

# Transaction System of SMEs in Japan after the war

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## Introduction

This study is intended as an investigation of the characteristics of the Japanese SME transaction system after the war taking the case of the jewelry or the fashion accessory industry.<sup>3</sup> The transaction system for SMEs is often discussed in the case of the automobile and the home appliance industries, but there are few studies on the jewelry or fashion accessory industry.<sup>4</sup> Company A, which mainly produces molds for fashion accessory parts, press processing, and product assembly, has the head factory in Osaka, and the second factory in Nara opened in 2005. the Osaka factory is managed by the president of Company A, a mold engineer. His son, also a mold engineer and the production manager of the company orders, manufactures, creates quotations in the second factory.

The first characteristic of the trading system for Company A is that it receives orders from manufacturers through wholesalers and manufactures and delivers their products. We must also draw attention to the extremely

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<sup>3</sup> The contents of this article are based on the survey report on a mold company (Company A) conducted in March 2018 (Habuchi, Sakamoto et al. Kanagata Kigyo Chosa Hokokusho, *Annual Report 27*, (2018) *Kobe International University Economic and Cultural Research Institute*); Restructured with a focus on the transaction system in the survey report.

<sup>4</sup> e.g. Institute of Economic Research, Chuo University, Chushokigyo no Kaisokozo: Hitachiseisakusho Shitaukeikigyokouzou no zittai bunseki, Tokyo: Chuo University Press, 1976

long-standing trading between Company A and those wholesalers. The company has been in business with five wholesalers for and trading over 50 years with three them. We are going to consider the role of wholesalers in the trading process and the background of long-standing business partnerships through wholesalers taking cases of Company A.

## I. Profile of Company A

### 1. History of Company A

Company A produces metal fittings or parts for fashion accessory upon order-based. The company handles over 4,000 products, which of jewelry accessories, miscellaneous accessories parts, and decorative parts for cell phones through wholesalers. About 800 types of molds have been produced by the company. Since its founding in 1965, Company A has been providing jewelry or fashion accessory parts mainly and dies using conventional machine<sup>5</sup> tools, press processing, product assembly. The founder is the father of the current president. The main business at first was purchasing and selling fashion accessories. The company enjoyed a good performance in the years supported by the high economic growth of Japan.<sup>6</sup>

In 1981, the son of the founder took over the management of Company A as the second president.<sup>7</sup> Before appointed to the president, he had gained experience at other companies to learn techniques for mold production. Company A started manufacturing the in-house production after his appointment and strengthened its sale of jewelry products. During the 1980 s, Japan enjoyed the bubble economy, and the company's products, necklace fasteners, earrings, or rings sold as much as they were made. However, he followed the former president's idea; there are good times and bad times in

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<sup>5</sup> s. Conventional machine tools refer to machine tools before NC machine tools appeared in the 1970s in this study.

<sup>6</sup> cf. Yoshikawa, Hiroshi, *High Growth*, Tokyo: Chukoronshinsha, 2012

<sup>7</sup> The second president is an engineer, manufacturing press mold using files, chisel, lathes, and ball lathes for 35 years.

business and managed its business without steadily expanding to accumulate capital.<sup>8</sup>

Two sons of the current president are engaged in Company A as successors under the guidance of the president now. One of them, the production manager of the company and has 15 years of experience in mold production, had worked for mold manufacturing using the latest technology at a subcontractor company of SHARP and Canon then joined his father's business. The president is managing the Osaka factory, and the production manager is in charge of mold production, making manufacturing at the factory in Nara, but the production manager produces 80 % of the mold production.

The fashion accessory parts market has been affected by overseas imports, mainly from China. See table 1 for the history of Company A.

Table 1 *History of Company A*

1965	Launch the sales of fashion jewelry parts by the founder
1981, April	The son of the founder took over the business. Start production of fashion accessory parts
2005	The production manager joined the business after learning mold manufacturing. Launch the factory in Nara. Investment in 3 forming presses.
2008, January	The company incorporated. Investment in 4 forming presses and two machine tools.
2014	Eldest son of the president joined the business as a successor.

Source: Habuchi, Sakamoto (2018) p.32

## 2. Features of Fashion Accessory Industry

There are two main types of fashion accessory products; standard products can be sold throughout the year and new products that match market or fashion trends.

