade shows for instance, where professional buyers gather. Also, to focus on trade shows outside of Tokyo is better, because local buyers can be better business partners and more interested in your foreign product. Trade fairs in Japan work differently to Europe. You have to be present several years in a row, to be recognized by the Japanese. Trade fairs in Japan are not for market entry purposes but rather for advertising your product, or for market research. In this case, no booth is necessary. However, most Japanese people never do business at trade shows, and only collect brochures. The Japanese prefer introduction to new suppliers through reliable channels.

**Identification of your target customers** is crucial. It is not recommended to target convenience stores in the initial stages, since they are using different distribution channels for the different goods and the distribution network is too complicated for the newcomer to penetrate. Also, the convenience stores have limited shelf space. Their complicated distribution and point of sales system make the convenience stores no easy target. The best is to be introduced to your retailer by a trading company; otherwise you will be only bringing samples with no results. Using a trader, you will overcome language barriers – most retailers do not speak English, and they prefer to deal with traders to settle possible claims and problems with manufacturers.

**A local representative office** is sufficient, subsidiary is not necessary. The presence in Japan is the best way to nourish your customers and promptly react on problems which may occur. Also, having a local representative office in Japan is a sign that you are really serious and committed to do business in Japan.

**Business time frame** – checking food ingredients for compliance with Japanese law takes a few months. Therefore, within a year you should be able to say if your product is suitable for the Japanese market. In case of simple commodities such as frozen potatoes/vegetables etc. – after three to six months it is possible to make an evaluation. Regarding the process, at first you will get a trial order within 6-12 month. Then, if your product does not sell well, the cooperation will stop. On the other hand, if the product sells well, after 1-2 years your contract will be signed officially.

**Customer preferences in Japan** – are different and strict comparing with European counterparts. Equal size of vegetables/fruits, perfect shapes, no scratches, listeria content, labelling and packaging demands etc. all those issues have to be dealt with. High quality control on the manufacturer side is a must for supply of high quality food. Seasonal products are very popular; therefore you should present seasonal catalogues to your wholesaler/trader during the year. Having always something new and unique is a successful strategy for Japan.

Food importers are often asking European food manufactures for their **product recipe or exact percentage of ingredients** in the imported food, just to be on the safe side. However, Japanese import law does not ask for exact percentage of the product ingredients used.

**Distribution network:** if your distribution network is already set up, do not try to overcome the partners between you and your final customer. If you do so, you will damage and loose the relationship with the other partners. Japan is a very densely populated country and the Japanese market truly is a 'small, small world'. If a foreign company gets into a wrangle with a Japanese distributor, the domestic reaction will invariably be in favor of the distributor. Therefore, it is considered the proper way to pass the order from your retailer to the wholesaler, not you directly supplying to the retailer. The high price markups are most obvious in the luxury designer and high-brand goods as well as automotive components, clothes, consumer goods, electronics, sports equipment, food and furniture.

### **3. Computer/ mobile /medical software distribution**

When a European ICT company is planning on expanding to Japan, then the most important point to be aware of is that so called low touch sales model will not work in Japan. Generally, in the West, customers visit the website and purchase the product using on-line payment. Therefore, interaction with other people during the selling process is minimal. Still in Japan, so called high touch approach combined with personal interactions is the most successful strategy to follow. Very high demand for sales service and guidance through the sales process still persist. Japanese customers require a lot more attention than their European or American counterparts.

Japanese preference for multiple subcontracting and the tendency to keep development knowledge confidential or internal has affected the overall competitiveness of the software sector. The Information Technology Promotion Agency (IPA) was set up to tackle these problems and improve the overall dependability of the sector. IPA currently promotes and facilitates collaboration between Japanese and European institutions in order to bolster software engineering in Japan. [10]

There are four big ICT distributors in Japan, namely:

- SoftBank Commerce & Service Corp. <http://cas.softbank.jp/corp/profile/index.html>
- Daiwabo Informations System Co., Ltd <http://www.pc-daiwabo.co.jp/>
- Otsuka Corporation <http://www.otsuka-shokai.co.jp/>
- SYNEX Infotec Corporation <http://www.synexinfotec.co.jp/>

#### **Distribution channels for software products**

When planning to import software products to Japan, it should be considered that there still remains a typical multi-layered domestic distribution and sales system. Still very often a specialized trading company will take care of the import procedures and the inventory management in Japan and will then sell the products to national or regional wholesalers, who will then supply the retail chains and other shops. However, under the influence of the Apple Store model, the Japanese consumers are slowly starting the purchase as a download instead of boxed form. So for the future, online sales of software will be growing in Japan. Another opportunity in this market segment is for software developers selling subscriptions directly to the end-users just like Apple Store model. [10]

#### **Distribution of computer software – so called boxed software**

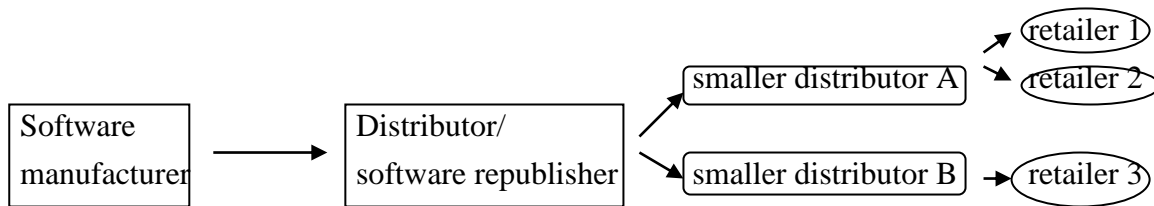
The largest and best-known retail chain stores are Yodobashi Camera, Yamada Denki, Bic Camera, PC Depot, Kojima Denki etc. Getting your products into these chains can be a difficult and time - consuming process. Therefore, its the best to approach them through one of their existing Japanese partners. Having to deal with all these layers has obviously a big impact on profit margin, in reality leaving a 55 -65% margin to feed all these

---

[10] ICT-Software, Report of EU-Japan Centre for industrial cooperation, March 2014

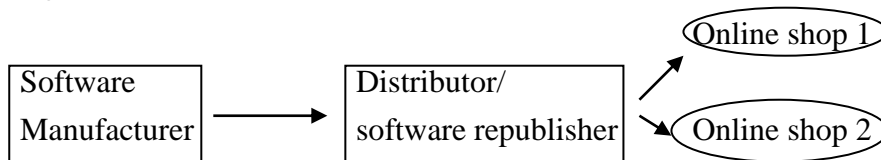
middlemen (see fig. 14. below). Usually the Japanese version of the software is put in a box with user manual and installation instructions in Japanese. The importer or national distributor will "republish" your software, and a "localized" version will go in boxes to these large retail chains. [10]

Fig. 14. Multiple layers of software distribution in retail



Also, an importer or distributor can sell software (as package or as a download version) directly to the customers, in B2C model via online retailers such as Amazon Japan, Rakuten Ichiba, Yahoo ! Japan for instance. Sales commissions are often as low as 10 - 30%. See. Fig. 15. below on online (i.e., direct) sales model in Japan.

Fig. 15. Direct sales model



**Distribution channels of mobile software:**

**App Store:** they are usually managed on a global scale but offer localization options in terms of descriptions and custom pricing for each country. The profit margin taken by the stores is typically 30%.

**E-Commerce - Boxed software:** In Japan it is not uncommon to prepare a boxed version of popular mobile apps. These can then be promoted and sold through various online (and retail) channels. These online shops will often charge 10-30% for sales commission and other overhead expenses. A republishing company is likely to take a cut of 20-30% for the packaging, marketing and so on. Revenue of licenses sold is typically paid out after 30-60 days. Key players in the Consumer Software Retail / Distribution business are for instance Yamada Denki, Edion, Yodobashi Camera, Bic Camera, K's Denki, Kojima Denki, Amazon co.jp and Rakuten. [10]

---

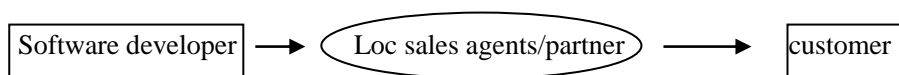
[10] ICT-Software, Report of EU-Japan Centre for industrial cooperation, March 2014

[10] ICT-Software, Report of EU-Japan Centre for industrial cooperation, March 2014

## Distribution channels of software for medical solutions

The most common paths are working directly with your customer B2B, or working through a local sales agent/partner who is supporting the connection between your development team and the customer as in the Fig. 16. below. The benefit of working with a local partner is that they can take care of technical support and also can take care of the initial setup / installation of the software, as well as handle the regular maintenance operations [10].

Fig. 16. Medical/nursing care software solutions



Nowadays, ICT companies have to drastically reduced their development costs in order to keep the profit margins of the end product up. For companies in Europe it means that they have to offer software of the highest quality at a reasonable price. Finding a certain niche where they can show their technical strength is really a key. Although a niche market can be rather small and uninteresting at first, strong demand is expected within the fields of medical, robot technologies as well as security solutions [10].

