

WHOLESALE INDUSTRY TRENDS TO ENHANCE ITS SIGNIFICANCE BY PROVIDING NEW VALUE

— EFFORTS TO BREAK FREE FROM LOW PROFIT STRUCTURE —

Katsuhide Takashima
Industrial Research Dept., Industrial Studies Div.
Mitsui & Co. Global Strategic Studies Institute

SUMMARY

- This report presents the current state of and trends in the wholesale industry, which plays an intermediary role in supply chains within Japan, in a market that is expected to shrink in the future. It also explains the wholesale industry's potential as a hub in overall optimization of supply chains.
- In logistics, which is a key function of the wholesale industry, delivery systems are being upgraded and inspection processes are being simplified in order to improve the efficiency of logistics and reduce costs. In addition, the wholesale processes for food products and daily necessities, which had conventionally been segregated, are now being coupled and shipped in combination to meet the high demands of the diversifying retail industry.
- Attempts to provide new value include the following: standardizing and collaborating among wholesalers to support the digital transformation efforts of retailers; providing the retail industry, which is the wholesale industry's customer base, with feedback in the form of knowledge gained through involvement in e-commerce and other retail channels; and expanding business overseas.

The main role of wholesalers is to purchase products from manufacturers and sell them to retailers. Among the numerous retailers in Japan, more than 90% are small to medium-sized companies, making it difficult for them to procure a wide variety of products from multiple manufacturers on their own. As such, wholesalers exist to play an intermediary role in supply chains between manufacturers and retailers, and they provide retailers with four main functions: pickup and distribution, inventory coordination, logistics, and financing and risk taking.

The wholesale food industry in Japan has traditionally been challenged by low profitability, with operating income margin of less than 1%. At present, sales by major companies are on the rise; at first glance, the industry appears to be doing well. According to the Ministry of Economy, Trade and Industry (METI), sales by food wholesalers in 2021 reached a record high of 53.4 trillion yen. In terms of the performance of major companies, the top ten companies combined account for roughly 20% of all sales, and most of these ten companies are showing profit growth (Figure 1). Five companies in particular have achieved record-breaking profits: Nippon Access, Mitsubishi Shokuhin, Kokubu, Kato Sangyo, and Yamae. However, the industry remains challenged by low profitability as only four companies have operating income margins above 1%: Nippon Access, Kato Sangyo, Itochu-Shokuhin, and Yamae. The wholesale daily necessities industry, which has taken the lead in industry restructuring, an oligopoly has developed between the two major players, Paltac and Arata. Although both companies have posted record profits in the recent past, improving profitability is still a work in progress. The wholesale industry remains in a tough situation, because the market is also expected to shrink as Japan's population continues to decline.

Figure 1: Wholesale industry in Japan – Performance by top-selling companies

	Fiscal period	Net sales		Operating Income	
		Total (million yen)	YoY growth (%)	Total (million yen)	YoY growth (%)
Food Products					
Nippon Access (*1)	Mar 2022	2,120,295	NA	23,876	33.7
Mitsubishi Shokuhin (*1)	Mar 2022	1,955,601	NA	2,371	20.5
Kokubu Group	Dec 2021	1,881,471	1.8	13,909	36.1
Kato Sangyo	Sep 2021	1,137,101	2.9	13,281	0.5
Tomoshia HD (*1)	Mar 2022	742,200	NA	4,200	82.6
Mitsui Foods	Mar 2022	664,300	-2.8	510	-67.9
Itochu-Shokuhin (*2)	Mar 2022	612,658	NA	7,274	NA
Nihon Shurui Hanbai (*1)	Mar 2022	512,981	NA	2,271	7.3
Yamae Group HD	Mar 2022	503,635	4.1	7,894	approx. 4 times
Toho	Jan 2022	188,567	1.3	178	returned to the black
Daily Necessities					
Paltac (*2)	Mar 2022	1,045,735	NA	28,637	NA
Arata (*2)	Mar 2022	857,087	NA	13,745	NA

(*1) YoY growth of net sales not disclosed due to the implementation of new accounting standards from FY2021

(*2) YoY growth of net sales and operating income not disclosed due to the application of new accounting standards from FY2021

Source: Compiled by MGSSI from the financial results of each company

In recent years, since retailers in Japan have expanded the scope of their store networks to reach wider areas, wholesalers have also made strides in consolidating and upscaling through mergers and corporate reorganizations. In addition, wholesalers are now required more than ever to improve productivity and reduce costs in order to increase profit margins. This report presents the current state of the wholesale industry and its future trends, with a particular focus on the wholesale food industry.

1. NEW DEVELOPMENTS IN LOGISTIC FUNCTIONS PROVIDED BY WHOLESALERS

Among the key functions of the wholesale industry, there is a particular focus on logistics, as the sector urgently needs to address the so-called “2024 problem,” which includes regulations on the maximum number of overtime hours that truck drivers are allowed to work.