<sup>8</sup> cf. Matsushima, Shigeru, Harukata Takenaka, *The Record of Japanese Economy: History*, Tokyo: Economic and social research institute, 2011

The order flow for standard products is that the manufacturers ask the wholesalers to produce finished products. The wholesalers place orders for each part of the products to parts manufacturing companies. The manufacturers produce and sell finished products that assembled parts from parts of manufacturing companies. Company A produces parts of fashion accessories ordered by wholesalers.

For the ordering of new products, the manufacturers draw a rough design of a new product. The manufacturers have no abilities to bring detailed design, and they work with wholesalers to create or to share the image of the new product. Then based on the image, the wholesalers order the parts of the new product to parts manufacturers.

In the market of fashion accessory parts, players are trading common parts called module parts that can be used for standard and new products. Standardized parts have external dimensions and hole pitches, and many companies produce the same standard elements. Each part manufacturers tries to differentiate the modules by modifying and adding some ingenuity. Company A produces 30 types of brooch products in various sizes and shapes. Other companies make those products as modules too, and each company competes with others for aesthetics and unit price. Those standardized parts are also produced for other products, earrings, fasteners, and rings besides brooch products and probably 1,000 types or more modules are traded in the industry. It is unclear who set the standard, and no license exists for such modules. Therefore, any company can produce those standardized parts.<sup>9</sup>

### 3. Transaction System through Wholesalers

The feature of the transaction system for Company A is that the com-

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<sup>9</sup> cf. Imamichi, Yukio, and Takashi Habuchi, 'The current state of the patent attorney industry since the professional patent reform,' Kobe International University economic and management review 39.1 (2019) pp.25-52

pany manufactures and sells its products through coordinating by wholesalers between Company A and the manufacturing companies. We will now discuss the wholesalers that deal with Company A, based on Table 2.

Table 2 *The wholesalers business with Company A*

	Wholesaler A	Wholesaler B	Wholesaler C	Wholesaler D*	Wholesaler E
Established in	1952	1947	1975	1998	1993
Years of business with	< 50	< 50	35	< 50	3
Trading Products	Clothing materials, Parts of Fashion Accessory, Key chains, Artificial nails.	Clothing materials, Parts of Fashion Accessory, Apparel brand's products	Clothing materials, Parts of Fashion Accessory	Part of Fashion Accessory, Clasps of necklace	Clothing material, Part of Fashion Accessory, Metal parts, Parts of cell phone, Parts of fishing tackle, House brand's products
N. of new products/year	3 - 5	3 - 5	3 - 5	0	3 - 5
The unit price of products	Low	Low	Low	High	High
Production lot	Very large	Middle	Small	Small	Large
Types of trading product	Few	Many	Many	Few	Many
Management of inventory control	Easy	Difficult	Difficult	Easy	Difficult

Source: Habuchi, Sakamoto (2018) p.35

\*1 Wholesaler D changed its company name due to business closure in 1998. The business with Company A was continued before 1998.

### 3.1 Wholesaler A

Wholesaler A was founded in 1952 and has been in business with Company A for over 50 years. Among the wholesalers that deal with Company A, in terms of the number of employees and the number of lots, wholesaler A is recognized as large-scaled.<sup>10</sup>

The main trading products between Company A and Wholesaler A are

parts of artificial nails. The size of these products is small, about 3 mm to 5 mm, and the unit price is low. However, lot numbers are large with 2 million orders per month at peak times. The types of products that are categorized as parts of artificial nails are classified into approximately 30 types according to size and shape. It is easy to predict the monthly order volume of parts of standard artificial nails. This makes that Company A can set simple product schedules for those products. Inventory management for the wholesaler is also space-saving because of the products' size.

### 3.2 Wholesaler B

Wholesaler B, established in 1947, has been trading with Company A for over 50 years. The products traded with wholesaler B are mainly clothing materials, key chains and fashion accessory parts. Like Wholesaler A, Company A has a long business relationship with Wholesaler B. Despite the lot numbers of each product are small, there are continuous orders for standard products. Unit prices of those products have not been changed for 30 years, and profit ratio from dealing with this wholesaler is low compared to the unit price of current general handling products. Even if the number of product lots per order is small, the same product may be ordered several times in the same month. The company can keep a certain number of orders in the monthly total in such a case.