### Recommendations – ICT sector

These recommendations are based on interviews held with Japanese managers working with/doing business with Europeans and from Europeans doing business in Japan.

**Distribution of so called "boxed" software** - big Japanese ICT distributors, for instance Softbank or Daiwabo are not willing to do business with small and not very well known companies (even with very good software product) directly. The main reason for this is risk aversion. The recommendation from the big distributors is to approach smaller, already established Japanese partner/distributor first and then through these Japanese partners establish a link to the big distributors in Japan. The reason is not only risk aversion, but also an economic aspect - the big company usually sets up a team to deal with the supplier. However, in case of a small unknown software producer it may be reluctant to do so. Therefore there are often several layers (usually 2 - 4) between a software producer and the final customer in Japan. Moreover, it is not wise to overcome these partners/layers in your distribution channel. Since every distribution layer costs money, it is quite common that a software producer earns cca 1/3 of the total market price only.

**Exhibition/Trade Fairs** - for SMEs will be useful going to Japan's largest IT event, Japan IT Week and try to set up B to B meetings during the event. A great number of Japanese information systems managers, management executives, sales managers and system integrators visit this event to conduct business with exhibitors. On the other hand, many Japanese IT companies looking for potential EU partners visit the CeBIT

event in Germany, for instance. In principle, during trade fairs, only general talk and business card exchange is expected. If the Japanese side will be interested in cooperation, as a next step, the Japanese company will plan to come to Europe and visit the potential partner.

**Utilizing Japanese subsidiaries in Europe** - many Japanese ICT related companies have subsidiaries in Europe. Through their subsidiaries, the Japanese companies are monitoring the European market and are looking for potential business partners. Therefore, to approach the Japanese subsidiaries in Europe may also be a useful step to follow.

**Local office** - many European companies have established offices in Japan to be closer to the Japanese market and for easier communication with their customers. The European ICT companies must offer more customized services for the Japanese end-users. To develop software, the companies need to work closely with particular customers and adjust the development of the product to the customer's needs. Therefore it is quite difficult to appoint a distributor because individual needs of the clients differ significantly. For being successful as a software developer in Japan, the key is to demonstrate a tangible value very quickly - even within a month - if possible. Usually the software developers are working with Japanese company executives across different departments, and because of that, the delivered results are also visible to top management. Moreover, European software developers in Japan work usually with an international team, having Japanese sales persons, software designers and project managers for easy communication with their clients.

#### 4. Medical equipment distribution

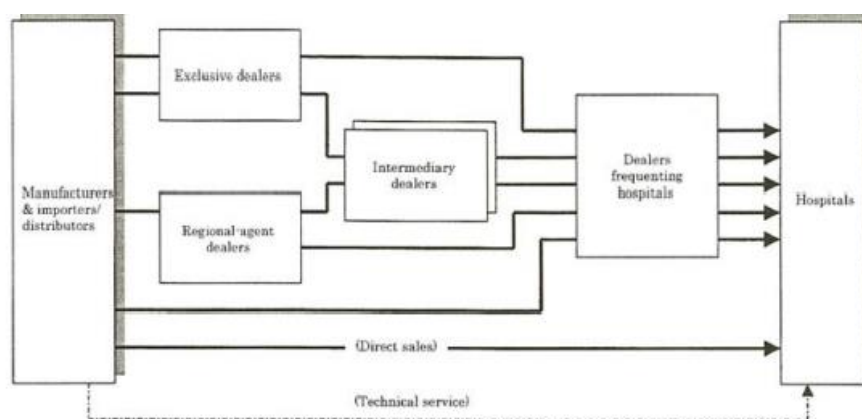
Medical device market in Japan is very difficult to penetrate, but on the other hand it is a very lucrative market. This is most likely due to the fact that regulatory clearance in Japan is being considered as one of the most difficult in the world. However, in an effort to ease market access, and due to the strong pressure from EBC, Japanese government has been implementing an action program focusing on highly-needed medical devices for faster approval review. Entry into Japanese market is furthermore facilitated by the presence of Registered Certification Bodies in Europe. [15]

Also, the Japanese medical device industry has traditionally shied away from producing high risk equipment – for instance artificial internal organ and thus looks to other markets – dominantly to the U.S. or Europe to fill this market gap. While some large and high-priced equipment is sold directly by manufacturers or importers to hospitals and clinics, most medical equipment in Japan is sold through a very well established distribution system comprised of a network of dealers who mediate between manufacturers/importers and hospitals/clinics. [16]

Indeed, some 80% of sales are made via dealers, who thus play an important role in the sales and distribution process. The exceptions to this are sales of large, high-priced equipment and sales to national government and local public bodies, which are often made direct.

It is estimated that there are approximately 2500 medical equipment dealers active in Japan. In general, hospitals try to buy all their medical equipment through one specific dealer, referred to as a “hospital-linked dealer”. This is largely to simplify purchasing processes for the huge variety and amount of medical equipment required by each hospital. While the hospital-linked dealer is the most common purchase point, they are not the sole sale agent for a manufacturer. [13]

Fig. 17. Scheme of medical device distribution system in Japan [16]



Source: JETRO Japanese Market Report No. 69, *Medical Equipment*, 2004.

Figure 1: Medical device distribution system, p. 72

[15] "A Seven Step Approach to Market Entry", 2011 Q2, Espicom Japan Medical Outlook

[16] "Medical Equipment: How U.S. Companies Are Positioned to Get Ahead of Two Upcoming

Shifts in Japan", JETRO Report 2008

[13] "Market Study on Healthcare & Medical Technology", EUGateway Programme 2013



In recent years, as medical costs have risen, hospital administrators have become more involved in the medical device purchasing process. This has resulted in higher price consciousness and more concern about running costs and maintenance. Hospitals are now much more selective in terms of cost/benefits than they were just a few years ago. Since hospital-linked dealers visit their hospitals almost daily and know the market very well, manufacturers can ultimately benefit from a dealer's retail network to better target their marketing activities. Dealers mainly stick to one region, so most manufacturers have dealers that they trade with in each region. In many cases, there may be a choice of two or three prominent dealers, and when newly entering the market, it is very important to team up with someone who is both knowledgeable and influential. [13]

In addition to general dealers that handle all varieties of products, there are also specialists or exclusive dealers that handle cardiac related items (artificial heart-lung machines, catheters, pacemakers) and dialysis related items. High-priced and sophisticated equipment such as MRI and X-ray Computed Tomography (CT) is usually sold directly to the end-users.

Medical equipment manufacturers and importers in Japan customarily deliver equipment to the hospitals and clinics and provide training and maintenance services at little or no cost. After delivering several units to hospitals and clinics, company dealers regularly take inventory to monitor usage. Multiple decision makers often exist in the purchasing process. Nurses usually handle purchases of less expensive equipment while doctors handle purchases of more expensive equipment. [13]

### **Recommendations – medical device sector**

These recommendations are based on interviews held with Japanese managers working with/doing business with Europeans and from Europeans doing business in Japan.

**A regionally oriented market** - due to dealers' connections with particular hospitals and doctors, the distribution network is very tight and a monopoly of distributors is not uncommon. Therefore, instead of concentrating your efforts to establish your office/subsidiary in the region, you should rather concentrate on establishing relationships with regional partners/doctors.

**A competitive market** - the best way to enter the Japanese market as an SME is to find a strong Japanese partner. The partner must already be established in the Japanese market, have a licence and know regulations and market prices. The best is to target a niche market segment - where Japanese manufacturers are not so strong. It is important to know that some difference must be in favour of the European supplier's device. Otherwise, the Japanese customer will prefer a device from a Japanese supplier. Most foreign medical device firms doing business in Japan already have either a Japan office or a Japanese partner. As such, new-to-market European companies will face **strong competition** not only from Japanese companies but also from the

---

[13] "Market Study on Healthcare & Medical Technology", EUGateway Programme 2013

[16] "Medical Equipment: How U.S. Companies Are Positioned to Get Ahead of Two Upcoming Shifts in Japan", JETRO Report 2008

multinational firms already present in the market. The major product categories comprising Japan's domestic medical device production include: diagnostic imaging equipment; therapeutic and surgical equipment; biophenomena measuring and monitoring systems, home therapeutic equipment, dialyzers, and endoscopes. Japanese medical device companies maintain high market share in those product segments.

**The distribution network** - there are roughly 2500 device distributors/wholesalers and dealers in Japan. According to Japan Association of Health industry Distributors [29] there are 92 distributors registered in Tokyo, for instance. The distribution network in Japan usually has 3 partners involved. Your subsidiary or your appointed distributor (must be holder of Marketing Authorization- MAH) will typically sell through a network of distributors as follows: a national distributor will sell to a sub-distributor who will sell to local dealers (usually there are one or two dealers per prefecture). Your subsidiary or distributor must obtain the MAH approval for each product to sell. The local dealers are often the most frequent point of contact to the doctors at hospitals. Your subsidiary or appointed distributor should also have in-house sales representatives for assistance and after sales activities.

