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Changes in the role of retail stores in the distribution process and the distribution system affluent in reactivity.

Yosio Kajiwara

The tendency toward independent consumer behavior which is seen in present Japan, eg., free selection of brands and stores, makes it disadvantageous for manufacturers practice selective marketing channel policies and to control the behavior of business firms, and the channel control by manufacturers is obliged to retreat. A part of marketing policy by manufacturers comes to be modified by retail stores, and the opportunity to raise the status of retail stores in the process of marketing is coming into existence. Moreover, there is a case where the development of supermarkets quickens the retreat of the channel control by manufacturers. In a case where the power of retail stores becomes relatively stronger against the strong control by manufacturers generally seen in Japan before, how will the character of marketing system change? Is it expected that the system will react well to various requests by consumers about prices or assortment of goods? Will the opportunity be enlarged that such functions as absorption of requests of consumers, information conveyance to consumers, handling of consumer complaints, etc. can be strengthened? We are continuing researches into the relations between manufacturers and retailers in the area including metropolitan sphere, in parallel with the nation-wide research of consumer behavior. We are to examine those questions above referring to these reference materials.

I. Retreat of channel control.

Manufacturers which appeal directly to final market with product
differentiation and mass advertisements, can include necessary wholesalers and retail stores as constituents of channel, according to their original plans, by offering wholesalers and retail stores comparatively reliable and stable sales opportunities and can organize and maintain the controllable and efficient united marketing channel system.

Originally, marketing channel should be organized by differences in goods and brands and it becomes the opportunity to organize a new marketing channel system in the case where manufacturers introduce new products. The introduction of new products in to competitive market with great development investment needs an adjusted united marketing channel; and as the organization of such a marketing system was possible by product differentiation and mass advertisement, in all introduction of new products such a marketing channel with strong control by manufacturers appeared. Manufacturers came to try to strengthen their power of competition and enlarge profit to final market by adjusting and integrating marketing efforts. Thus as for marketing channel, manufacturers came to make special efforts to establish the system which makes it possible to influence the force of control as extension of their own systems. Wholesalers and retail stores were systematized; stocking and selling behavior of these wholesalers and retail stores came to be controlled in exchange of guarantee of sales opportunities.

In Japan, such organization of wholesalers and retail stores was seen already before world war II in cases of cars, etc.; since 1960 or so after the war, this organization has been done by manufacturers in many product fields such as electric home appliances, cosmetics, synthetic detergents, musical instruments, etc.

Now, under the channel control by manufacturers, all the main marketing problems are solved at the level of manufacturers and with profit and sales of manufacturers as a standard, and wholesalers and retail stores which are included in marketing channel cannot take parts in solving marketing problems. However, the development of discount stores comes to interfere in such a
marketing channel under the control of manufacturers. Such discount retail stores as supermarkets in Japan, which began to develop around 1960, did not have such an innovatory character as seen in the United States; but with discount from retail prices instructed by manufacturers or from common retail prices and with introduction of selling method which makes possible the consumers' option and highly convenient shopping these discount retail stores came to have their own power to mobilize consumers. Besides, discount retail stores, by infiltrating through mass market, became large in scale; and have grown to some type of industry, manufacturers were forced to use discount stores to achieve broad marketing discount contact. It is difficult for manufacturers to control the behavior of discount stores as they please, and parts of marketing policy by manufacturers which are amended by these retail stores are increasing. Manufacturers brands written with names of supermakets, special discount selling in cooperation with mnaufaeturers, etc. explain that fact. Nevertheless, the marketing channel, in which discount retail stores succeed in forcing their way, is only seen in the case of industry which is not highly concentrated, or, if so, has comparatively many opportunities of competition with competitive surrounding firms. In highly concentrated industries, it is not necessarily enough for discount stores to force their way in channel. Moreover, in fields in which the industry is not highly concentrated but has great product differentiation and where consumers stick strongly to some brands, manufacturers adopt restrictive channel policy, many of them succeeding in stopping the invasion of discount stores. The tendency, however, toward independent consumer behavior seen in present Japan forces on a larger scale the manufacturers channel control to retreat. The influence of discount stores on channel control of manufacturers, as it was seen typically in the case of the United States, not only forces manufacturers to concede in direct dealings and retail prices which are maintained by manufacturers, but also quicken free choice of brands
and stores—that is, independent consumer behavior. In the case of Japan, this effect scarcely appeared. However, under conditions after the "oil crisis" that, with inflation and low growth rate, the growth of substantial income was not to be expected, very much consumers, strengthening the reaction to substantial qualities of goods and prices to maintain their standard of living, stopped sticking to particular brands and came to select brands freely. They also came to select stores freely to compare goods and prices among stores. ¹ Such changes in consumer behavior forcibly modify former channel control by manufacturers. Under the tendency toward consumers' free choice of stores, manufacturers are forced to use various distribution channels including supermarkets; and the restrictive channel policy which can be called a fundamental condition for the channel control, that is, the policy which limit constituent members of channel is now being denied. Under the tendency toward consumers' free choice of brands, it becomes difficult for manufacturers to control consumers by product differentiation and mass advertisement; the base of the channel control is starting to shake. Manufacturers are driven into the condition in which they must enter into technological and price competition which can stand free valuation by consumers; and are put in which it is hard for them to interfere in assortments of goods and price behavior of retail stores, unless they are ready for decrease of sales opportunities and complaints of retail stores. That is, it becomes dangerous for manufacturers to practice marketing policy which is adjusted and united for retail market; and cases are seen in which manufacturers are forced to depend on independent retail stores' behavior for part of marketing decision an assortment of competitive brands and adoption of competitive price become essential for retail stores, and creative behavior complying to marketing field becomes necessary.