Wholesaler B also sells products imported from China with Japanese parts. The wholesaler sometimes orders the company adding processing or values to imported products from China. Such products that combine multiple products and parts are the main transaction items between Wholesaler B and Company A. Analyzing this transaction from an inventory management perspective, the inventory management and setting the production schedules for the standard products are not difficult. However, various kind of parts are needed for one product and product types combined a plurality of parts is very large. The sizes of each product are not small, which makes

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<sup>10</sup> Wholesaler A has five business divisions: Apparel, Fashion accessory, Manufacturing, Trading, and Interior. The division of Company A dealing with is mainly Apparel Division.

it difficult to control the inventory management for those products. Wholesaler B asks Company A to produce 3 to 5 types of new products every year.

### 3.3 Wholesaler C

Wholesaler C started its business in 1975. The business relationship between Company A has been continued for 35 years. The products delivered by Company A to Wholesaler C are distributed to stores, retail companies, handicraft artists and privately owned original brands that sell handicrafts. A handicraft artist may request the wholesaler to make original parts. Wholesaler C is playing its business in the niche market compared to other wholesalers.

Wholesaler C has continuous orders for standard products to the company upon long-standing relationships. Many of the parts ordered from the wholesaler are also manufactured by other fashion accessory parts company, and Company A often faces intense competition with developing a pricing strategy. On the other hand, the company has many types of standard products for the wholesaler, and a certain number of those products are ordered every month. The numbers of non-standard product lots are small and the intervals of orders for those products tend to belong, which leads to setting production schedules difficult. Because of many types of standard products, the stock control management process is often complicated. Wholesaler C asks Company A to produce 3 to 5 types of new products every year.

### 3.4 Wholesaler D

Company A has been dealing with Wholesaler D for over 50 years since its establishment. When the company was founded, clasps of necklace that current main products for Wholesaler D were purchased and sold to business partners. Then the current president of Company A started to produce the clasps, and the company expanded its operations into manufacturing and sales. The main products traded with Wholesaler D are fashion accessory parts and clasps of the necklace mentioned above. The clasps are assembled in pearl necklace products. This clasp has a complicated shape with three parts combined and adds high value and unit price. Even though the product

lot of the clasp is small, it contributes greatly to the business of Company A with a certain number of orders from Wholesaler D every month for 50 years.

## 4. Functions of Wholesalers

As we have discussed, Company A does not deal directly with manufacturers but does business through wholesalers. Functions of wholesalers are classified into five areas, adjustment, negotiation, warehousing or storing, quality control and sales.

### 4.1 Adjustment

The wholesalers make adjustments between Manufacturers and Company A. The process of adjustment has two aspects. One of them is about the design and function of products. Second is about product unit price, a number of lots and mold price. The first aspect is the collaborating process of determining design and function. The second is a process involving strong conflicts such as bargaining or negotiations between Company A and Manufacturers.. The actual transaction process is carried out, while these two aspects are mixed.

#### 4.1.1 Adjustments for blueprints and prototypes

We shall consider the functions of manufacturers, wholesalers and Company A upon the process of new product development. At first, a manufacturer takes the finished design of a new product to a wholesaler. The manufacturer and the wholesalers make adjustments about the design and functions. Secondly, the wholesaler shows Company A the design and sample of new products to explain new product development. Thirdly, Company A designs the new product and makes a prototype. The prototype is made in a product shape that can be formed by mold assuming press working. Then, Company A submits the prototype to the manufacturers through wholesalers. At this process, Company A suggests changing shapes if the sample requested by the manufacturer has difficulty in producing. Next, the manufac-



turer checks the design and functions of the prototype then gives out orders of molds and press production to Company A. Lastly, If the manufacturer determines a design or function modification is required, the wholesaler sends the request to Company A. If the manufacturer does not accept new prototype after the last process, the adjustments will continue till they come to terms. The wholesaler makes adjustments between the manufacturer and Company A and the company can concentrate on product manufacturing.<sup>11</sup>

#### 4.1.2 Negotiation on product unit price, number of lots and mold price

After adjustments of design and function for a new product, three parties will enter into negotiations on product unit price, a number of lots, and mold price. There are two main issues to negotiate. The product unit price is determined by the number of lots, product size, and a number of processes. The price may increase when pursuing its design. Company A suggests the unit price and a number of lots on the estimate to the wholesaler, and the wholesaler negotiate them with the manufacturer based on the suggestion. The negotiation proceeds while the wholesaler makes adjustment requests between the manufacturer and the company. The mold price, as another factor, is determined by its size, product shape, processing processes and difficulty. The number of lots is related to the prices of materials and the product unit price, and the three focus on this point.<sup>12</sup> In general, the product unit price is determined in inverse proportion to the number of lots. In this way, the negotiation for the quotation is proceeded to adjust on five factors; design, function, unit price, a number of lots and mold price.