**Visit exhibitions/Trade Fairs** - healthcare-related exhibitions and trade fairs not only in Japan but especially in Europe are an important source of information and an excellent place to make contacts. Japanese importers are always on the look-out for new products that are innovative, cost-efficient, well-designed and of high quality and make their way to Europe for such occasions. Thus there is a very good chance of meeting some business people in Europe, instead of Japan. However, if your strategy is to look for a small distributor dealing with a few products, look for them in Japan.

**Market analysis/monitoring** - good market analysis is a must in your specific field, before evaluation of Japanese market opportunities. Also, constantly monitoring the market is necessary. Even though the Japanese medical device market is strongly competitive and mature, there is still a chance for European SME's companies in a particular niche market segment to succeed in Japan. Therefore, prior market knowledge and utilization of available information resources is useful. According to interviewed Japanese managers, many European companies are not well prepared to enter the Japanese market, and they are selecting a wrong partner/distributor. In order to be successful, the particular needs of the Japanese market have to be studied and understood.

**Adjustment to customer needs** - some medical equipment items require **modification** in order to meet Japanese technical standards and physical features before they can be sold in Japan. In particular, this trend can be seen in the therapeutic equipment that is implanted into the body. The made-to-order products are quite common. In this case, a wide product range and the ability to meet users' detailed needs can give the EU manufacturer a competitive edge. The devices must be adjusted to fit the smaller sizes of living quarters in Japan and smaller physical stature of the Japanese people.

**Utilize OEM manufacturers in Europe** - many European companies are producing medical devices for

Japanese companies with their own distribution network and contacts. In case of consumable business, this approach is effective.

**Finding an agent/distributor** - many interviewed Japanese managers recommended that an easier way is to find your Japanese partner in Europe (during an exhibition, congress). In the process of finding a distributor in Japan, it is extremely important to select a company that has proven and specific sales expertise in your product area. Regarding the time frame, the process usually takes from 6 to 18 months depending on whether you are looking for a generalist or a specialist. The chosen distributor must also be in charge of marketing, not act solely as importer - i.e., moving boxes. Careful consideration must be given to whether to use a distributor or a trading company. In some cases, a trading company may be bigger, better known and easier to contact. They may also be more used to working with foreign suppliers. When entering the Japanese market, it is worth assessing a distributor or importer's access to hospital doctors with decision making authority. Within medical institutions, the doctors have the most influence on the selection of medical equipment, while nurses usually select inexpensive consumable items used in larger volume. The potential Japanese distributors want to have many meetings to build up a relationship with your company and will also want to understand many details not only about your product, but also about your company, prior to signing a distributor agreement. Besides providing in-house product registration assistance a large Japanese distributor can assist with a variety of services to help sell your product. The European SMEs could take advantage of larger international device importing company sales and marketing teams. If you cannot afford your own office in Japan, finding a partner who can co-develop your product and share the development costs is also a possibility. The partner can also help with the approval processes.

**Office in Japan** - it is not always the best solution, depending on who is running the office. Since the way to do business is completely different in Japan, it would be essential to have a Japanese staff in the office to run the business.

**Dealing with exclusivity:** Japanese distributors are always looking for exclusivity. There is no absolute need to give your Japanese agent exclusivity, but in some cases it may be necessary to ensure a strong commitment by the agent towards expanding sales. Segmentation of your distribution channels is the best solution to follow. Key to success is to demonstrate that your potential distributor have strong and personal connections with doctors at hospitals.

**Business time frame** - since Japanese doctors are very conservative and personal connections are strong between doctors and sales representatives/dealers, it usually takes three to five years to penetrate the Japanese market. Nowadays, due to cost-reduction, in many hospitals, the procurement department decides on purchases together with doctor's recommendation.

**Prices in Japan** - generally, the medical devices are two to three times more expensive in Japan than in US or Europe. Moreover, the Japanese market sustains higher profit margins than overseas markets. The reasons for

the high market prices include Japan's distribution practices in which an intermediary margin (10-15%) is taken by dealers, and the myriad of technical services that are required of manufacturers, application fees for device approval, and the extensive consultation and support services offered to physicians (life-time warranty, no repair fee etc.). Also, the products for Japan are often more costly to manufacture due to Japan-specific requirements such as modifications for size, unique shape, specific material preferences and a lower acceptance of defect rates. However, as said by many interviewed managers, do not expect a huge business in Japan by simply comparing population numbers with your country.

**Training expenses** - many manufacturers hold study meetings in their own training centers for doctors (users), sales representatives and dealers. Training expenses (training for doctors and technicians) are usually covered by the manufacturers (very inexpensive, charged cca 1500 - 3000 Yen/day). But this is not a general rule, for instance dentists in Japan are willing to pay for the trainings.

**Provide a license to a local partner** - if you cannot afford a direct investment, provide a license to a Japanese partner and earn a percentage from the sales. However, in this case you have very little influence on the business.

**Regulations, licences** - the medical device market in Japan is full of strict regulations. According to the Japanese managers, to obtain medical registration is the hardest part in the process of setting up a medical device business in Japan. The main problems even for Japanese managers are the difficult communication with the regulatory bodies as well as trial clinical data proof. The devices already certified in US or Europe must be approved again in Japan. Also, devices made in US have still strong reputation among Japanese hospitals and governmental authorities, therefore the European producers will have to compete with strong US brands. After deciding on your entry market strategy, you will need to obtain a market license. Japanese PAL (Pharmaceutical Affairs Law) requires foreign medical device companies without a location in Japan to appoint a representative with a marketing authorization (the so called marketing authorization holder - MAH). This MAH holder takes full responsibility of the imported medical product and must be licensed by the Ministry of Health, Labor and Welfare of Japan. Regarding the MAH, also the 3rd party can be engaged to fill this role. Also, as a foreign manufacturer, you will need to submit an application to the Pharmaceutical and Medical Devices Agency for a "Foreign Manufacturer Accreditation". Unfortunately, Japan does not accept CE marking, although European approval does help to expedite the review process. Devices that already have product registration and/or approval in Europe and other key markets are often able to more easily receive approval from the Japanese government. Without any prior approval, the registration hurdle for market entry is very tough. However, if you have a proven, high quality and attractive product, it's possible to be successful in Japan.

## II. The most common market entry routes for EU products/services in Japan

Regarding the most commonly used import/selling routes, there is no substantial difference between SMEs from countries having high imports to Japan and other countries. All SMEs have to go through same difficulties, their success depend mostly on company's effort and dedication, experience with foreign market, available resources and the quality their product. Based on interviews with European SMEs already established in Japan, as well as European Embassies' trade representatives or European Member States' Chamber of Commerces, the following are the main ways to enter the Japanese market.

Main ways of getting into the Japanese market:

- Exhibiting at trade shows, participation in Gateway to Japan/EU-Japan Center/other promotion and B to B matching programmes
- Finding a distributor/agent/trading company (rather than selling to retailers directly)
- Setting up of an office in Japan

Above are the most common paths among European SMEs regarding the entry into the Japanese market and finding a business partner. SMEs usually do not follow standard ways of large corporations - i.e., doing market analysis, sales estimates etc., but rather take chances of meeting people either via exhibitions, conferences or B to B matching governmental support programmes, or using consultants. Therefore, without a complex market entry strategy, some SMEs are often ending up with a wrong distributor and with disappointing selling results.

Concerning the relation between the type of product/service and the used import/selling route, generally the companies interested to open a local branch in Japan are mainly manufacturers or ICT related companies. On the other hand, food companies are mostly oriented towards finding a local Japanese distributor as a partner rather than be physically present in Japan from the start. This trend corresponds with the findings of the mapping initiative of EU SMEs having local branch in Japan undertaken in 2014 by the EU-japan Centre for Industrial Cooperation [1]. According to this report, EU SMEs having local branch in Japan are mainly manufacturers (60%) and service providers(40%).

Regarding the companies market approach, Belgium Japan Association published a report on market entries for Belgian companies (over 70% were SMEs) which showed the following ways of establishing a presence in Japan. Typically, half of SMEs use a distributor or some trading company for importing a product/service to Japan. [18]

---

[1] "Mapping of EU Small and Medium Enterprises (SMEs) having a branch office in Japan", Report of EU-Japan Centre for industrial cooperation, April 2013

[18] "Survey Export to Japan 2005", Belgium – Japan Association & Chamber of Commerce

1. using agent/distributor/trading company: cca 50% of the respondents
2. establishment of representative office: cca 19%
3. establishment of subsidiary: cca 10%
4. establishment of branch office: cca 2%

The degree of a commitment to Japanese market as well as the level of investment reflects sales growth of the company's products. Most SMEs, after the first step of using a distributor or trading company realizes the potential of the Japanese market and decides to be present in Japan. Promising sales results usually lead to more investment and the SMEs open an office in Japan to be closer to the Japanese customers.

### **1. Using a distributor or an agent**

The most common import routes to Japan for SMEs are to utilize the services of an agent or distributor. An agent or sales representative is usually a Japanese working for a commission based on sales results and sells the product on behalf of a foreign company in Japan. Also, consulting firms may act as agent/sales representative mainly in the initial stages of the market entry.