Reports of researches after the decline of channel control by manufacturers with development of supermarkets and changes in consume behavior are still but a few, but we can see an instance in
synthetic detergents. It is reported, by Industry Policy Department of International Trade and Industry, that each manufacturers of detergents pushed the policy to systematize the marketing partly because detergents were once designated goods in the resale price maintenance system. After that—in addition to new entry, growth of supermarkets, the repeal of the designated items of resale price maintenance in September, 1974, etc.—the changes on the side of consumers—e.g., the rise in consumer concern over qualities of goods, prices, etc. motivated by the panicky supply-shortage after the "oil crisis"—are altering the former marketing order with manufacturers as leaders among manufacturers and among sellers, keen competition is taking place.²)

II. Strengthening the function of retail stores in the distribution process.

Consumers who strengthening their resistance to marketing behavior of companies and recovering their independence are becoming more interested in advertisement, but many consumers complain about shortage of information conveyed by advertisement. Consumers demand detailed information to select brands and goods, especially technical information, but advertisement cannot correspond enough to this. That is, manufacturers will have to convey detailed information, which is not to be conveyed by advertisement, to consumers through wholesalers and retail stores. Some manufacturers are strengthening direct selling, and in this case, their salesmen can play roles in conveying information which is beyond the limit of advertisement; but manufacturers which come into contact with consumers through the middlemen cannot but depend more on retail stores to convey information. Consumers become more suspicious of advertisement, and manufacturers are forced to supply highly reliable information through personal communication. The condition becomes that manufacturers must depend on retail stores to convey reliable and detailed information to consumers.
Besides such situations, manufacturers are being obliged to depend on retail stores to absorb requests from consumers. In the high-growth period when consumers reacted well to marketing policies of business firms, manufacturers built up a hypothesis on consumers' requests and accordingly made product plans, creating great demand by strong sales-promotion. However, for the present consumers, who show great resistance to marketing behavior of business firms, this method is not suitable; thus it becomes necessary for manufacturers to make sure, in detail, of consumers' requests. Manufacturers are being obliged to get information to decide on product plans and the sales method through retailers who always come into contact with consumers and can hear consumers' requests directly.

Manufacturers are also forced to arrange the system to get retail stores' cooperation for dealing with not the mere requests from consumers but complaints about goods which need negotiation to be solved. Generally speaking, manufacturers lay emphasis on dealing with complaints of consumers directly, not through retail stores and wholesalers. However, this system of manufacturers to deal directly with complaints is inconvenient seen from the side of consumers as will be mentioned in the third section, and consequently it causes many consumers to boil to lodge complaints with manufacturers even if they have some. Although some of the manufacturers establish the complaint handling system through retail stores, this system does not function enough, and innumerable potential complaints still remain. It is very important for manufacturers and stores that many complaints are left unheard. Those who had complaints about goods but did not receive any measures harbor ill feelings toward business firms, tell it to others, and change brands and stores in many cases.

