

Profitability of large japanese retail booksellers marketing essay



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According to Peng (2009), performance is “ the result of firm conduct” and as such, profitability is a key indicator of performance and thus overall corporate strategy. To achieve significant profitability and therefore, performance, a corporation must develop an effective strategy that is appropriate for the market and industry. Japanese retail booksellers are unable to develop such effective strategies as a result of the Saihan system which restrict firms from developing a unique selling point and therefore, a differentiation strategy. Without strategic diversification, a firm’s performance and thus, profitability will be minimised. This is evident with large Japanese retail booksellers as well as smaller Japanese book sellers who have relatively poor profit margins as their price points are predetermined by publishers through the Saihan system. Subsequently, this decreases competition limiting expansion opportunities and options to increase the scale of their operations.

Due to the ‘ consignment sales system’, which enables retailers to return any unsold publications back to the publishers, publishers often establish a price that will accommodate any returns and thus any financial losses (Peng 2009). As a result, the profit margin for retailers are relatively small as the original cost of the product is usually higher to hedge against any further returns. Although being able to return unsold inventory protects retailers against risks associated with purchasing stock, the disadvantage of this system in conjunction with the Saihan system is that profits are usually smaller restricting their ability to expand.

The relatively poor profits and small scale of large Japanese retail booksellers can also be attributed to increasing substitutes available in the market. As <https://assignbuster.com/profitability-of-large-japanese-retail-booksellers-marketing-essay/>

the market has steadily declined over the past decade by a staggering 20%, social trends towards internet usage and ebooks have increased (Peng 2009). Arguably, Japanese book retailers were slow to develop an online presence which would have been a key differentiation strategy at a time when few competitors were operating online restricting their means to increase their scale. The launch of Amazon's Kindle and Apple's iPhone and iPad also present significant threats to Japanese book retailers as they are more user friendly, convenient, trendy and appealing ways of purchasing and reading books and magazines (Alpeyev & Eki 2010). The Japanese ebook industry is reported to be worth 52 billion yen in 2010, with Manga purchases on mobiles accounting for 70-80% of ebook sales (Ishan 2010). This emerging trend has not been adequately addressed by Japanese book retailers and as a result are experiencing reduced sales and a limited scale of operations.

2. The Saihan system serves as a price-fixing cartel to deter entry. This practice, often labelled “collusive” and “anticompetitive,” would be illegal in many countries including the United States. What are the benefits for individual companies and the industry to participate in this system? What are the costs?

Despite being viewed as anticompetitive according to Western standards, the Saihan system does present a range of benefits for both individual companies as well as the industry overall. Whether or not the benefits outweigh the costs is a matter of opinion and perspective. Within normal competitive markets, price would be recognised as a basic means of product differentiation and therefore, strategy, however, given that prices are fixed

under the Saihan system, this has removed that degree of competition. As a result, there is no industry leader and the industry itself is currently saturated resulting in declining profits as more bookstores compete with the same pricing strategy.

Larger booksellers are given preference over smaller booksellers as they have a larger consumer base that will naturally lead to greater sales volumes and therefore, reduced returns under the consignment system for publishers and greater profits for larger retailers. Given their preferential treatment, smaller booksellers often have difficulty competing as they receive more popular titles later than larger retailers. This has caused many smaller Japanese booksellers to go out of business as they cannot compete due to delays in receiving pertinent inventory (Higuchi 2009) .

The Saihan system has been largely beneficial for authors as there is greater likelihood of a bookstore selling their books because they are protected under the consignment system if they do not sell. This gives authors a greater opportunity to gain royalties. Consumers, despite having no choice regarding price, have a greater range of products to choose from given that most large retailers usually supply a more diverse range of titles because there is less risk involved (Higuchi 2009).

3. Draw on the industry-, resource-, and institution-based views to explain the success of Bookoff and Amazon Japan.

The industry based view is based on Porter's five forces which focus on interfirm rivalry, threat of potential entrants, the bargaining power of suppliers and buyers and the threat of substitution (Peng 2009). Amazon and

Bookoff are both operating within the same industry with the same industry dynamics as one another. Each is a competitor of the other, however they operate within a larger environment and are affected by the same external influences.

Interfirm rivalry is high within the Japanese book market as there are many competing firms with no dominant market leader. The firms that are currently competing, despite some being small and some being large all experience many competitors of a similar size. Contributing to the high level of rivalry is that there is no undifferentiated product and no means of differentiation so far as strategy. The industry has been in negative growth for the past decade resulting in greater competitiveness for market share indicating that the rivalry among competitors is a strong competitive force within the industry based view. For Bookoff and Amazon, their success originated in their ability to distinguish themselves from their competitors by finding aspects of the business whereby they could differentiate through cost leadership and gain market share.

There is a high threat of potential entry as there is no need for economies of scale to operate within the Japanese market and the government has not discouraged entry through policy or legislation. It is relatively easy to gain access to this market which Amazon and Bookoff identified. The two firms utilised their already attained economies of scale and were, therefore, better able to enter the market than smaller size firms. This ease of entry was to the advantage of both firms who experienced few barriers when entering the market. The bargaining power of suppliers are high due to the relatively small number of suppliers and their control over the market due to the <https://assignbuster.com/profitability-of-large-japanese-retail-booksellers-marketing-essay/>

Saihan system. Both Amazon and Bookoff adapted efficiently to this market force and even introduced new methods of overcoming any difficulties as a result of the bargaining power of suppliers. Bookoff transformed the role of consumer to supplier through implementing a “ buy-back” policy and Amazon places a large emphasis on its e-reader the Kindle as well as diversifying its product range to counteract any difficulties.