The main reasons SMEs are taking such approach is because sales representatives or distributors do not have a language problem since they are Japanese and speak English, they understand the Japanese market and they claim to know how to get to the customer (although this is not always the truth).

On the other hand, the main disadvantages of using an agent/distributor include high transport cost, trade barriers, import tariffs as well as exchange rate fluctuations. Also sometimes companies mentioned difficult communication with the Japanese.

### **2. Establishment of an office**

After the initial stage of market approach i.e., utilizing an agent or distributor, the company usually realizes the potential of Japanese market and decides to set up office in Japan. After a liaison or representative office phase with no legal entity, the company usually sets up a branch office (no legal corporate status) or a subsidiary ("kabushiki kaisha" = joint-stock company, or "godo kaisha" = limited liability company). In the intermediate phase of market expansion, a subsidiary is the most preferred status because it has the following advantages:

- it is a sign of long - term commitment to the Japanese market
- possibility to sell shares of the Japanese company to raise funds
- it is a legal entity, and the company representative resides in Japan

The main disadvantage is costs - legal and administrative costs depending on the legal structure chosen as well as the operation cost i.e., cost of office, service of law/accounting/HR firms etc. Guidelines on the different types of offices in Japan and the relevant laws and regulations are available on the JETRO's website.

### **3. Trading companies - sogo shosha and senmon shosha**

*Sogo shosha* (or **general trading companies**) are Japanese companies that trade in a wide range of products and materials. In addition to acting as intermediaries, *sogo shosha* also engage in logistics, plant development

and other services, as well as international resource exploration. Unlike trading companies in other countries, which are generally specialized in certain types of products, *sogo shosha* have extremely diversified business lines, in which respect the business model is unique to Japan. The five major *sogo shosha* currently in operation are Mitsubishi Corporation, Mitsui & Co., Sumitomo Corporation, Itochu, Marubeni, and two smaller Toyota Tsusho and Sojitz. [14]

Senmon shoshas are smaller trading companies that specialize in a limited range of products. These smaller firms limit themselves to a narrow range of products and handle most phases of the products' journey through customs to the end-user. They often can provide greater assistance for products which require after-sales service such as electronic instruments or medical equipments.

Modern sogo shoshas remain loosely organized. There is no powerful central parent company as there was before World War II. The contact between the principals of operating companies usually takes place in informal weekly or monthly gatherings, called clubs. The sogo shosha still concentrate on three core activities: (1) acting as an intermediary for marketing, import, and export transactions; (2) providing financial intermediary services; and (3) collecting economic, legal, political, and social information from their networks. [19]

The sogo shosha's business model is unique to Japan. They are a reflection of Japan's own unique economic development, first during the Meiji Restoration's period of rapid industrialization and commercialization and then with the rebuilding of Japan's infrastructure and industry following WWII. [19]

Every product has a supply chain, from the raw materials that are processed into intermediate materials which in turn are used to make a finished product midstream, to the wholesaler and then the retailer in the downstream distribution process. The sogo shosha's goal is to integrate the supply chain by being involved, if possible, at every stage of the chain. Of course the sogo shosha cannot be involved in every supply chain, but this is the basis of the sogo shosha's thinking. [19]

Recent functions of sogo shosha are as follows:

- Business Promotion (Trade and Investment)
- Research and Information
- Market Development

---

[14] [https://en.wikipedia.org/wiki/Sogo\\_shosha](https://en.wikipedia.org/wiki/Sogo_shosha)

[19] "The Sogo Shosha – An Insider's Perspective" Marubeni Research Institute, 2013

[19] "The Sogo Shosha – An Insider's Perspective" Marubeni Research Institute, 2013

- Risk Management
- Logistics and distribution
- Finance

The role of the sogo shoshas has evolved in time, as an answer to the rationalization of the Japanese distribution system, which is optimizing itself on a continuing basis. The current trends show that in addition to business intermediaries for foreign companies, they are gradually assuming a more active role by leading mergers and acquisitions. They have notably conducted several in the retail sector (supermarkets, convenience stores).

#### **a) Logistics and distribution channel**

Based on their business structure, the shoshas have become involved in the logistics and distribution, taking part in the creation and operation of network systems. They operate warehouses, distribution centers to manage their customer needs in time and quantities as requested. They manage and optimize logistic systems to meet the customer's needs at every step of cargo flow (air, sea, land, storage, distribution).

Due to its business and functions, sales of sogo shosha become very high while profit is in the average 3-5%. Thus for the shoshas to consider a business, volume is a main factor.

In terms of bringing foreign products for sale, most shoshas have close ties with some logistics companies such as shipping lines etc. And once in Japan, the product can be put on the domestic distribution/sales network of wholesalers, and retailers, that are interlinked with the shosha. Customs clearance is also streamlined due to bulk handling plus expertise garnered. [19]

When exporting to Japan via sogo shosha, their main role is ensuring communications with the Japanese importing side. The sogo shosha are overall experts on all types of paper works relevant to different products import procedures. This is reflected in the sales activities once the exports from abroad arrive in Japan, where the shoshas can tie these products into domestic distribution.

It is good to discuss the possibility of using Shosha people and network to arrange for sales, whether B-to-B or B-to-C. Recently, the operating margins of sogo shoshas have shrunk, as they are bypassed by new and more direct distribution routes. On the other hand, sogo shoshas are still important in the Japanese market namely in the food retail business. [19]

#### **b) Sogo shosha and the retails sector (food)**

While the sogo shosha have long been involved in the supply of food commodities and wholesaling of food

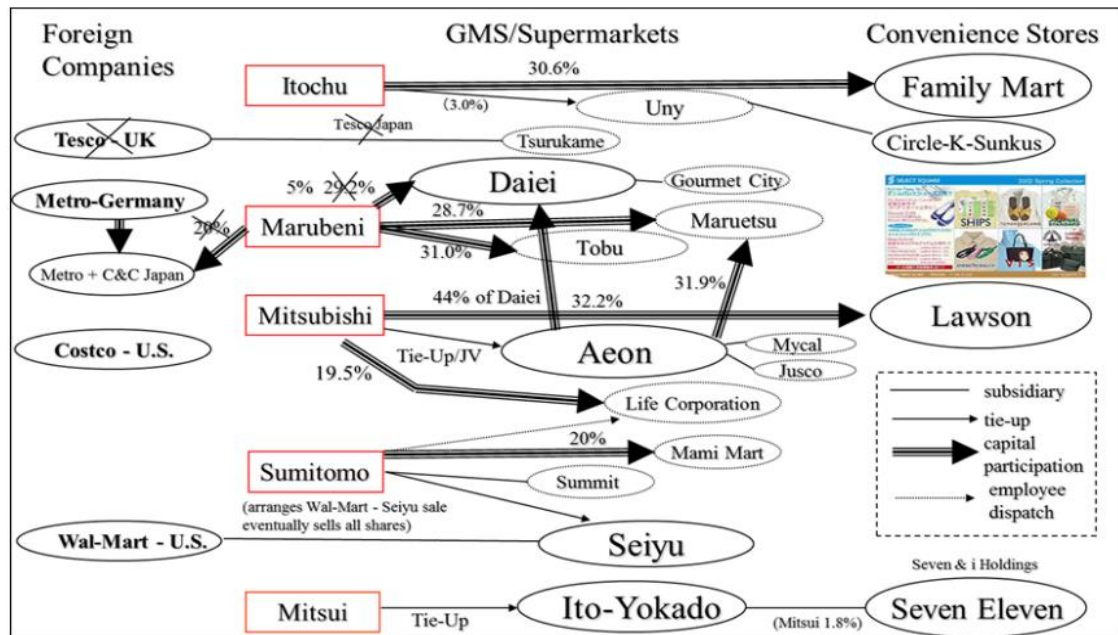
---

[19] "The Sogo Shosha – An Insider's Perspective" Marubeni Research Institute, 2013



products, it has been only in the last decade or so they have moved into the retail end of the food business, especially in the area of supermarkets and convenience stores. One reason for this was deregulation in the retail market which led to a consumer-driven market increasing price competition and weakening the power of the wholesalers in the distribution process. By having ownership at the retail end, the sogo shosha can rationalize the food distribution process, meaning make it more efficient (i.e., higher retail earnings), while protecting its position as a distributor in the process, not to mention that retail profit margins tend to be higher than those in wholesaling. [19]

Fig. 18. Sogo shosha expanding to retail business [19]



The sogo shosha have made significant investments in the wholesaling sector in Japan in recent years, taking them away from their traditional business model of facilitating international trade. Since the early 1990s, shosha have shifted the focus of their businesses away from purely facilitating international trade and have begun to establish large company group portfolios within domestic Japanese distribution. The acquisition of retail companies and the establishment of their own, new retail chains represent a new direction in sogo shosha strategy, primarily in the food sector. [20]

This has allowed shosha to establish themselves as primary suppliers for a large range of products and services that require overseas procurement. A key example is represented by the many luxury brands for which the

[19] “The Sogo Shosha – An Insider’s Perspective” Marubeni Research Institute, 2013

[20] R. Larke and K. Davies: “Recent changes in the Japanese Wholesale System and the Importance of the Sogo Shosha”, Institute for Retail Studies, University of Stirling, 2006 Scotland

shosha act as exclusive master licensors, but almost always sublicensing to intermediary domestic companies and almost never becoming directly involved in the retail supply of these brands. Although all of Japan's largest retailers organize some imports themselves, it has been the sogo shosha that have been mostly responsible for supplying retailers with imported product. Their traditional, specialist import functionality allows for lower costs and fewer bureaucratic problems, presenting an attractive alternative to direct importing by retailers themselves. [20]

#### 4. Wholesalers (food sector)

The current tendency to shorten distribution channels has forced retailers to establish more direct connections with the producers, bypassing wholesalers. As a result, the wholesalers have adopted a form of vertical integration upstream and downstream of retailers by developing their own brands. In many sectors, the wholesalers are still essential for many functions, such as logistics, information exchange, promotion and assortment.