Under what condition will it be realizable to strengthen retail stores' function, mentioned above, to deal with information and complaints? Against the free choice of brands and stores of consumers, the demand of free price behavior and the assortment of competitive
brands is produced on the side of retail stores, and manufacturers cannot but admit in return. Although information conveyance to consumers through retail stores, absorption of consumers' requests, handling of consumer complaints, etc. need special efforts; the motive is weak for retail stores to act willingly, as there is little direct profit. Thus the realization is hard unless manufacturers themselves arrange its system. That is, manufacturers must arrange the condition under which retail stores are willing to carry out these supplementary functions. We are to examine the contents of the condition, limiting the case to the complaint handling in which cooperative relationships between manufacturers and retail stores are partly observed and which is easy to hold researches into.

III. The complaint handling system through cooperation between manufacturers and retail stores.

From May, 1975 to August, 1976, we held the first research into the handling system of consumer complaints through the cooperation between manufacturers and retail stores. This research is about whether or not complaints lodged with retail stores are conveyed to manufacturers. The result of this research shows that in many cases retail stores convey consumer complaints to manufacturers if not speaking of manufacturers responses. However, in some cases, it merely ends thus: manufacturers do not accept complaints even if retail stores try to convey; or retail stores merely listen to them. From March to May, 1978, we also held the research after the whole complaint handling system through the cooperation between manufacturers and retail stores in Tokyo, Osaka, and Fukuoka. This second research was composed of interviewees and was held mainly by visiting head offices of firms. The objects of this research were 36 manufacturers of electric home appliances, cameras, apparels, and foods; 20 firms of department stores, supermarkets, and discount stores when dealer systems and 32 ordinary retail stores. The research after consumers' evaluation of present consu-
mer complaints handling system of firms is also conducted in Tokyo, Osaka, and Fukuoka. Object were housewives in Tokyo, Osaka, Fukuoka; we got 1,538 effective answers. The following is the results of the research after complaint handling system through retail stores by the degree of systematization of marketing conducted by manufacturers.

(1) The case in which manufacturers systematize retail stores.

Complaint handling through retail stores are functioning for the present, but not necessarily smoothly. There are many complaints by dealer systems about their partial charge in the handling of consumer complaints.

For example, some of the dealers complain that manufacturers do not sincerely handle complaints or that manufacturers pay no attention to complaints. It is also said that manufacturers should bear special expense of retail stores to take responsibility, in part, in handling complaints. Against this, manufacturers think that the reward for partial charge of complaint handling by retail stores is included in regular retail profits. From the side of manufacturers it was heard about the partial charge of complaint handling by dealer systems that stores report consumer complaints to manufacturers only in a mass, delaying manufacturers' responses. Some of dealer only listen to consumer complaints and donot try to answer them. Thus, as for electric home appliances, service stations are established in each area and when dealer systems cannot deal with complaints, they are directly accepted here. In other words there are two complaint handling systems; one is through stores, and the other done directly by manufacturers. Consumers can select either of them and it shows one of the idea complaint handling systems. However, this complaint handling system is not thoroughly known among consumers, and in some cases, they cannot receive satisfactory handling through lodging complaints with stores. Manufacturers find too much peace in this system.
Changes in the role of retail stores in the distribution process and the distribution system affluent in reactivity.

(2) The case in which manufacturers systematize even wholesalers.

Though manufacturers make up special attachment of consumers to brands by nation-wide advertisement, in such types of industry as foods, etc. for which a great number of stores are used because of the character of goods so that consumers intend to restrain the efforts of purchase down to the minimum because of its high frequency, manufacturers donot systematize the distribution process to the stage of retail stores. In this case, manufacturers not do make efforts to organize complaint handling systems through retail stores, and nearly 90% of consumers’ complaints are directly dealt with by manufacturers. Only very few complaints are reported to manufacturers throrugh large scale retailers. In the case where the status of brands in market is low, however, there are some cases in which the voice of retail stores is strong, and where complaint handling through exhange or return of goods is done on the level of retail stores. Many people regaed direct handling system by manufacturers as inconvenient, as in table 1, and it results in making numerous complaints unheard.

