

**Developing A Distribution Channel in Japan**

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## **Developing A Distribution Channel in Japan**

Japanese distribution channels are known to be multi-layered and fragmented. The three main reason behind this complexity is Japan's controlled distribution, price fixing, and government regulations (Luhman, 1994). In this text, I will explain why Japanese distribution channels are so complex, give some contributing factors, state who normally buys medical equipment in Japan, explain the nature of distribution infrastructure for medical equipment in Japan, discuss how firms normally get their equipment distributed to the end-user, then identify ways to reach distributors that specialize in medical equipment, as well as how firms go about recruiting these distributors.

### **Complexity in Japan and Contributing Factors**

The main reasons behind complex distribution channels in Japan all point to government regulations. Japan has a parliamentary government with a constitutional monarchy (Global Edge, 2021). This mean the head of government is the prime minister and the chief of state is the emperor. Japan also has market economy. Which means goods and services are determined by a free pricing system (Global Edge, 2021). In Japan, this often leads to firms establishing agreements with competitors to either raise, lower, or stabilizes prices or competitive terms; which is illegal in the United States. This alone makes it extremely difficult to do business in Japan.

Another obstacle for doing business in Japan is the number of distribution systems (retailers and wholesalers). Japan has twice the number of wholesalers and retailer compared to the United States (Luhman, 1994). This means heavy competition, difficulty to stand out from the crowd, and inflated prices. With a pyramid of wholesalers selling to smaller wholesalers

selling to smaller retailers, prices to the consumer become inflated (Luhman, 1994). This also reduces any exchange rate advantage that an exporter to Japan might enjoy. Many markups turn a 20 percent cost advantage on the factory loading dock into a negligible difference when the product reaches the retailer's shelves (Luhman, 1994).

Regulations on returned goods are also very different in Japan compared to the United States. In the U.S., wholesalers and manufacturers place limits on the amount of goods allowed to be returned. Most of the time, you are stuck with the goods you ordered unless they are damaged. In Japan, retailers can often return all their product regardless of quality. This allows manufacturers to maintain retail prices. It is viewed as more beneficial to accept return than to have retailers slashing prices trying to clear inventory. Retailer and manufacturers benefit from this, but the consumer does not, as they experience high retail prices (Luhman, 1994).

### **Target Market**

The population of Japan totaled at 125,836,021 in 2020 (The World Bank, 2020). Of those 125,836,021 people, 35,733,999 were 65 years of age or older; which is about 28.397% of the total population (The World Bank, 2020). This percentage is significantly high compared to other countries. Which can tell us that Japan has a large elderly population. This would be a great market to penetrate for medical products and equipment, but most of the time, the products are not sold directly to the end consumer. Manufacturers will need to find a distributor to get their products to wholesalers, and then finally to the end consumer. Wholesalers will be the majority of consumers purchasing the product.

### **Distribution Infrastructure**

The most popular mode of entry in Japan is indirect exporting which includes finding a local partner to serve as an agent, distributor, and/or representative (International Trade

Administration, 2021). The agent would then be distributing to wholesalers. The wholesaler would then sale to another wholesaler. This process can take place many times before finally reaching a retainer or end consumer. This implies the presence of a very long distribution channel in Japan markets. Firm's will experience success with indirect exporting in Japan if they are able to differential their medical equipment from others and find an agent that is both motivated and capable.

### **Special Medical Equipment Distributors**

Pacific Bridge Medical is a company that helps you find distributors in Japan. They are based in Tokyo and have a four-step process to help you find the best Japanese medical distributor for your products (Pacific Bridge Medical, 2015). First, they use their local knowledge to help select distributors right for you. Second, they inform these distributors of your medical device and explain the MVP (minimum viable product). Third, they help submit sales proposals to these distributors. Lastly, they assist in negotiations with the terms of contracts and help finalize all arrangement (Pacific Bridge Medical, 2015). Using a company like Pacific Bridge Medical would be beneficial to companies who are new to entering Japan markets.

### **Conclusion**

Although selling medical equipment to Japan has proven to have its struggles, and consist of a complex distribution channel, there is still an immense amount of room for success. U.S. firms account for over 60% of advanced medical devices used in Japan (Zeller, 2020). Japan is also the second largest market for medical devices worldwide totaling at \$33.6 billion USD (Zeller, 2020). With these statistics and Japan's aging population increasing, firms will experience great success with indirect exporting in Japan if they are able to differentiate their products from others and find a motivated and capable distributor/agent.

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