#### 4.2 Warehousing and storage

The wholesaler negotiates and adjusts the number of orders and lots Company A requests to produce. The orders from manufacturers are often

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<sup>11</sup> Without adjustments through the wholesalers, Company A will need to do the process on its own, significantly reduces productivity.

<sup>12</sup> The coil products used by Company A for the main material; therefore, minimum weight is measured in area units.

less than the number of desired lots from Company A. In such cases, the wholesaler once has inventory. For example, the manufacturer places an order of 1,000 pieces of a product. And the wholesaler orders three lots, 3,000 pieces of the product to realize cost cut based on the volume efficiency. The excess two lots, 2,000 pieces, are held as inventory by the wholesaler. At this point, the wholesaler expects the manufacturer to order these 2,000 additional products. If the manufacturer places this additional order, some of the cost reduction benefits the wholesaler. In the case of no additional order from the manufacturer, 2,000 pieces will be lost to the wholesaler. If the wholesaler considers the risk of having 2,000 pieces as stocks, the wholesaler reduces the order for Company A to 1,000 pieces. In this case, the risk of the wholesaler is decreased, but the volume efficiency of Company A is decreased. Company A also has a certain amount of inventory, and the wholesaler and the company may share the risk in co-operation. Inventory adjustment is carried out between the wholesaler and Company A, but the manufacturer does not know their risk-sharing.

#### 4.3 Quality control

Company A manages quality control while manufacturing on-site. The wholesaler checks the quality of the product delivered from Company A to prevent the shipment of defective products to the manufacturer. The wholesaler returns the defective products, and Company A replaces them attached a report describing the cause and countermeasures. The wholesalers decrease the risk of delivering defective products and have the function of improving the quality control level of Company A. The wholesaler. Besides, the wholesaler hear complains about products from the manufacturer to prevent the souring of the relations between Company A and the manufacturer.

#### 4.4 Sales

Company A specializes in manufacturing and does not manage sales. The wholesaler sales Company A's products on behalf of the company and take the lead in new orders. The deals are, of course, conducted wholesaler

itself, but also, it is an essential function for Company A.

## 5. Recent Trends of Company A and the Wholesalers

We have examined the functions of the wholesalers had long-term trading with Company A. Recently, Company A started new-styled transactions with Wholesaler E. Wholesaler E, founded in 1993, has had traded with the company for three years. Among the wholesalers making transactions with the company, the newest business associate. Clothing materials, parts of fashion accessory, and pieces of fishing tackle are main items of business between them. The transaction system between the company and the wholesaler is very different from the other wholesalers.

Wholesaler E sells the house brand's products. For new products, the lots ordered by Wholesalers E are often small because these new products are brought to the market as trials. Even if wholesaler E orders a small-lot new product from a manufacturing company, few companies can handle such a small lot with a new mold. If wholesaler E orders lots of 1,000 using a new mold, Company A refuses the order. Moreover, Wholesaler E asks the company produces 30,000 new products ordered from a manufacturer to wholesaler E and bring the products on the market. If the manufacturer accepts this transaction, Company A charges Wholesaler E for the mold price. The wholesaler sells 30,000 products made by the company at a price as a product of the house brand.

From the view of Company A, the products made by Company A using its mold are sold through Wholesaler E. And the products may be sold combined with other companies' parts. Company A does not deliver its products before the date for the manufacturer but follows the production schedule of Wholesaler E. This means that Wholesaler E creates a sales plan based on the quotation submitted from Company A, and it is easier to satisfy the desired number of lots of Company A. The order started for 1,000. However, the home brand of Wholesaler E resulted in an increase in the order lot of Company A.

We should not overlook that selling the products made by Company A

as a product of House Brand of Wholesaler E makes the wholesaler does not need to adjust issues between the manufacture and Company A. This means wholesaler E can determine unit prices and sales schedules for its products by adjusting between Company A only. Company A is the party to determine the price of a product sold by the wholesaler, and if the wholesaler places an order, the options are accepting the desired unit price of Company A or seeking the other company.