Between the different categories of wholesalers, there are trading companies that also act as importers and exporters, as well as wholesalers that have almost only a logistic role by coordinating and regrouping products coming from other wholesalers, keeping them in warehouses and then shipping them to the retailers. [8]

Some of the main food wholesalers are:

- Mitsubishi Shokunin Co., Ltd. <http://www.mitsubishi-shokuhin.com/7>
- Kokubu Tokyo <http://www.kokubu.co.jp/>
- Mitsui Foods <http://www.mitsuifoods.com/>
- Itochu Shokuhin <http://www.itochu-shokuhin.com/>
- Nippon Access Tokyo <http://www.nippon-access.co.jp/>

Main characteristics of the wholesalers and their practices:

1. Wholesalers give priority to customer service
2. Able to deliver even the smallest quantities to retailers upon request
3. Accept unsold goods without complaints - bear a substantial selling risk
4. Grant special discount to long-time clients and offer them credit for up to five months
5. Small retailers depend heavily on them and are supported in activities like bookkeeping and customer service
6. Wholesalers in Japan have more influence than in any other country
7. Wholesalers also participate in a complicated and non-transparent system of rebates and have formed complicated and interdependent multilayered systems of wholesaler relationships of their own (each product

---

[20] R. Larke and K. Davies: "Recent changes in the Japanese Wholesale System and the Importance of the Sogo Shosha", Institute for Retail Studies, University of Stirling, 2006 Scotland

[8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy Advisory Group SA, Japan, 2013

passes through a distribution chain of two to five layers of wholesalers)

Wholesalers generally have a very good overview on actual trends and needs in the Japanese market, because they are getting feedback on goods from retailers - provides distribution channels to retailers all over the country. Quite a few wholesalers are importing directly from overseas, bypassing long-time tradition - i.e., not using trading companies.

Regarding the wholesalers, Japan's wholesalers have more influence than in any other country. All those wholesalers are needed to service the enormous number of retailers. The retailers keep inventory levels low because of limited space. In reality, most customers ride bicycles to the store and buy no more than can be comfortably carried. As a result, wholesalers have to make frequent small-lot deliveries. Wholesalers buy high volume and handle intensive sales and delivery services to the retailers themselves. Furthermore, a wholesaler reduces your risk by collecting the bill on your behalf, which is a much more secure proposition than trying to collect payment from several different retailers. Wholesalers usually deal with many manufacturers and importers. Therefore, a manufacturer or importer need only make a few direct shipments to its wholesalers in order to distribute its products. Also, each wholesaler will send a sales representative to recommend products and take orders from retailers.

An appointment with a reputable wholesaler can get you market access, credibility with the local players, and appropriate distribution of your product. A good wholesaler will not take on your product if it does not fit the needs of local consumers. The wholesaler plays a central role in Japan's dense, busy and efficient food distribution network.

Wholesalers sell products, acting as an intermediary between manufacturers and retailers. It is the role of wholesalers to adjust the amount that manufacturers can supply and the amount that stores can sell – demand. [23]

Three main wholesaler's functions: [23]

a) Logistics efficiency function - smooth flow of products

If manufacturers deliver products directly to each store, many trucks will be required. It is a big burden for manufacturers to bear the cost of transporting products, while it is hard for retailers to respond to a large number of trucks every day. However, if the wholesalers act as an intermediary and deliver products to each store all at once, the number of trucks can be reduced. If the number of trucks and the logistics costs of manufacturers can be reduced, the prices of confectionery can be kept low.

b) Storage function - keep products on behalf of stores

Retail outlets have stored products called “inventory” in their warehouses, in addition to the products that they sell every day. However, convenience stores or supermarkets have a wide variety of products. It is hard to manage that entire “inventory.” In addition, a space for managing such inventory is also required. Therefore, if

---

[23] <http://www.arista.co.jp/english/index.html>

we keep products on behalf of stores and deliver the necessary quantity when needed, waste at stores can be eliminated. Moreover, it can prevent trouble on the customer side due to products remaining unsold and becoming expired, or on the contrary, by abruptly running short of products.

c) Information provision function/retail support function

The wholesalers are delivering the products of various manufacturers to stores all over the country on a daily basis. Therefore, they know which products are selling well in which stores at present. It is one of their important functions to provide manufacturers and retailers with data that is the result of the analysis of information. In addition, based on such data, they consult with stores as to “what kinds of measures will please consumers” and give them advice on sales spaces and advertising.

### **III. Specific recommendations for Central and East European Countries**

#### **1. Challenges**

Due to the lack of country's brands names, the awareness of products having good chance to compete with western quality brands is very low in Japan. There are already all famous luxury western brands on the Japanese market, which leads to demand for good quality and reasonable price to have success (for instance, the cost of imports range from 35 to 40 % of product price in the Japanese market). Due to the low familiarity with the CEE countries, most Japanese consumers have no specific images of these countries and their products. Therefore, it is necessary to catch their attention and invite the Japanese to taste the products.

Learning what other countries do in Japan may be inspiring. PR campaigns to promote country image has been largely successful in Japan (i.e., Germany, Belgium, Spain, France, Poland and Lithuania, for instance), since there is a strong interest towards foreign nations. Regarding alcoholic beverages, the Belgian Beer Weekend organized every year in various cities around Japan, attract countless visitors willing to taste the many regional beers of Belgium. As another example, Germany managed to export its worldwide famous OktoberFest in Japan, organizing various events in more than 10 locations around the country.

To build up a strong country image as a brand name is a crucial step to follow. This can be done also in cooperation with Embassies as well as Chambers of Commerce's promotion activities as the most simple and effective approach. Since this is a common activity for most Western countries, the CEE countries should become more active and follow this model. The promotion should take place not only on Embassies grounds but also in several Japanese cities and should ideally be done on an yearly basis. Product-shows, focusing on a specific country can also be organized in department stores, for instance. Also, when there are large country-specific events, with wide media coverage, consumption of that particular country food/beverages can rise considerably. A successful relevant example of this is the Beaujolais Nouveau, which has annual events for its launching of that years' wine. Accordingly, with a more coordinated approach of the governmental authorities and business professionals, it should be possible to organize events both in the EU and Japan to attract Japanese food/wine professionals and consumers in order to build reliable consumer awareness that will eventually lead to increased market shares.

On the other hand, the companies should not rely too heavily on governmental support and should be very active themselves. As pointed out by some Embassy' officials, it is up to the companies themselves whether or not they succeed in Japan, not the Embassies' support.

Unfortunately, there is still a certain amount of reluctance among Japanese companies in doing business with CEE countries. The best ways to overcome such reluctance is to work closely with small Japanese companies, already importing products from these countries and give them more support to create the country image as a brand. These small Japanese importing companies are very active themselves; their managers speak English

and usually have close ties to particular Embassies and specific country's Chamber of Commerce or some equivalent in Japan. Therefore, utilizing these Japanese importers to introduce your product to the potential Japanese business partners is the optimal method.

Why are CEE food/wine producers not so successful in the Japanese market? According to the Japanese food/wine importers from these countries, there are three main reasons for that:

- the food producers are reluctant to come to Japan to understand the market
- the food producers do not understand the distribution system in Japan
- high cost of the imports and the distribution system

How should they overcome these obstacles? The best way would be if the producers would establish their own representative office in Japan. If this is not feasible, the producers would have to work with a good Japanese business partner. Together with the partner, they must solve the mentioned obstacles and

- a) define sales point of their product and determine to which market segment the product is aimed at
- b) determine price and also provide quality labelling, trademark and advertisement support
- c) appoint an importer or wholesaler company to work with etc.

Only after this process, the real business starts. This process can take one to two years even if utilizing a professional Japanese business partner. During this time, not only above mentioned obstacles have to be addressed, but also problems with the product quality and profits of the middlemen in the distribution system must be settled. Building up the sense of security among the customers is also a fundamental step to work on. Therefore, the role of the Japanese partner is not only selling i.e., to open market and find out customers, but providing and creating the sense of stability and security in the business relationships.

