

The Foodchain of Japanese Retail Business**The IMPORTER, a Blessing or a Curse?**Scope of this Memo

For foreign-made food and retail products, the typical sales chain is as follows:

- Foreign manufacturer/producer
- Japanese importer
- Wholesaler (“ton-ya”)
- Retail chain
- Retail shop

In this memo we will briefly discuss the concepts and functions of each of the links in this chain and more specifically, we will discuss the options a foreign company has regarding the level of “Japanese importer”.

Price setting - Listprice

In general, the Japanese importer will have the last word in setting the Japanese “listprice”. The listprice is a very important concept as it is the base price against which rebates and margins are calculated. The listprice is also the price that can be mentioned freely by everybody without risk of disclosing secrets of any link in the chain.

The listprice is the price, exclusive VAT, that many retail shops will set as the shelf price. On top of this there will be (currently) 5% VAT (or “sales tax”, “sho-hi-zei” as it is called in Japan.) In April 2014 the sales tax will be raised to 8% and to 10% in October 2015.

(In Japanese supermarkets you often find both the price with and without VAT on the racks.)

Some discount chains might have a shelf price that is 20% to 40% below listprice.

Price setting – Import Taxes

For some products, there are import taxes (f.i. 10% for chocolate.) These taxes are an extra cost for the importer.

Responsibilities

	Manufacturer	Importer	Wholesaler (ton-ya)	Retail (chain)/shop
Definition of the product	X	X		
Production	X			
Price setting	X	X		
Suggestions for marketing policy	X	X		
Decisions for marketing policy		X		
Stocks in warehouse in Japan		guarantees continuity of delivery to the chain	1-4 weeks	1-3 days

	Manufacturer	Importer	Wholesaler (ton-ya)	Retail (chain)/shop
Responsible for compliance with legislation		X		
Coordination to get needed permissions	(detailed and consistent info needs to be provided)	X		
Affixing of sticker with the legally required Japanese-language user information (strictly regulated in case of food products)	(detailed and consistent info needs to be provided)	X		
Local sales efforts (ideal case)		X	X	
Local sales efforts (normal case)	X	X		
Typical buying price (listprice * X %)		20-25 (FOB Europe)	55-65 (delivery to 1 warehouse)	80-85 (delivery to each retail shop)
Typical delivery frequency		monthly	weekly / daily	daily / twice-a-day

The importer

As above shows, the importer plays a crucial role in bringing your product to the Japanese market. If you have/find a really good importer, you should count your blessings!

On the other hand, a not-so-good importer can be a real problem for your business. Following are crisis-situation that your importer can (easily) cause:

- Importer starts promoting a competing product
- Importer places no orders
- Importer does not conduct effective sales program
- Importers relationship with key wholesalers deteriorates
- Importer refuses to go along with proposed marketing strategy of the manufacturer
- Importer refuses to go along with proposed price setting of manufacturer
- Importer has financial problems / fails to pay bills to manufacturer

If any of these happens, you have a real problem: There is no “quick” way to get your product to the market. Even if you do not give the importer sales exclusivity, most/all of the legally required permissions will be in the name of the importer.

Finding a good importer is the safest way to do business, but it might not be an easy challenge.

Alternatives to the IMPORTER

First, I would like to repeat again that the safest way to do business is to find a GOOD importer. I would like to add that there are ways to protect yourself from the risks inherent to a not-so-very-good importer.

Although the final result of the proposed construct is similar, I will consider two cases: (1) You don't find an importer you like, but you want to start business. (2) You think you found a good importer, but you want to make sure you have a fall-back position.

1. You don't find an importer you like, but you want to start business

In this case, you should consider being yourself the importer. This allows you full control over your price setting and marketing policy. It gives you the possibility to offer your products directly to the wholesalers. Besides giving you the profits of the importer, it of course also gives you the duties of the importer (see table above).