House brand's products of wholesaler E makes value by manufacturing and improving its quality within Japan. This had the following effects on Company A. The company may suggest the function of products and manufacturing processes. This means that Company A joins into product developments with the wholesaler and evolution as an order receiving company. And in addition to products such as fashion accessory parts, products in new fields such as fishing tackle and metal parts are added as products of Company A. The company has enough experience in producing fashion accessory parts, therefore, there is almost no need to check the function of the products, and the wholesaler only checks its design only. The company can manufacture any fashion accessory parts using molds the company has created in its history. Nevertheless, for fishing tackle products, the company and the wholesaler need to check the functions of the products' movement underwater together. Company A needs to communicate with wholesaler E a lot on the process of new product development. The company must create a new mold for the products in the new field. Company A has had unique experience and opportunities to study for new business since starting trading with Wholesaler E.

## 6. Conclusion

Company A and the wholesalers have had a long-standing business. The history of the company has been the process to create the capacity to respond to orders from the wholesalers and the capacity has been developed with the wholesalers together. The business has been succeeded in the fam-

ily. In conclusion, we will summarize the features of this long-standing transaction system and the factors allowed to conduct such long term transactions.

### 6.1 Vague trading and asymmetry of information

The wholesalers place orders to Company A without product designs because the manufacturers cannot design products. This means that productions start based on the quotation, not the contract, and there is no fear of new product developments being leaked because Company A accumulated techniques to manufacturing output in the field of fashion accessory. Upon the flow of such orders, the manufacturers do not know what kind of products the wholesalers order to which company. And Company A often does not know what manufacturer the wholesaler delivers to and how the manufactured products are used in the finished product. Besides, the wholesalers do not know in detail how Company A manufactures its products.

Under the long-standing trading among the manufacturers, the wholesalers and Company A and information asymmetry, negotiations to make products have been carried out before preparing quotations. There are five factors of the negotiations, design of accessory parts, function, product unit price, lot of products, and mold price. Looking at this negotiation process or the process of adjustment, as shown in the risk-sharing of inventory and the handling of complaints from wholesalers in quality control, Company A and the wholesalers have had a co-operative relationship. Under this co-operation, information is shared between the wholesalers and Company A, and there is information asymmetry between them and the manufacturers. The wholesaler returns the defective products, and Company A replaces them attached a report describing the cause and countermeasures. Such efforts raised the improvement and quality standards of Company A. The process of adjusting involves functions of risk-sharing and improvement.

## 6.2 Long-standing transactions system as a result of unintended consequences

The trading system for Company A is not a system created by a person but formed naturally from the field of business. In 1965, the founding year of Company A, it is likely that such a transaction system had already worked in Fashion Accessory Industry. Even now, the basic structure of the system has not been changed. Aside from whether the parties have intended to maintain the system, we will point out the conditions that have been maintained such long-standing transactions.

Standard products and clasps of the necklace have been traded for a long time have been able to obtain a certain number of orders and contributed to the management of Company A even if their profit margin is low. Over the past 50 years, there has been little change in the shapes of standardized fashion accessory parts. This can be interpreted as the strategy for the manufacturers and the wholesalers to maintain long-term transactions.

The facts of trading without contracts and mold drawings, have prevented the leakage of knowledge and skills while having ownership problems, and have maintained long-standing trading.

Vague trading has maintained or improved the quality control standard of the products. While the long-standing transaction system has involved functions of risk-sharing and quality improvement, the system has developed the competitiveness of relationships among the manufacturers, the wholesalers and Company A.

As seen in recent trends of Company A and Wholesalers E, the wholesalers that produce and sell the home-brand of the wholesaler's products are now appeared instead of the wholesalers that ask each part manufacturing companies to provide parts responding to manufacturers' requests. This trend shows a shift from long-standing trading based on the unit price of products to market mechanisms based on price. In the process of this transition, Company A is shifting the company style from the order style to the proposal style. Such evolution happened in Company A is also one of the functions of the long-standing transaction system.

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We analyzed the transaction system of a company that produces molds, press work and assemble products, focusing on fashion accessory parts. In particular, the functions of wholesalers in the trading system have clarified in detail the design and function adjustments, product unit price, number of lots, adjustments for mold prices, inventory functions, sales functions, and quality control functions. We also pointed out the realities of the long-term trading system through these aspects.