Table 1. The evaluation of direct handling system ay manufa-cturers for consumer complaint.

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<td>In many cases, complaint of goods are solved when reported directly to manufacturers by consumers — e.g., consumers send inferior goods to manufacturers for exchange — do you not feel inconvenience in such a way of complaint handling?</td>
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<td>1.</td>
<td>It is inconvenient. I endure even if I am discontented with goods.</td>
<td>(36.0%)</td>
<td></td>
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<td>2.</td>
<td>It is inconvenient, but. I report to manufacturers</td>
<td>(14.2%)</td>
<td></td>
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<tr>
<td>3.</td>
<td>It is inconvenient. It is better to report to manufacturers directly than to retail stores.</td>
<td>(23.0%)</td>
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4. I donot feel special inconvenience.  (20.5%)
5. NA  (6.3%)

Research by Y. Kajiwara (Nagasaki University). June to August 1979, Tokyo, Osaka, Fukuoka. Total number: 1,538

(3) In the case of department stores, supermarkets, and discount stores.

All of the large-scale stores which are objects of this research are listed firms, and many of these stores deal with complaints in their own ways. However, the original complaint handling system of large-scale stores is also still on the way of arrangement and the level of arrangement is differ from firm to firm. In one case, complaints are dealt with by floor managers, chiefly in exchange and return of goods, and unified disposal as a whole of the stores is not done. In other cases, there is room for consumers and a handling system in parallel with floor managers is adopted; there is also a manual for dealing with complaints, and complaints are grasped integrally by the whole of the store to be dealt with. There are various cases. Some large-scale stores not only report the contents of complaints to manufacturers, but also accept reports on revised behavior (changes in the design of products, conversion of the material, complete management of product quality, etc.). Once some of the big manufacturers which had confidence in technique were late in responding, but there is the fact that it has recently been improved. In many cases, large-scale stores positively instruct small and medium-scale manufacturers in production, using complaints as the data, obtaining good results. Some large-scale stores deal with complaints about defects in their own ways and seldom report the contents to manufacturers except in the case of magnified loss. It must be said that this is imperfect as a complaint handling system. The feedback to manufacturers about the contents of complaints is necessary. Some large-scale stores make preparatory
Changes in the role of retail stores in the distribution process and the distribution system affluent in reactivity.

conditionings to reduce complaints. Some of them find about 80% of inferior goods, as foods, etc., through this conditioning.

IV. The marketing system affluent in reactivity.

The research conducted by the Economic Planning Agency (Tokyo, Japan) in January 1977 shows that 48.3% of complaints about the damages of goods' defects are not lodged anywhere. Numerous complaints are becoming latent. Of reported damages, 89.5% are lodged with retail stores, etc. Moreover, 85.4% of these complaints are damages of manufacturing and structural defects in products themselves), namely, they are complaints which should finally be pursued as the responsibility of manufacturers or things which should be borne by the responsibility of manufacturers in their marketing policy. In spite of those conditions, complaint handling systems by cooperated manufacturers and retail stores are not arranged on the whole, as seen in the former section. Manufacturers lay emphasis on the direct handling of consumer complaints, but evaluation by consumers of this direct handling system of manufacturers is not good, as the data of the table of the former section show. As the complaints handling system through retail stores is not arranged, numerous complaints are forcibly latent. Manufacturers and retail stores should pay more attention to how those who are harmed but donot lodge complaints behave. As has been mentioned in section I, they harbor ill feelings toward business firms, tell it to others, and change the brands or stores. In addition, the fact that the absorption of complaints is not done enough leads to the fact that business firms deal with reported complaints as rare cases and not taking necessary steps based on the complaints, or that at least they are delayed. Latent complaints donot only mean that consumers' damages are let alone without remedies.