According to the Japanese food importers from these CEE countries, a very good potential is in their tasty and healthy food or organic food products. However, there are still some difficulties to overcome. For instance, very tasty juices are mostly produced in glass jars, but the Japanese market prefers pet bottles or tetra packs. According to Japanese importers, there is a great chance that the CEE manufacturers will decline to accommodate for this request solely for the Japanese market, due to its incurring investment costs.

Another issue which should be addressed is more active CEE manufacturers' sales promotion and marketing. According to some Japanese importers, so far, most sales promotions and marketing activities are only on the Japanese side. Some food manufactures invite Japanese importers, and cover their expenses during their visit (i.e., accommodation and local transportation fees). Such sales promotion activities are common practice in Japan and many Japanese importing companies hope to see an increase in such practices.

As suggested by some Japanese importers from these countries, it could be useful to establish a group of these professional Japanese importers and specialists. This group of professionals could advice and lead the CEE manufacturers from initial meeting phases through to contract signing with their Japanese customers. However

it must be noted that establishing the business partnerships in Japan takes time even for Japanese professionals, thus top-management of these producers must persevere.

## **2. How to convince a potential distributor to carry out your product**

To attract attention of excellent Japanese distributors is not an easy task, since they are also the most selective. Therefore, offering good profit margins for quality products will not be enough to attract their attention. Also, your intention for a long-term partnership must be demonstrated. Following ideas should also be considered:

- your unique selling points – why people would purchase your product rather than the product of your competitors, any information on competing products already being sold in Japan, indication of demand for your product in Japan
- demonstrate quality of your product – certifications, ISO norms etc.
- your target consumers - explain how your product complements the products that they are already distributing
- story about your product and company, explain company history
- offer marketing support for the distributor

## **3. Way to approach your potential business partner:**

Japanese business culture rely upon references and recommendations. Moreover, the Japanese market is very mature, saturated and highly competitive, making it nearly impossible for an outsider to enter the market without personal introductions or recommendations. Personal relations in businesses in Japan are more important than professional ones. To get to the relevant decision makers is very difficult for every newcomer and it does not matter if the company in question is from the Western or Eastern European countries. Therefore, you need to be introduced at best, by other Japanese or through your Embassy, official Japanese institutions, university professors etc. For instance, so called “university ties” work well in Japan – school friends working in companies keep in contact with their professors. There are also a lot of consultants in Japan who can introduce you.

If you don't speak Japanese, methods such as “cold calling” do not work in Japan, and sending e-mails to the company's webpage is not so effective. A better strategy is to do something less common these days – sending materials and even samples by regular mail either to the company president or relevant decision makers you have identified. By doing so, you do something extra and more than your competitors usually do and this attitude is valued in Japanese culture. Your product needs to get the attention it deserves.

As mentioned before, a physical presence in Japan is often critical for the long-term success of the foreign company in the Japanese market. Because looking from your Japanese customer's perspective, your company's physical presence in Japan is the best evidence of your commitment to the Japanese customers.

#### **4. HORECA sector opportunity**

The HORECA sector in Japan (hotels, restaurants and wine bars, catering services) offers opportunity for new wines/food to enter the Japanese market, including countries which have been traditionally underrepresented on the Japanese market. Generally, the HORECA sector covers 40% of the total market and is the ideal distribution channel for lesser-known brands and of medium-high quality.[<sup>8</sup>]

It is a sector that has gone through profound changes, especially regarding imported wines. As a matter of fact, consumers' habits as well as the public perception of wine have radically changed in this sector. This was the basis that made it possible for new wines including those from countries which were traditionally underrepresented, to enter this market. In recent years, many new market entries were registered from such countries. Each of them have focused heavily on effective communication strategies. This has led to excellent results in a short period of time, since they have reached less experienced customers who are less loyal to other wines, in particular French wines.

#### **5. ICT sector opportunity**

Three areas in particular are expected to show strong growth in the near future: healthcare-related applications, NFC communication-based applications as well as mobile payment/finance-related application. [<sup>10</sup>].

The market for ICT solutions related to nursing care is predicted to grow at an average annual rate of 16% till 2017 according to research conducted by Techno Systems Research [<sup>21</sup>]. The Techno System Research predicts that the introduction of monitoring systems and medication systems, which help patients in taking the right medicine at the right time, will advance.

For companies in Europe it means that they have to offer software of the highest quality at a reasonable price. Finding a certain niche where they can show their technical strength is really a key. Although a niche market can be rather small and uninteresting at first, strong demand is expected within the fields of medical, robot technologies as well as security solutions [<sup>10</sup>].

---

[8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy

Advisory Group SA, Japan, 2013

[10] ICT-Software, Report of EU-Japan Centre for industrial cooperation, March 2014

[21] "Japan's Nursing Care ICT Market Will Grow to \$1.1bn by 2017, Firm Says", Nikkei Technology 2012, [http://techon.nikkeibp.co.jp/english/NEWS\\_EN/20120818/234411/](http://techon.nikkeibp.co.jp/english/NEWS_EN/20120818/234411/)



## **IV. Conclusion**

Complexities of the Japanese distribution systems are well known. Japan has long been seen as a harshly difficult market to enter for foreign companies and to deal with its distribution system. Generally, the distribution system in Japan involves complex, inter-organizational and highly interdependent relationships among various firms.

Due to the costs, distance and other obstacles, most European SMEs cannot afford to establish a branch in Japan at the first stage of the Japanese market approach, preferring to operate through Japanese business partners, distributors etc. Therefore, the distribution system for a specific product must be carefully studied before making any decisions. Strategies for a new product market entry will vary depending on the type of food products being introduced and the current competitive environment.

Based on interviews with European SMEs already established in Japan, as well as European Embassies' trade representatives or European Member States' Chamber of Commerces, the following are the main ways to enter the Japanese market: a) Exhibiting at trade shows, participation in various national or EU support schemes (such as Gateway to Japan/EU-Japan Center/EEN) o; b) Finding a distributor/agent/trading company; c) Setting up of an office in Japan

Most SMEs, after the first step of using a distributor or trading company realizes the potential of the Japanese market and decides to be present in Japan. Promising sales results usually lead to more investment and the SMEs open an office in Japan to be closer to the Japanese customers.

The HORECA sector in Japan (hotels, restaurants and wine bars, catering services) offers good opportunities for new wines/food to enter the Japanese market, including for the countries which have been traditionally underrepresented on the Japanese market. Regarding the ICT companies, strong demand is expected within the fields of medical, robot technologies as well as security solutions, for instance.

## List of references

- [1] "Mapping of EU Small and Medium Enterprises (SMEs) having a branch office in Japan", Report of EU-Japan Centre for industrial cooperation, April 2013
- [2] "In Search for Growth - Towards a New Role for SMEs in EU-Japan Relations", Report of EU-Japan Centre for industrial cooperation, Belgium 2012.
- [3] "Trade of Goods Between the EU Member States and Japan 2014", Report of EU-Japan Centre for Industrial Cooperation in Tokyo, March 2015.
- [4] USDA GAIN report 2013
- [5] Tips for Finding a Distributor in Japan, presentation of Orrisa International
- [6] Report USDA 2015, Food Service - Hotel Restaurant Institutional
- [7] The Japanese Cheese Market – Opportunities and Challenges, OSEC 2011
- [8] Swiss Wine in Japan, Challenges and Solutions, Swiss Business Hub Japan, IT&IP Strategy Advisory Group SA, Japan, 2013
- [9] Exporter Guide 2012, USDA GAIN Report 2012
- [10] ICT-Software, Report of EU-Japan Centre for industrial cooperation, March 2014
- [11] Wine Market Report, USDA 2011
- [12] <http://www.japan-distributor.com/japan-retail-market.html>
- [13] "Market Study on Healthcare & Medical Technology", EUGateway Programme 2013
- [14] [https://en.wikipedia.org/wiki/Sogo\\_shosha](https://en.wikipedia.org/wiki/Sogo_shosha)
- [15] "A Seven Step Approach to Market Entry", 2011 Q2, Espicom Japan Medical Outlook
- [16] "Medical Equipment: How U.S. Companies Are Positioned to Get Ahead of Two Upcoming Shifts in Japan", JETRO Report 2008
- [17] "Sogo Shosha", Report of EU-Japan Centre for industrial cooperation, February 2015
- [18] "Survey Export to Japan 2005", Belgium – Japan Association & Chamber of Commerce
- [19] "The Sogo Shosha – An Insider's Perspective" Marubeni Research Institute, 2013
- [20] R. Larke and K. Davies: "Recent changes in the Japanese Wholesale System and the Importance of the Sogo Shosha", Institute for Retail Studies, University of Stirling, 2006 Scotland
- [21] "Japan's Nursing Care ICT Market Will Grow to \$1.1bn by 2017, Firm Says", Nikkei Technology 2012
- [22] Guidebook for Export to Japan (Food Articles) JETRO Report 2011
- [23] <http://www.arista.co.jp/english/index.html>
- [24] Export-Import Data from Japanese Ministry of Finance statistics 2014,
- [25] <http://www.wingace.jp/e/dis.html>
- [26] <http://www.slideshare.net/exigomarketing/intro-fmcg-in-japan-30022899>, Exigo Marketing Ltd., 2014
- [27] <http://www.japanretailnews.com/japans-retail-market.html>
- [28] <http://www.euromonitor.com/grocery-retailers-in-japan/report>
- [29] <http://www.jahid.gr.jp>