1-1. Sophistication of delivery systems

As labor shortages increase in severity, Mitsubishi Shokuhin has launched an “excess space sharing” project. The aim is to improve loading efficiency by matching excess space within freight carriers’ trucks with the logistical needs of small- and medium-sized manufacturers that do not possess in-house logistics functions.

Wholesalers are also working together to conduct joint shipping with more frequency. Kokubu ships Mitsubishi Shokuhin and Itochu-Shokuhin products together with its own, while Mitsubishi Shokuhin makes deliveries on behalf of Kokubu, as determined by region. Tomoshia Holdings possesses advantages in transportation in outlying areas of Japan such as the Tohoku and Hokuriku regions, and two of its group companies, Marudai Horiuchi and Kanakan, are also increasingly making deliveries on behalf of major competitors.

In addition to continuing to ship food products as usual, Nippon Access is also expanding into the realm of non-food products, especially daily necessities. By handling a wide range of products, the company is broadening the scope of its transactions, leading to problem-solving sales. Players are beginning to realize that solving the problems faced by retailers is a key function for wholesalers to provide. Similar activities are also being explored by Paltac, a wholesaler of daily necessities, which plans to commence bulk distribution of some processed foods along with daily necessities in cooperation with Yakuodo, a drugstore operator primarily active in Iwate

Prefecture. By providing services to drugstores that are expanding their food product offerings, Nippon Access and Paltac now do business with both supermarkets and drugstores. It is necessary to provide sophisticated solutions to the increasingly complex and diverse demands of the retail industry in a way that integrates the wholesale food and wholesale daily necessities sectors, which are structured differently.

1-2. Simplification of inspection processes

Inspections are a process of investigating upon receipt whether or not products have been delivered in accordance with the ordered specifications and whether or not there are any problems in terms of performance, quality, or quantity. However, even though manufacturers precisely control the number of shipments at the shipping stage and losses at the distribution stage are low, wholesalers on the receiving side often conduct in-depth product inspections, doubling the costs for distribution as a whole. As labor shortages in warehouse operations increase in severity, it is thought that wholesalers should simplify inspection processes.

Nippon Access and Kewpie are working to simplify inspections by managing products on a pallet-by-pallet basis. Further simplification is expected in the future as the companies are also exploring the possibility of management on a vehicle-by-vehicle basis. Kato Sangyo is experimenting with “inspection-less” acceptance in which products are not inspected when received from manufacturers, and this has been effective in reducing work times and cutting CO₂ emissions while trucks are on standby.

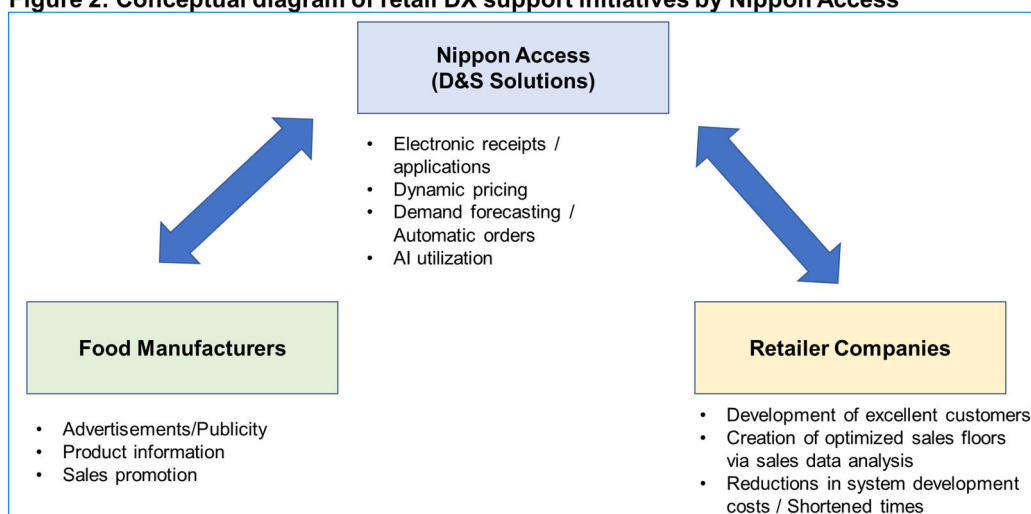
2. ATTEMPTS TO PROVIDE NEW VALUE

The following introduces some examples of never-before-seen challenging initiatives by wholesalers that go beyond the key functions of the wholesale industry.

2-1. Digital transformation support for retailers

As one such initiative within the wholesale industry, Japan Processed Foods Wholesalers Association is taking the initiative in promoting standardization between wholesalers of product masters and EDI (order-related electronic data interchange) systems. Retailers need to only introduce the standardized system provided by wholesalers, which facilitates the further digital transformation of retailers by eliminating the traditional inconsistencies between wholesalers. In other words, the wholesale industry is facilitating the digital transformation of retailers by taking the initiative in collaboration.

