

Norwegian salmon exporters and the changing structure of Japanese seafood distribution

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Abstract in Norwegian:

Japan har lenge vært et viktig marked for norsk laks. Samtidig er det japanske markedet kjent for å representere en komplisert distribusjonsstruktur med mange mellomledd. I den senere tid er dette systemet utfordret av nye distribusjonsmåter hvor aktørene forsøker å finne nye veier utenom de tradisjonelle grossistmarkedene. Her kjennetegnes sjømatdistribusjon av større grad direkte kontakt mellom produsenter, importører og dagligvarekjeder. Denne artikkelen undersøker hvordan norske eksportører og deres japanske kunder forholder seg til disse endringene, og hva dette medfører for deres markedsaktiviteter. Artikkelen presenterer resultatene fra et større forskningsprosjekt i form av fem megatrender som for tiden kjennetegner det japanske markedet.

Abstract in English:

For many years Japan has been an important market for Norwegian salmon. At the same time Japan has been characterised by a complicated distribution structure with several layers of wholesalers and middlemen. Recently this system is challenged by new distribution patterns bypassing the traditional wholesale markets. This new system is characterised by more direct contact between producers, importers and retailers. This article analyses how Norwegian exporters and their Japanese customers handle these changes and what this means for their marketing strategy. The results from part of a wider research project and are presented in form of five megatrends currently characterizing the Japanese seafood market.

Introduction

This study analyses how Norwegian and Japanese companies in the seafood industry cope with and adapt to changes in distribution structures. Japan is interesting to investigate in terms of its historical importance as a major market for Norwegian seafood. Norwegian export relationships go a long way back, and in 2015 Japan and Norway will celebrate 110 years of diplomatic ties. There are currently 43 Norwegian seafood producers listed as exporters to Japan by the Norwegian Seafood Export Council. Some Norwegian producers have been present in Japan for over 40 years. Japan is Norway's 2nd largest export market in Asia (after China) according to Statistics Norway (2012). Seafood exports to Japan from Norway fell rapidly from 250.000 tons in 2002 to less than 100.000

tons in 2006. Since then exports increased slowly but steadily to slightly less than 150.000 tons in 2011, according to the Norwegian Seafood Export Council. The increase in exports is mainly due to increased volumes of pelagic fish. Salmon export volumes fell from 70.000 tons in 2002 to 30.000 tons in 2008, and have remained at this level since then. Nevertheless, the sales value of the salmon has increased significantly and Japan is still an important market for Norwegian seafood.

Japan is also interesting from the fact that it has been considered as a difficult market to penetrate. Particularly, the Japanese distribution system has been seen as a great barrier to entry with complex distribution structures and inefficient and old-fashioned practices (Lazer *et al.*, 1995;

Rajaratnam & McKinney, 1995; Shimaguchi & Lazer, 1979). However, in recent years Japanese distribution has been challenged by new and more efficient distribution structures where direct contact between exporters and retailers bypass traditional distribution structures. Given the importance Japan represents as a market for Norwegian salmon, it becomes valid to investigate what these changes mean for Norwegian exporters and their relationships with Japanese companies. This study attempts to answer this question by applying a qualitative research design with in-depth personal interviews of respondents in a particular value chain for Norwegian salmon, representing Norwegian exporters, Japanese importers, processors and retailers. Results are discussed in terms of five megatrends identified in the study, and some implications for Norwegian exporters are presented towards the end.

Traditional distribution facing a new reality

Seafood in Japan has traditionally been distributed through 54 large central and regional wholesale markets around the country. The Tsukiji wholesale market in Tokyo is considered to be the biggest one. Dating back to 1590 it accounts for 15% of all seafood distributed in Japan (Bestor, 2004). It includes seven primary and 900 secondary wholesalers and it handles over 2.400 tons of seafood and more than 450 different types of fish. Over 14.000 people work here and it attracts 35.000 buyers daily. However, in recent years traditional seafood distribution has come under significant pressure to change. Actors seek to bypass the system and new distribution channels with fewer and larger units are challenging established practices: "Coming under much criticism are the many layers of wholesalers who stand between producers and consumers. These tiers of enterprises include vast numbers of presumably

inefficient small scale (often family-run) wholesale and retail outlets. By the same token, the apparently more efficient large scale specialty stores, supermarkets, and department stores are relatively few." (Bestor, 2004: 35). Japanese and foreigners alike view Japanese distribution channels as economically inefficient, barring entry of foreign goods into Japan. In Bestors (2004) view "...the ultimate competitive arena for Tsukiji's auction houses is between central wholesale markets, generally, and other channels of distribution that avoid or bypass the system" (Bestor, 2004: 199).