The bargaining power of buyers is relatively low as there is a mass market of consumers that purchase standard undifferentiated products. Bookoff successfully overcame this through differentiating their products according to price using a loophole in the Saihan system. Amazon were also able to counteract this through expanding their product range as well as investing in other substitute products and making the purchasing of products easier to encourage more online sales. Threat of substitutes is high with internet usage on the rise and other means of entertainment increasing. Amazon have successfully combated this competitive force by being a manufacturer and provider of a substitute product, the Kindle. Bookoff have also enabled their products to be labelled as substitutes as they are not considered new books but rather viewed as “ new-used”.

The resource based view focuses on firm-specific capabilities and resources that ultimately differentiates successful firms from unsuccessful firms (Peng 2009). Both Bookoff and Amazon have intangible and tangible resources that add value to their company and have largely contributed to their overall success within the Japanese market. Amazon’s most considerable intangible asset is that of its brand name. This has been a significant factor in their market entry as the Amazon brand is easily associated with convenience, <https://assignbuster.com/profitability-of-large-japanese-retail-booksellers-marketing-essay/>

low/fair price, security and customer satisfaction. This resource is not easily imitable, however, Amazon's use of information technology can be imitated. In response to Japanese culture and spending habits, Amazon initiated a strategy whereby consumers could pay for purchases at convenience stores and ATMs as well as implementing a "look inside" option. These characteristics are unique to Amazon, however are easily duplicated and are beginning to appear within the market, for example Apple's Ipad which provides similar functions (Alpeyev & Eki 2010).

Bookoff's primary competitive advantage comes from their technological and financial resources. Bookoff has specifically designed innovative new technology exclusive to their stores which 'rehabilitate' used books to new book standards enabling the company to avoid the Saihan system and implement a cost leadership strategy. The technological asset is used in conjunction with the company's "buy-back" policy which is a financial resource enabling the company to purchase stock at a considerably low price that can then be passed on to other consumers (Peng 2009). This process has contributed to the overall reputation of the firm as being forward-thinking so far as environmental concerns and is a notable intangible asset. The company also has an organisational culture which encourages entrepreneurship and further innovation which is an intangible resource, separating themselves from their competitors as they are utilising the full knowledge and skills of their employees.

The primary institutional obstacle for both Bookoff and Amazon that have posed threats to their entry, strategy and success is the Saihan system. Both firms have successfully developed strategies that have overcome this

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obstacle and allowed them to become dominant market players. Bookoff have implemented a strategy whereby books are sold in near-new condition at used-book prices, thus avoiding the basic rule of the Saihan system which is a set price for new products. Amazon have also avoided this by diversifying their product range and thus, enabling consumers to gain discounts from other products as well as conveying the convenience of making all purchases from the one location despite being online.

Culture and society as an informal institution has played a key role in both firms strategies as they have had to adapt to local market needs and wants. Amazon have successfully recognised the increasing use of internet as well as the reluctance to provide credit card details over the internet. After recognising this problem, the company offered a payment alternative for those individuals who are fearful of fraud and internet security by allowing payments to be made at ATMs and convenience stores thereby, adjusting to the local culture (Peng 2009). This strategy has been largely effective in responding to culture as an informal institution.

4. What is going to happen if the Saihan system dissolves?

The Saihan system acts as a barrier to entry and restricts competition within the industry. If the Saihan system were to dissolve, increased competition would ensue as firms, both large and small, would be able to develop strategies based on price. There would be an increase in firms adopting a cost leadership strategy which would result in cost efficiency as well as a greater choice for consumers regarding book purchases and may see price decreases in other substitute products such as ebooks and iPhone/iPad

applications. Stevens (2007) suggests that this could result in a “ coming
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wave of mergers and consolidations” while also making market entry more difficult without a suitable price-focused entry strategy. A power shift may occur with retailers holding greater power over suppliers which would increase competition among publishers and distributors. Given recent trends towards substitute products as well as creative alternatives to entering the Japanese market, the dissolution of the Saihan system may become more desirable in coming years.

5. If you were a board member of Barnes & Noble or Borders, would you approve a proposal to open a series of book stores in Japan now? Would you change your mind if the Saihan system dissolves?

Irrespective of the Saihan system, Japan represents a new market with sophisticated consumers and potential for international expansion. Despite industry figures showing a decline in book sales the market is still profitable and significantly sizeable. If Barnes & Noble or Borders were to enter the Japanese market it would be highly recommended to develop a differentiation strategy as Amazon and Bookoff have both exhibited. Both firms were able to enter a challenging market and become successful within that market with the execution of a strategic plan that emphasised differentiation. Barnes & Noble and Borders must develop equally creative strategies if they want to be successful. If such a strategy can be designed then entry would be advised.

The Japanese market is highly responsive to digital means of reading books and magazines which presents Barnes & Noble and Borders with an opportunity to penetrate the market. Following Amazon and Apple’s lead

with the Kindle and the Ipad, these two firms could launch their own versions of an e-reader, for example Barnes & Noble's Nook. This would offer both companies an approach to entry and profits without establishing physical bookstores which is considerably more risky. This could be an alternative for both firms to establish market presence while the Saihan system is still in effect and causing greater barriers to entry. Despite recommending that Barnes & Noble and Borders do not establish bookstores in Japan in the current environment, if both firms were to enter the market a strategic alliance would be recommended. An alliance with a local bookstore presents an array of benefits for both firms in regards to entering a highly competitive, culturally challenging market.

If the Saihan system were to dissolve then entry would be strongly advised given the opportunities the Japanese market offers. It would be recommended that both firms include a focus on digital means of reading and purchasing books as the market indicates this as a key trend. Failure to do this could result in a costly and unsuccessful expansion. With the dissolution of the Saihan system, the establishment of bookstores would be advised as delayed entry would result in a more difficult market entry in future.