The main thing to do is to set up a legal entity in Japan:

- The initial capital can legally be as low as one (1) Japanese Yen, but it is suggested to have a capital of at least 3 million Japanese Yen (roughly 30,000 €). Even better is 10 million Japanese Yen (roughly 100,000 €), the minimum amount that was required for a stock company in older legislation.
- You will formally need a company president who legally resides in Japan. (The easiest way is that the president-to-be legally resides in Japan before you set up the company.)
- The newly established company needs to apply for all required import and other permissions.
- It might be a good idea to select a warehousing/delivery company to work with as they often can assist you with the permissions.

Once the company is set up and the permissions granted, you can import your first demo-stock and start the sales process towards the wholesalers.

You should count on a time period of 2 to 3 months and a cost of around 1 million Japanese Yen (roughly 10,000 €) plus the company capital for reaching this stage.

The big benefit of this scheme is that you yourself, through your Japanese legal entity, are the owner of all the needed import and business permits.

2. You found a good importer, but you want extra safety

In this case, you could set up a legal entity in Japan to act as support structure for your importer. You might want to discuss with the importer which company formally does the importing and stock keeping. While operations are being executed by the importer's staff, there might be benefits to having your own legal entity being the formal importer.

In any case, having a legal entity makes it easier for you to assist the importer in his marketing efforts as it raises the profile of your company and products in the eyes of wholesalers and potential buyers.

Of course – and that might be your main reason for doing so – it gives you fast options in case something does go wrong with the relations between you and the importer.

Setting up the company goes along similar lines as in case 1. If the company initially does not formally do the importing, the company capital can be significantly reduced.

How can D-VECS help you with this.

D-VECS is experienced in working in the Japanese business environment. We have done business development and sales activities for both retail products and for industrial products.

D-VECS has a good feeling how big Japanese companies (such as the wholesalers) will react and what they expect as support.

D-VECS can help you finding an importer, but D-VECS can also help you in setting up an own legal entity.

D-VECS can arrange for an address that can be used for registering the company, D-VECS can arrange for a certified accountant to ensure you are set up with tax-efficiency in mind, D-VECS can provide a pro-forma company president – being Dirk VAN EESTER – with the needed residence requirements.

In combination with D-VECS' standard Business Development Services, D-VECS can coordinate/execute the whole process of setting up a Japanese legal entity, contacting a warehousing/delivery company that can act as customs clearance agent, getting needed permissions, doing needed translations, conducting sales/marketing operations and providing an available base station for your future customers to refer to.

Please see D-VECS' homepage (www.d-vecs.jp) for more general information on D-VECS.

D-VECS' Founder and CEO

D-VECS was founded by Dirk Van Eester. Dirk is of Belgian (Flemish) nationality and has lived for over 23 years in Tokyo, together with his Japanese wife – whom he met in the USA – and his 2 sons.

Dirk graduated from the Computer Science department of the Faculteit Toegepaste Wetenschappen (Faculty of Applied Sciences) at the Katholieke Universiteit Leuven (Catholic University of Louvain) in Belgium. He holds a degree of Burgerlijk Ingenieur. ("Burgerlijk Ingenieur" is a highly-regarded Belgian university degree that combines an academic technical background with business insight. Holders of the degree are frequently found in top-management positions of Belgian companies and government agencies.)

After his studies in Belgium, he obtained his Master of Science in Computer Science at Virginia Polytechnic Institute & State University in Blacksburg, VA, USA.

Following a short stint as system programmer at Bell Telephone Mfg.Co., a major Belgian supplier of telephone exchanges, he joined Agfa-Gevaert, the European market leader in Imaging Products. With Agfa he moved to Tokyo where he held the position of Marketing Manager for Agfa's Graphic Systems Division.

After leaving Agfa Japan, Dirk founded D-VECS and started offering Japanese business know-how to foreign companies, relying on both his commercial experience in Japan and on his Japanese language capabilities.

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