Another trend aiding this development is the increased power of Japanese retailers. Traditionally Japan has been characterised by a large number of small-sized retailers. Japanese consumers have disliked spending their time wandering around large supermarkets or superstores; they prefer visiting the local stores to get fresh produce in small quantities. Average spending is quite low. Japanese consumers make four to five shopping trips per week. Other factors like low car ownership, small sized home fridges and freezers adds to this (Planet Retail, 2006). But the current trend is towards fewer, but larger retailers. The easement of the Large Scale Retail Store Law which prohibited large-scale retail stores with floor space exceeding 55 square meters has speeded up this development, according to Maruyama (2005). There are also changes on the manufacturing level. Traditionally Japan has been characterised by a low number of large manufacturers selling to a large number of small companies, exerting considerable control (Lohtia *et al.*, 1999). But with appreciation of the Yen and wage increases in the early 1990s, the use of foreign suppliers became common. Competition among Japanese manufacturers has become more intense, reducing supplier power. Hence, the balance has shifted in favour of the retailers. This is by no means a new phenomenon; such changes have been evident in Europe and the USA for some years. But now this trend is slowly spreading to Japan. However, the question

is how fast changes will occur knowing the strong presence of seafood wholesale markets in Japan, deeply rooted in Japanese traditions and culture. Bestor (2004) argues that the growth of out-of market channels is directly related to developments in transport and communication, particularly refrigerated trucks, and the expansion of supermarket chains, franchised restaurants and fast-food shops that require and consume a large quantity of standardised seafood products of medium quality. Nevertheless, a supermarket chain cannot develop its own supply channels for products available in small amounts. Hence, it is likely to rely on the fish market distribution system rather than its own distribution channels. According to Planet Retail (2006) Japan's retail sector is highly fragmented with the top five players holding a market share of less than 20%.

Japanese distribution is experiencing considerable changes at present. Interesting research questions are therefore: How are these changes perceived by Norwegian exporters of fresh salmon in Japan? And

what do these changes mean for Norwegian exporters and their relationships with Japanese companies?

Research design

This research has been undertaken as part of the NewMark Project at the Norwegian Business School (BI). The NewMark Project was financed by the Norwegian Research Council and its main purpose was to investigate how business relationships are managed in industrial networks (Olsen, 2012). It is theoretically rooted in the Industrial Network Approach where the interdependence between companies in industrial markets is the focus of attention (Håkansson *et al.*, 2005). The research sample presented here (see table 1) consisted of respondents from two Norwegian salmon exporters and respondents from four Japanese companies (names have been altered to preserve anonymity of the respondents). All these companies represent the same value chain:

Table 1 Research Sample

Norway Salmon	Norwegian exporter	Norway Salmon is one of Norway's largest salmon exporters to Japan.
Supreme Seafood	Norwegian exporter	Supreme Seafood is another large seafood producer and exporter from Norway
Bluewater Trading	Japanese importer	Bluewater Trading is one of Japans largest seafood importers. It has imported Norwegian salmon since the 1990s. Bluewater also buys frozen salmon from Chile, New Zealand and Canada
Shoitachi	Japanese seafood processor	Shoitachi is a well-established processing company in Japan. It also owns a small restaurant chain. Recently they built a new plant with modern production equipment and have made considerable adaptations to cater for the changing needs of the supermarkets
Asahi Retail	Japanese retail chain	Asahi Retail is a large supermarket chain with 135 outlets mainly in the Kyoto/Osaka area. In Japanese terms they are a medium sized retailer

This sample represents a case within a larger study with more actors involved (Abrahamsen, 2011). In terms of data collection method personal in-depth interviews

were found to be the most appropriate method because interviews enables close encounters with respondents and gives the ability to clarify content and meaning (Bry-

man & Bell, 2003). The interviews centered around two main questions: What changes in Japanese seafood distribution are you experiencing? Why are these changes happening? Each interview lasted between 1.5 and two hours and was conducted in Norwegian or English depending on the respondent. The interviews were taped and then transcribed. In order to turn the transcript into data fit for analysis, relevant categories were developed from distribution and industrial marketing theory and from the text material itself (Kvale, 1996), and a template was created representing a hierarchy of categories (King, 2004). The text was then coded based on these categories.