## V. Annexes

### 1. Recommended trade fairs in Japan with B to B matching event

#### *Food sector*

##### **BioJapan in Yokohama**

Contact: Chiyoda Bldg. 1-5-18 Sarugakuchō, Chiyoda-ku, Tokyo 101-8449, Japan

Tel: +81-3-3219-3565, Fax: +81-3-3219-3628, email: [biojapan@ics-inc.co.jp](mailto:biojapan@ics-inc.co.jp)

Home: [http://www.ics-expo.jp/biojapan/info\\_exhibitor.html](http://www.ics-expo.jp/biojapan/info_exhibitor.html)

##### **Supermarket Trade Show**

Contact: Kosaikaikan Bldg. 2F, 5-1 Kojimachi, Chiyoda-ku, Tokyo 102-0083,

Tel:+81-3-3512-5673, FAX +81-3-3512-5680, E-mail [super@smj.co.jp](mailto:super@smj.co.jp)

Home: <http://www.smts.jp/en/index.html>

##### **Food Messe in Niigata**

Contact: Japan Food Journal Business Support HQ, Chuo-ku, Yaesu 1-9-9 Tokyo Tatemono Bldg. 5F, Tokyo 103-0028

Tel: 03-3271-4816, FAX.03-3271-4818, E-mail [info@foodmesse.jp](mailto:info@foodmesse.jp)

Home: <http://foodmesse.jp/eng>

##### **Gourmet Dinning Style show**

Contact: 2-6-2 Kaminarimon, Taito-ku, Tokyo 111-0034, Japan

Phone: +81-3-3847-9853, Fax: +81-3-3843-9850, Mr. Haga

E-mail: [d-haga@giftshow.co.jp](mailto:d-haga@giftshow.co.jp)

Home: <http://www.gourmetdiningstyleshow.com/18gdsen/index.htm>

##### **Wine&Gourmet Japan**

Contact: Koelnmesse Pte Ltd., Mr. Makoto Takagi, email: [takagi@koelnmesse.jp](mailto:takagi@koelnmesse.jp)

Tel: 03- 5793 7770, Fax: 03- 5793 7771

Home: <http://www.wineandgourmetjapan.com/index.php?q=the-fair>

##### **Worlds' Leading Wines Tokyo**

Contact: Chris Atkins, AIWS, Event Director, World's Leading Wines, Commerce Interact Ltd.

Email: [info@worldsleadingwines.com](mailto:info@worldsleadingwines.com)

Tel: +44 (0)20 7193 1240

Home: [http://worldsleadingwines.com/events\\_china/tokyo-worlds-leading-wines/](http://worldsleadingwines.com/events_china/tokyo-worlds-leading-wines/)

#### *ICT sector*

##### **INTEX OSAKA - Smart Community Expo Osaka**

Contact: 1-5-102, Nanko-Kita, Suminoe-ku, Osaka, 559-0034, Reed Exhibitions Japan Ltd.

Tel. 03-3349-8576, email: [visitor-f@reedexpo.co.jp](mailto:visitor-f@reedexpo.co.jp)

Home: <http://www.intex-osaka.com/en/guest/event/single.php?id=84>

***Medical device sector***

**INTERPHEX Japan**

Contact: Show Management, Reed Exhibitions Japan Ltd., 18F Shinjuku-Nomura Bldg., 1-26-2 Nishishinjuku, Shinjuku-ku, Tokyo 163-0570, Japan, TEL: +81-3-3349-8519 FAX : +81-3-3349-8530, Attn: =Megumi Yanai (Ms.) / Saya Katsuki (Ms.), email: [interphex@reedexpo.co.jp](mailto:interphex@reedexpo.co.jp), home: <http://www.interphex.jp/en/>

**MEDICAL Japan**

Contact: Reed Exhibitions Japan Ltd. 18F Shinjuku-Nomura Bldg., 1-26-2 Nishishinjuku, Shinjuku-ku, Tokyo 163-0570, Japan A division of Reed Business Registered in England, Number 678540, TEL: +81-3-3349-8519 FAX: +81-3-3349-8530, E-mail: [medical-japan@reedexpo.co.jp](mailto:medical-japan@reedexpo.co.jp), home: [www.medical-jpn.jp/en/](http://www.medical-jpn.jp/en/)

**Photonix 2016**

Contact: Show Management Reed Exhibitions Japan Ltd. 18F Shinjuku-Nomura Bldg.,1-26-2 Nishishinjuku, Shinjuku-ku, Tokyo 163-0570, Japan, TEL : +81-3-3349-8519, FAX : +81-3-3349-8530  
E-mail : [photonix@reedexpo.co.jp](mailto:photonix@reedexpo.co.jp), home: <http://www.photonix-expo.jp/en/Home/>

## **2. List of specialized organizations helping EU SMEs with import**

### **Japan External Trade Organization**

Address: Import Promotion Department , 2-5, Toranomom 2-chome , Minato-ku TOKYO

Tel : (813) 35825188(JETRO)

Home: <http://www.jetro.go.jp/>

### **Manufactured Imports Promotion Organization (MIPRO)**

Address: 1-3, Higashi-Ikebukuro 3-chome , Toshima-ku TOKYO JAPAN

Tel: (813) 39882791 , Contact: Mr. Kiyotaka Hishida

Home: <http://www.mipro.or.jp>

### **Japan Federation of Importer's Organizations**

Address: Hogaku Bldg. 4F, 1-19-14, Toranomom, Minato-ku , TOKYO 105 Japan

Tel: (03) 35819251 , Contact: Mr. Y. Uchiyama

### **Japan Foreign Trade Council, Inc.**

Address: 6th Floor, World Trade Center Bldg.

4-1, Hamamatsu-cho 2-chome, Minato-ku, Tokyo 105-6106, Japan,

Tel: 03-3435-5964/5959, Contact: Mr. Hidehisa Saito

Home: <http://www.jftc.or.jp/>

### 3. List of relevant associations helping imports to Japan

- **JAPAN WINE AND SPIRIT IMPORTERS' ASSOCIATION**  
Founded in: 1959 , Member importers: 63  
Address: 13-5, Toranomom 1-chome , Minato-ku TOKYO 105 Japan  
Tel: (813) 35036505  
Contact: Mr. I. Sumiyoshi
  
- **JAPAN COFFEE IMPORT ASSOCIATION**  
Home: <http://coffee.ajca.or.jp/English->  
Founded in: 1980  
Address:Nihonbashi, Chuuoku , Nihonbashi, Hakozaichou 6-2, 103-0015 Tokyo, Tel:  
03-5649-8377
  
- **JAPAN DRY FRUITS IMPORTERS ASSOCIATION**  
Home:<http://www.dictjuggler.net/ecostock/?word=Japan%20Dried%20Fruits%20Importers%20Association>  
Address: 5-7 Akihabara, Taito-ku, Tokyo 110-8723  
Tel: 03-3253-1231
  
- **JAPAN EEL IMPORTERS ASSOCIATION**  
Home: <http://www.unagi.org/>  
Address: Tsukiji Kaikan 6-5, Tsukiji 4-chome, Chuoku, Tokyo 104-0045  
Tel: 03-3248-2401
  
- **JAPAN IMPORT FOOD TRADING ASSOCIATION**  
Tel: 03-6417-9833, Kanagawa 1-4-8-908, Tokyo  
Home:<https://www.facebook.com/pages/Japan-Import-Food-Trading-Association/122276741215766?fref=photo>
  
- **JAPAN FRESH PRODUCE IMPORT AND SAFETY ASSOCIATION**  
Home: <http://www.fruits-nisseikyo.or.jp>  
Tel: +81-3-5833-5141  
Address: Ootaku Tokai 3-8-2 TSK Build. 3F, Tokyo
  
- **JAPAN CEREALS IMPORTERS ASSOCIATION**  
Home: <http://www.ftaarea.com/company-details-38/1278108.html>  
Address: 5th Fl., Suzumaru No.1 Bldg.39-8, Nishi Shinbashi 2-chome, Minato-ku,Tokyo  
Tel: +81-(03)3431-3895

- **JAPAN PEAS&BEANS IMPORTERS ASSOCIATION**  
Home: <http://www.ftaarea.com/company-details-38/1278109.html>  
Address: Daiichi Suzumaru Bldg.39-8, Nishi Shinbashi 2-chome, Minato-ku,Tokyo Tel:  
+81-(03)3431-3895)
  