In terms of initiatives by individual companies, Nippon Access is helping retailers become able to utilize digital services easily and inexpensively by linking together the digital services provided by manufacturers and brick-and-mortar retailers as an “information wholesaler.” The goal is to resolve the various issues caused by the fragmentation of information between the manufacturing, wholesale, and retail sectors. D&S Solutions, a wholly-owned subsidiary of Nippon Access, mobilizes to provide services such as Retail Studio and Dynamic Pricing. Retail Studio is a cloud-based service that eliminates the need for system development related to data linkage, which used to arise for commencing smartphone app development, data analysis, and digital marketing. Dynamic Pricing is a 1-to-1 marketing mechanism in which points from retailers are awarded to customers based on purchase history and shopping details, thereby affecting effective prices. D&S Solutions, which is in the wholesale business, takes on this role on behalf of retailers, which find it difficult to invest in information functions and retain the relevant human resources. So far, Co-op Sapporo, Inageya, Hankyu OASIS, Marukyu, and others are making use of the system. (See Figure 2 for a conceptual diagram of information wholesaling efforts by Nippon Access.)

Figure 2: Conceptual diagram of retail DX support initiatives by Nippon Access

Source: Compiled by MGSSI based on press release materials from Nippon Access and D&S Solutions

2-2. Utilization of retail experience for retailers

In order to respond to the expanding e-commerce (online shopping) market, Paltac has established a new department specializing in e-commerce and is enhancing its provision of e-commerce-compatible services for retailers. As an even more committed initiative, Nippon Access has established its own e-commerce site, Smile Spoon.¹ The wholesaler itself is gaining experience in the e-commerce business. Then, in addition to selling products from manufacturers with which it has close ties as well as private brand products in which it is involved, the company is also using its accumulated know-how to help retailers solve the problems they are facing in their e-commerce businesses. It had been seen as taboo for wholesalers to enter the retail business in order to avoid competing with retailers. However, the retail industry has become omnichannel, utilizing both brick-and-mortar stores and e-commerce sites, and the purchasing behaviors of consumers have become more diversified. In this context, participation by wholesalers in e-commerce and retail businesses has become more accepted.

Toho operates A-PRICE commercial merchandise stores as a cash-and-carry wholesaler. As an evolution of this business model, the company has integrated its store and wholesale businesses under “Cash & Delivery” to handle deliveries using inventory from stores that the company is operating. This trend is attracting industry attention as a form of last-mile delivery for supermarkets and other retail formats.

2-3. Overseas Businesses

When domestic retailers in Japan expand overseas, the typical role played by wholesalers is to supply domestic products, including even export operations. In addition, providing local retailers overseas with high-quality Japanese products supports both manufacturers in Japan and the overseas retailers.

For Kato Sangyo, overseas operations have recently been accounting for about 4% of its total net sales, and the company announced its intention to expand this proportion to 10% in the future. Kato Sangyo currently operates in four overseas countries: Malaysia, Vietnam, Singapore, and China, where the company addresses the needs of local manufacturers and retailers in accordance with local business practices.

Toho is also expanding its operations overseas in a similar manner. It is working to expand its business in three regions: Singapore, Hong Kong, and Malaysia, with a focus on Japanese restaurants. As the Japanese domestic market is expected to shrink, the time may be approaching when wholesalers should also consider expanding their business activities into overseas markets.

¹ <https://www.nippon-access.co.jp/smilespoon/>

3. FUTURE OUTLOOK

The most recent challenge facing the wholesale industry is the need to overcome its low profit structure. This low profitability is due to the fact that the retail industry, which is the wholesale industry's customer base, also has an extremely low profit margin compared to its counterparts in Europe and the US. This low profitability makes it difficult for wholesalers to make large capital investments to reform logistics facilities or introduce new systems. Wholesalers urgently need to improve their profit margins by providing both manufacturers and retailers with added value. Wholesalers are in contact with both upstream manufacturers and downstream retailers and have access to information on orders received and issued, making them capable of becoming a hub for overall supply chain optimization. Their level of social significance is also on the rise in terms of improving logistical efficiency and reducing CO₂ emissions. Therefore, it is essential to improve the efficiency of the wholesale industry as a whole and use the profits generated to invest in areas in which each company excels, thereby enhancing the uniqueness and competitiveness of each company. This is the best strategy for the survival of the wholesale industry in the Japanese market, which continues to shrink along with the population. In order to counter the 2024 problem and labor shortages facing the logistics sector, it is also expected that players will continue to promote both industry-wide and inter-industry cooperation and collaboration, as there are limits to the degree of optimization that can be achieved by each company alone.

Any use, reproduction, copying or redistribution of this report, in whole or in part, is prohibited without the prior consent of Mitsui & Co. Global Strategic Studies Institute (MGSSI). This report was created based on information and data obtained from sources believed to be reliable; however, MGSSI does not guarantee the accuracy, reliability, or completeness of such information or data. Opinions contained in this report represent those of the author and cannot in any way be considered as representing the unified opinion of MGSSI and the Mitsui & Co. group. MGSSI and the Mitsui & Co. group will not be liable for any damages or losses, whether direct or indirect, that may result from the use of this report. The information in this report is subject to change without prior notice.