Results: Five megatrends

The analysis of the data allowed the key results to be grouped into these five megatrends:

General change from fishmarket to direct distribution

The respondent from Norway Salmon describes how the network changes from the fishmarket system to progressively more direct distribution: "Compared to the other main seafood markets things are slow in Japan. But the underlying change which we see accelerating is more direct contact between suppliers and end user, i.e. primary actors in the production and end users in the consumption end". The respondent explains this in more detail: "What is happening now is that you have a Norwegian exporter which sells to a Japanese importer or to an importer owned by them. This importer has direct contact with retail chains or restaurant chains. This model has grown in magnitude the last 5 years. It has been more common to do this type of distribution now than 5 years ago". Another example is closer ties to importers, processors and retailers: "The main difference in resource ties is that we develop concepts together in direct distribution. Examples of such con-

cepts can be packaging, logistics, special product qualities, particular feed mix at the fish farm, category management together with the supermarkets, and menu development with the restaurants. A broad range, actually". As a result, Norway Salmon has created new positions within their company: "We share knowledge with our customers. We have recently hired a product development manager and a brand manager. These are resources that we draw upon together with the importers and retailers in Japan. We have not created them specifically for Japan, but for our company". This has improved cooperation with his partners: "Our new company is now in a much better position to negotiate with the retailers than previously, and these skills are important to us. But we have a broad scope when we create these positions, and we use them to get in closer cooperation with our customers". The increased ties and integration of the network has led to greater commitment between the actors: "We have three companies in Japan that we define as strategic partners. With these three partners we draw on various types of resources. So here we position ourselves much closer than we do in the traditional fish market system".

The best way to explain these changes is the role of the retailers who are increasingly powerful: "The purchase function in direct distribution is more professional than in the traditional system. And the retail power is greater in the direct system". Retailers are adopting new purchasing strategies: "The reason behind this is that in Japan the retailers wish to adopt purchase strategies and management practices that has been introduced by international retail chains such as Carrefour and Wal-Mart. Japanese retailers are inspired by this. If they are to survive they have to get closer to the origin of the products that they source. This is to a great part driven by the retail level".

The respondent from Bluewater Trading (the importer) also explains that there is increasing direct distribution. Today it is

50/50 between the fishmarket and direct distribution, but this is changing; "Five years ago we had a close relationship with the wholesalers, but not with the wider distribution network. Today we sell about 50% to the old distribution channel, which is the fishmarket, and 50% which is direct distribution. But this part is increasing. I don't know for the others, but for us this framework has been increasing significantly". This result in closer integration between the actors: "We have close contacts with the retailers and the processor, they are becoming our partners." As a result, he has developed closer relationships and strengthened ties to his business partners. There is more commitment in the relationship, meetings are regular and discussions are open and friendly. "We have more direct access to the retailers now and we often meet them. They want to talk to us and we want to talk to them. The biggest change for our organisation is that we get direct opinion from the retailers, and we give them feedback directly. We know what they want, and they also get the benefit of quick reply from the Norwegian side. They are very happy. Previously, we didn't know anything about the end user. The fish market and all its layers prevented access to this kind of information... Now, we discuss how to increase our contact with the retailers on expense of the fish market".

Supreme Seafood (the other Norwegian exporter) refers to a similar trend: "Things are developing in Japan, but very slowly. The distribution channel becomes shorter and levels are bypassed". He is now in direct contact with the retailers, omitting the wholesale market and layers of distribution characteristic of the fish market system. He views the traditional system as very ineffective: "In a way the traditional system would be perfect for us, because there are no dominant actors like the retailers in Europe. But at the same time it limits our operations and it is not effective. Some of the middlemen are small companies, they live as they breathe. They don't have the financial resources or the people to take on the large

retailers. Some are just a few people. We cannot place our entire strategy in the hands of these people. They can't plan for the future. We can't discuss campaigns and discuss retailers with them. They don't know what we're talking about. They feel their position threatened and have nothing to gain by changing the system".

More cooperation and closer integration between companies

The actors in direct distribution have developed retail promotion campaigns together; "Norway Salmon supports us in many ways; such as promotion and pricing. We have promotion activities together with Norway Salmon and the Norwegian Seafood Export Council (NSEC). Norway Salmon and NSEC provide some of the funds for these activities and we share the costs."