- **JAPAN OIL & FAT IMPORTERS' & EXPORTERS' ASSOCIATION (JOFIEA)**  
Founded in: 1951 , Member importers: 20  
Address: Kyodo Bldg (Shinhoridome), 1-10-12 Nihonbashi Horidome-cho, Chuo-ku TOKYO  
103 Japan  
Home:[http://legacy.intracen.org/dbms/country/CA\\_CompTSI\\_EK.Asp?ID=368&DS=DIRIM](http://legacy.intracen.org/dbms/country/CA_CompTSI_EK.Asp?ID=368&DS=DIRIM)  
P&CT=392  
Tel: (813) 36629821 , Contact: Mr. H. Kawahara
  
- **JAPAN CONFECTIONERY IMPORTERS' ASSOCIATION**  
Address: c/o Meidiya Co. Ltd, 2-8 Kyobashi 2-chome, Chuo-ku Tokyo 104 Japan  
Tel: 03-32719518 , Contact: Mr. K. Sugitani
  
- **JAPAN PHARMACEUTICAL MANUFACTURERS ASSOCIATION (JPMA)**  
Address: Nihonbashi LifeScience Bldg, 2-3-11 Nihonbashi- Honcho, Chuo-ku,103 -0023  
Tokyo, Tel: 03-3241-0326  
Home: <http://www.jpma.or.jp/english/>
  
- **JAPAN FEDERATION OF MEDICAL DEVICES ASSOCIATIONS (JFMDA)**  
Address: 8F, Iidabashi Square Bldg.,  
3-2, Shimomiyabicho, Shinjuku-ku, Tokyo 162-0822, Japan  
TEL: 81-(0)3-5225-6234  
Home: <http://www.jfmda.gr.jp/e/>

**Japanese associations - distributions:**

- **National Assoc. of Supermarkets** Tel: 81(0)3-3255-4825 Fax: 81(0)3-3255-4826 [www.super.or.jp](http://www.super.or.jp) Sakurai Bldg., 4F Uchikanda 3-19-8 Chiyoda-ku, Tokyo, 101-0047 **Japan Chain Store Assoc.** Tel: 81(0)3-5251-4600 Fax: 81(0)3-5251-4601 [www.jcsa.gr.jp](http://www.jcsa.gr.jp) 1-21-17 Toranomom Minato-ku, Tokyo 105-0001
- **Japan Department Store Assoc.** Tel: 81(0)3-3272-1666 Fax: 81(0)3-3281-0381 [www.depart.or.jp](http://www.depart.or.jp) Yanagiya Bldg., 2F 2-1-10 Nihonbashi Chuo-ku, Tokyo 103-0027 **Japan Food Service Assoc.** Tel: 81(0)3-5403-1060 Fax: 81(0)3-5403-1070 [www.jfnet.or.jp](http://www.jfnet.or.jp) Central Bldg., 9-10F 1-29-6 Hamamatsucho Minato-ku, Tokyo 105-0013

- **Japan Food Service Wholesalers Assoc.** Tel: 81(0)3-5296-7723 Fax: 81(0)3-3258-6367  
www.gaishokukyo.or.jp 2-16-18 Uchikanda Chiyoda-ku, Tokyo 101-0047
- **Japan Franchise Assoc.** Tel: 81(0)3-5777-8701 Fax: 81(0)3-5777-8711 <http://jfa.jfa-fc.or.jp/> Daini Akiyama Bldg. 3-6-2 Toranomom Minato-ku, Tokyo 105-0001
- **Japan Hotel Assoc.** Tel: 81(0)3-3279-2706 Fax: 81(0)3-3274-5375 [www.j-hotel.or.jp](http://www.j-hotel.or.jp) Shin Otemachi Bldg., 2-2-1 Otemachi Chiyoda-ku, Tokyo 100-0004
- **Japan Medical Food Service Assoc.** Tel: 81(0)3-5298-4161 Fax: 81(0)3-5298-4162 [www.j-mk.or.jp](http://www.j-mk.or.jp) Forte Kanda. 5F 1-6-17 Kajicho Chiyoda-ku, Tokyo 101-0044
- **Japan Processed Foods Wholesalers Assoc.** Tel: 81(0)3-3241-6568 Fax: 81(0)3-3241-1469  
<http://homepage3.nifty.com/nsk-nhk/> Edo Bldg., 4F 2-3-4 Honmachi, Nihonbashi Chuo-ku, Tokyo 103-0023
- **Japan Restaurant Assoc.** Tel: 81(0)3-5651-5601 Fax: 81(0)3-5651-5602 [www.joy.ne.jp/restaurant](http://www.joy.ne.jp/restaurant) BM Kabuto Bldg. 11-7 Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-0026
- **Japan Retailers Assoc.** Tel: 81(0)3-3283-7920 Fax: 81(0)3-3215-7698 [www.japan-retail.or.jp](http://www.japan-retail.or.jp) 3-2-2 Marunouchi Chiyoda-ku, Tokyo 100-0005
- **Japan Self-Service Assoc.** Tel: 81(0)3-3255-4825 Fax: 81(0)3255-4826 <http://www.jssa.or.jp/> Sakurai Bldg., 4F 3-19-8, Uchikanda, Chiyoda-ku Tokyo, 101-0047



#### **4. Brief analysis on the EEN challenges and development potential in Japan**

##### a) Identifying the obstacles in using the EEN database

Very few of the Europeans or the Japanese executives who I have met with/talked over the phone in Japan even knew the existence of the EEN database and have been using it. Even if they have tried to use the EEN database, unfortunately, their experience with searching in the EEN database was not always favourable. Some managers mentioned that it was difficult to search for the specific target – key words and company profiles did not corresponded, web links did not work properly.

##### b) Suggestion on so called after-care service for the registered Japanese companies as well as for interested companies (with potential to register)

- Actively staying in touch with those Japanese importers/distributors who have expressed interest in the EEN database/particular EU products, especially those who have not yet registered. Making connections in the companies and finding the right people are not easy, therefore the personal contacts should be maintained as much as possible. By staying in touch with the interest-expressed companies, the Centre will have feedback also from companies who did not find a suitable partner in the database.

- Active follow up at least once per year: for those Japanese companies already registered, to actualize the current status of their partner search, change/update their profile etc., try to find out/advice them how to find partners, offer adviser service etc.

- Email updates on standard and regulations from EU countries, information on authorities, distribution of special reports etc. (have already been doing partially). Sending E-alerts will be also useful (Japanese translations on major policy changes, new standards/regulation changes etc.)

##### c) Proposed management system for sustaining alliances with Japanese importers

The main objective of the meetings with importers and distributors in Japan was to understand their view and learn their needs concerning the EEN database and related services. Based on the obtained feedback, a strategy to develop alliances with promising importers was suggested.

To have expectations that EEN database and its related services in Japan will produce comparable results with other EU countries regarding B to B matching is misleading according to the European managers working in Japan. To identify and find the best business partner is a process with no shortcuts. So far, the EEN services are focused primarily on the partner matching, but in order to find out the best-fitting business partner in Japan, the companies have to go through following process: 1. Understand market potential; 2. Prepare a strategy for market entry and prepare the ideal partner profile followed by next step - 3. Business partner matching process. However, most European SMEs who have an interest in Japan, do advance beyond steps 1 and 2.

## 1. Time frame and work needed to run the database and update its content

To run the EEN database effectively, it is a continuous work load for at least one person – dealing with requests and profiles, staying in touch with the companies for regular feedback, update companies' information, making a list of potential new candidates, performing after-care services etc. It is not an easy task. Therefore, comparing their work load with similar kind of B to B services some Embassies/Chambers of Commerce are offering, the issue of resources must be addressed. Moreover, looking from the point of view of similar service providers - foreign Embassies and/or foreign Chambers of Commerce's in Japan, the database is a competitor for them; therefore no broad collaboration can be expected in the future. Most EU services countries do charge for their B to B matching related services. A suggestion is to try to cooperate for instance with JETRO, MIPRO and the Organization for Small and Medium Enterprises and Regional Innovation, Japan – who offer free advisory services regarding the Japanese market.

## 2. Best practices in acquiring new Japanese members

Since the service is still relatively unknown, working on general EEN services promotion among companies is a necessary step to continue. This can be achieved by the following best practices:

### General approach:

- Strengthen cooperation with regions in Japan: establish cooperation with regional Japanese chambers of Commerces and Japanese professional Associations.
- Focus on promotional activities: during Fair Trades and brokerage events, sending E-alerts to database members.
- Utilize list of Japanese importers/distributors: for general mailing updates according to companies' requests, sending invitations to seminars, workshops, E-alerts on incoming missions, business opportunities, new regulations etc.

### Customized service

More customized service is a must in case of Japan. Europeans already doing business in Japan were more open to share their view than their Japanese counterparts, but generally speaking, offering a more customized service for the Japanese market was the most common suggestion from Europeans as well as Japanese managers. Because, chances to find the best partner for the particular company's business model through just a database search can only reap limited results, especially in Japan. Ideally, the online database should be interconnected with a more customized, advisor service.