The arrangement of complaints handling systems through cooperation of manufacturers and retail stores is now socially demanded. Incidentally, can the systematization of distribution which
has been conducted by manufacturers answer this demand? As has been seen in the former section, complaint handling in through dealer systems certainly functions. It is not, however, the system in which retail stores are willing to cooperate. In the case that retail stores try to settle complaints it not only means that they serve one-sidedly for manufacturers to maintain the position of their brands, but also that they maintain the loyalty of consumers for themselves. According to manufacturers’ policy, it must be possible to establish complaint handling systems in which retail stores are willing to cooperate. It results from the fact that manufacturers lay emphasis on direct handling not arranging the handling system through dealer system that such a system does not function well enough. What is the condition in which retail stores are willing to cooperate in complaints handling system? It may be seen by looking at the background where large-scale stores are willingly establish their own complaint handling systems. Retail stores are not willing to take charge of complaint handling through cooperation with manufacturers to maintain the store loyalty of consumers, until the range where retail stores behave independently is enlarged and the system is related to their opportunity of profit. The retreat of manufacturers’ control over dealer systems is the premise of arranging complaint handling system through cooperation between manufacturers and retail stores. As has been mentioned in section I, the tendency of retreat in channel control of manufacturers is observed, but it does not commonly come to alter the relationship between manufacturers and retail stores in sharing profits. For example, because of the strong resistance of consumers to prices seen in recent market, manufacturers must not only consider price competition on the level of manufacturers but also admit the free price competition by retail stores, but in many cases, this correction of retail prices is done at the sacrifice of retail stores themselves, namely, done with compression of retail margins.

In the case where systematization of distribution is conducted
Changes in the role of retail stores in the distribution process and the distribution system affluent in reactivity.

down to the stage of retail stores, complaint handling systems through cooperation between manufacturers and retail stores can be established on the basis of a network of dealer systems. But in the case that the systematization reaches the stage alone of wholesalers, it is necessary as a basic work for manufacturers to designate some basic retail stores in each region organize some particular retailers, e.g., to absorb complaints. The establishment of complaint handling system through retail stores has a characteristic that it absorbs complaints and decreases latent complaints; and, besides, as compared with the case of direct handling system of manufacturers, complaints through distribution processes convey a lot of information. Evaluating such an aspect, manufacturers should positively attempt to establish this system. Only, in such fields of goods as clothes, where distribution channel is especially complex goods being finished through cooperation among plural manufacturers, it is what should be first to establish the system to find out where the final responsibility lies when goods have defects. It is still more difficult there to establish complaint handling systems through cooperation between manufacturers and retail stores.

Though inquiries have been made only into the conditions for manufacturers to arrange complaint handling system through retail stores, similar things may be said about the conveyance of information to consumers or absorption of consumers’ requests through distribution processes. As for the information conveyance to consumers, it is possible to educate salesmen of retail stores under the policies of manufacturers, but to communicate with consumers in the actual place of selling is done under retail stores’ policies. The aim cannot be achieved only through the one sided instructions of manufacturers. The creative behavior of retail stores comes to show its power. It is about the same as for the absorption of consumers’ requests through retail stores. Except some large retail stores which have the ability to research, common retail stores seldom know consumers’ requests and behavior, even though they are in the position nearest to consumers. To be always in contact with consumers only
means to be in the position easy know consumers. It needs manufacturers cooperation to absorb consumers' requests and information on their behavior through retail stores. Manufacturers guide retail stores according to the latter's necessity, and, after that, they can only wait for creative efforts of retail stores. For the conveyance of information to consumers and for the absorption of consumers' requests, manufacturers must establish the system in which retail stores may become willing to cooperate.

In the case where, to various requests of consumers about prices, stocks of goods, remedies of damages, information etc. middlemen — especially retail stores — can react speedily, it can be said that the distribution system is affluent in reactivity. The relationship here is not the one of one-sided control by manufacturers but the network among middlemen and manufacturers that behave according to the market in actuality — the system in which the independence of middlemen is respected.

[References]

(It may be added that the results of our researches into the present conditions of consumer-complaint handling systems through cooperation between manufacturers and retail stores were broadcasted, as researches by KAJIWARA (Nagasaki University), in the program Tomorrows' Management, NHK Network Education, on June 29, 1978.) (The Author is Professor of the Economic Faculty at Nagasaki University, Nagasaki, Japan)