Another example of close ties is the relationship between Bluewater Trading and Shoitachi (the processor) where processing is tailored and adapted to the needs of the retailers: "I think in case of Shoitachi we are working really close. We sell to the supermarkets, but every supermarket needs some processing. They cannot buy salmon by the box. They may process some salmon by themselves, but at busy times they use our processor. So when we have a sales campaign we always use the processor." Closer ties have led to increased sales: "Five years ago our import volumes were small, and the Japanese salmon market was very small. Maybe only 5.000 tons fresh salmon per year. But Norway Salmon wanted to increase the number of customers and their market share in Japan. We had a very positive feeling about their people, they were nice and positive and the service was good. So we started to have regular business". New pricing policies have also been introduced: "Together with Shoitachi we established a more stable price structure towards the retailers. Previously, price was decided once a week. But we proposed a monthly price or three-

month price or a yearly contract price. At that time salmon prices was so fluctuating, sometimes price came right up to 16 NOK per kilo, and a lot of retailers were unhappy about this. They wanted to have stable prices. Our offer was very good for the retailers, and increased our volumes to the retailers".

Retailers now have better access to information: "Access to information has become a great asset, it is very important", the respondent says. Japanese retailers are very concerned about food traceability: "We want to develop close relationship to the exporter and to the retailers because we want to increase the level of traceability of the fish that we sell. The retailers are very concerned about this. The price difference between buying from the fish market and buying from us is not that big, it may actually be higher. But the supermarkets demand traceability, safety and trust. So we have to show our face, let them know that we make an effort, assure them that we are doing the right thing".

This picture is reinforced by Asahi (the retailer). This company is increasingly buying directly from Japanese importers that have good relationships with Norwegian exporters. As a consequence his volumes from the fishmarket are reduced. Relationships with the fishmarket are characterised by tension and conflicts: "The power-balance between us and fish market has changed. The fish market used to have a lot of power, but not anymore". He is increasingly dissatisfied with the fish market and this in one reason for the change: "They cannot add value, they cannot supply what we want and we are not satisfied with them". He is increasingly satisfied with his new suppliers. "We are all working together as a team!"

Fewer but larger companies involved

Shoitachi has reduced his suppliers from five to only one which is Bluewater Trading: "It is only five years since we started handling Norwegian salmon. Then we had

many suppliers, but now we only have Bluewater Trading". This has resulted in a closer relationship and strengthened ties to his customers, increased volumes and a more stable supply: "The restaurants like working with us and the volumes to these customers is now increasing quite a lot, almost doubled every year since. We now can secure stable supplies. Five years back, around Christmas time and summer holiday time, the fish market people would say that we had to buy a lot because supply may be short. We had to place orders otherwise the products may be gone. We were forced to take risks and accumulate our own stock". Now he has an increased need for stability and less exposure to risks: "But now, working with the importer directly, we don't have to worry about this anymore". Similarly, Asahi Retail moved from having several suppliers to only one: "At this moment, I am only buying from them. Before that I used the fish market system". He is very happy with his supplier and this reinforces the positive atmosphere of the relationship. He refers to the positive integration and cooperation in the network that he now is experiencing: "Norway Salmon and Bluewater Trading are one team. And we are working together!"

Increased power of Japanese retailers

The number of large retailers in Japan is growing, according to Asahi Retail: "There used to be a lot of fish shops in Japan. But now the numbers are decreasing rapidly, about 5000 shops per year. Now the main actors are the large supermarkets, like us." This has shifted the power balance towards the retailers: "Now we are becoming powerful. We are in fact so powerful that we don't have to pay more than we have to. It becomes meaningless". The increased power means that the retailers can demand better product quality and information of product origin. The respondent of Asahi Retail explains that "...Japanese retailers are realizing that product traceability is important. Information about product origin is

required by Japanese law. But if we buy from the fish market I don't know where the salmon has been harvested or when it arrived in Japan, even though it is Norwegian. That's why we want to have more direct dealings and close relationships to our suppliers."

The change towards direct distribution has implied that Asahi Retail has saved costs and now are better able to make improved sales forecasts: "By getting information from Japanese consumers and giving this information to the supplier, we are able to improve our sales and product strategy". This is easier with direct distribution: "We have to think about how many pieces of salmon we want to sell in one day, in one week, in one month, in one year. So in that sense we want to have a supplier which can maintain the stable quality and supply which enable us to forecast our sales".

In Shoitachi's case, he is in a better position to serve the retailers: "First of all we can sell directly to the retailer or restaurant. Working directly with importer and suppliers we have very good access to information." This means that Shoitachi is able to give the retailers detailed information regarding traceability and meet the retailer's requirements: "Having a close relationship with the importer guarantees traceability which is important both to us and the retailer". The change towards more demanding retailers has had an impact on Shoitachi's operations. For instance, he has recently built a new plant which is geographically located close to his main retail customers. He has introduced new production techniques which enable more tailored production to the retailers' requirements. As an example, he mentions new monitoring technology; "As you can see, over there is a camera. At our new plant, we have recently introduced a well-equipped camera system where I can watch the workers slicing the fish. Even from my cellular phone. In a business negotiation, if you are a buyer, I can show it to you on my phone. It is so much easier". This respondent also

believes that retailers are increasingly concerned with traceability: "Restaurant and supermarket specifications are becoming very strict regarding sizes, quantities, etc. By securing the supply of raw materials we can guarantee the retailer that we can meet his demands. Earlier, we didn't know whether we could get supplies or not. And of course, having a close relationship to the importer guarantees traceability which is important both to us and the retailer. In total, it is much easier to adapt to the retailers requirements with direct access to the importer."

The fishmarket still has a role to play

However, exporters like Supreme Seafood is still dependent on the fish market because it is not big enough yet to fully be engaged in direct distribution: "We are not big enough yet to sell all our fish through this system, and we are still very dependent on the traditional importers and the fishmarket." Consequently, Supreme Seafood still sells to traditional importers: "This doesn't mean that we have stopped altogether selling to other importers in Japan, it still happens....We sell 40% or 50% to the wholesale level and the rest to what we call the downstream customers". For instance, one of the largest wholesalers at Tsukiji is still a major customer. This is because small retailers are still dependent on the fish market. The fishmarket also performs vital functions. Someone has to take the cost of sorting, filleting and storage of the fish. At the fishmarket, secondary wholesalers perform this function: "At the fish market, the intermediate wholesalers process seafood at low cost. If we have to do the filleting, we have to engage a re-processor, and they have to take their margin." As such the fishmarket performs vital functions.

This is also the concern of Norway Salmon, the other Norwegian exporter in the sample: "Despite all predictions of a less fragmented retail level in Japan, this development is going extremely slow. As

long as we have the fragmented retail level, the fishmarket fulfills an important role". The respondent says that the fishmarket has some distinct functions that are not easily replaced: "I think it is easy to overlook that when we talk about Japan, the fish market is really important and it will be there in the future. It is wrong to suggest that the fishmarket will lose its importance. It is an effective way to distribute large volumes of fresh fish. In a fragmented market like the Japanese, it is very effective". The fishmarket is also an effective way to settle prices: "You may regard it as a gigantic cash and carry wholesale outlet. Where small retailers, supermarkets and shops and restaurants meet and get what they need at the time that they need it. With guaranteed freshness. So obviously, this role is important as long as the retail level is as fragmented as it is."

Implications for Norwegian exporters

Referring back to our research questions, how are these changes perceived by Norwegian exporters of fresh salmon in Japan, and what do these changes mean for Norwegian exporters and their relationships with Japanese companies, we see that the fish market represents a challenge for Norwegian exporters. On one hand it serves as an important point of market entry to a large number of Japanese retailers. On the other hand, the exporters face difficulties in relying on a system which is seen as ineffective and costly. In this study, we have seen that Norwegian exporters and their Japanese partners (importers, processors and retailers) are active in establishing alternative distribution patterns where the actors exert more control over vital resources. These business relationships are characterised by more commitment, better communication, closer ties, more joint activities, increased volumes

and stable supply compared to what the fish market can offer. It appears that one of the key drivers here is the Japanese retailers demanding better product traceability and information. Direct distribution permits sharing information throughout the distribution channel. The exporter can exert some power as he has access to information about product origin. But the retailer also has a powerbase in terms of information about the consumers and market trends in Japan. The fishmarket with its large number of actors and many layers prohibits access to these resources.

But the study also highlights that the fishmarket has a role to play. The arguments as to why the fishmarket continues to be used can be grouped into three themes: First, small retailers do not have the capacity or skill to engage in direct distribution. Second, the fishmarket provides variety and stability and third, it is more suitable for small volumes. What is the future role of the fishmarket? The large number of small, independent retailers in Japan has long favoured the fishmarket system as it ensures product variety. It also secures market access for Norwegian exporters as it represents around 50% of the market. It therefore is an important route to market for Norwegian salmon. But future mergers at the exporter and retail level will imply that small retailers relying on the fishmarket will disappear. If Japan experiences the same tendencies as have been seen in Europe and USA for some time, where a small number of large retail chains increasingly buy directly from large seafood producers (Cantillon *et al.*, 2006), the fishmarket in its present form will become obsolete. Eventually, the future of the fishmarket will depend on how it succeeds in developing functions that are important to an increasing number of large retailers. In the meantime, Norwegian exporters have to find ways to cooperate with this important part of Japanese seafood distribution.

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