

THE CURRENT STATUS AND ISSUES OF PUBLISHING INDUSTRY IN JAPAN

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Introduction

Today, the Japanese publishing industry is under negative growth 7 years in a row. It is in an "agony" that has never been experienced before over the future survival of the industry.

In this paper, a path to the Japanese publishing industry revival and its current status and issues are mainly analyzed by using industrial statistics such as *Shuppan Shihyo Nenpo* (Annual Publication Index Report) by The Research Institute for Publications.

It is necessary to analyze trends of digital contents and the Internet when discussing the near future of publication, however; it is not mentioned in this paper.

1. The Current Status of Publishers in Japan

According to *Shuppan Nenkan* (Almanac of Publishing) 2002, the number of active publishers is about 4,400. To look at the size of the companies, 2,235 companies have ten or less employees and 1,040 companies have up to 50 employees, which indicate that 88% of publishers are small or medium-sized companies and most, 3,400 to be exact, are concentrated in Tokyo. 480 companies in these publishing companies have joined in Japan Book Publishers Association.

Looking at the sales volume, the top 300 publishers have 80% of the market share so that the economic base of small and medium-sized publishers is weak. In addition, about 2,000 editing agencies support the editing jobs for publishers.

According to the investigation of The Research Institute for Publications, 3,700 publishers issue more than one book a year, and about 1,500 publishers issue more than five books a year.

According to *Shuppansha Keiei Soukan* (The Total Management for Publishers) of Yano Economic Research Institute, the top 300 publishers' profit rate in 2001 is about 4.5%, which was two digits in the 80s.

According to the same data as above, the top ten sales ranking shows the rapid growth of the publishers that cover the area of information technology or educational field such as Recruit-corporation or Benesse-corporation. Relatively, the publishers that issue conventional type books such as Kodansha, Shogakukan and Shueisha are suffering from the decrease in sales.

2. The Current Status of Wholesalers in Japan

Wholesalers-The bookstore channel accounts for 65% of all Japanese publication distribution as the main channel. A major wholesaler handles about two million books and 4.5 million magazines a day. Wholesalers have many functions such as stock-book-traders, cargo-consolidators, sellers, deliverers, distribution-controllers, warehouse-holders, information-providers, money-collectors and financiers".

Japanese wholesale distribution systems were developed mainly by distributing magazines. It is well known for the unique system as it is capable of distributing a large amount of magazines for a constant margin (usually 8%). However, the systems are not suitable for individual orders and consumers are mainly dissatisfied for the following two reasons: they cannot find the books they want and ordering books takes long time.

In the Japanese publishing industry, to fulfill the need for individual order distributions is a common ideal goal. Although the major distributors made attempts by introducing individual ordering systems, it is still a long way to achieve the goal fully.

On the other hand, various types of bookstores appeared on the Internet for last three years and has a constant role as individual order distribution systems. It is, however, account for 35 billion yen book sales and it is only about 3.5% of the whole estimated net sales.

As sales competition increased among major wholesalers, Tohan and Nippan dominate the market for last ten years and drove other small and medium-sized wholesalers in agony as can be observed in Suzuki-Shoten's bankruptcy case.

The increase in competitions allowed openings of major bookstore chains. As a result, amount of book stock has risen and the strict payment terms induced returned-stocks (so called financial returns). This situation became one of the factors in lose sales chances.

A wholesaler acts as middleman between publishers and bookstores. It performs distribution functions on behalf of the publishers. Since the dealings are based on a consignment system, the demand for the operation fund could be little, however, it performs a financial agency as payments occur in advance. A wholesaler is loss-and-profit business with low margin and high volume since the investment for the expansion of physical distribution functions is enormous and the distribution cost is high.

Estimated number of wholesalers are about 100 and 35 of those are the member of Japan Publication Wholesalers Association. The two most major wholesalers Tohan and Nippan deal with about 8,000 bookstores each and monopolized the market by accounting for 80% of the market share.

Table 1. Major Wholesalers Estimated Sales for Last Decade (Billion Yen)

Year	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Book	Mag.	Other
Tohan	672.2	709.2	736.7	772.0	797.2	785.3	768.7	738.3	700.1	677.8	253.3	378.2	52.6
Nippan	639.6	683.4	717.3	757.9	813.3	815.7	791.4	762.9	761.0	741.1	248.9	385.3	109.8
Osakaya	96.6	100.1	103.3	105.7	105.5	102.7	103.5	69.8	102.3	105.2	52.7	50.9	1.6
Kurita	68.8	69.5	69.0	68.7	61.6	62.3	59.6	60.0	59.7	58.5	-	-	-
Taiyosha	45.5	46.2	46.4	47.7	47.0	46.5	45.2	44.0	44.3	43.8	17.9	24.3	1.5
Nikkyohan	39.9	40.4	40.8	42.5	41.9	40.9	42.4	42.0	41.3	42.6	31.3	10.1	1.1
Chuosha	39.4	39.9	39.8	39.9	37.8	34.8	33.1	33.1	28.9	27.8	6.8	19.5	1.5

Reference: *Bunka Tsushin* (Culture News), 5-1-2003.

The 2000 year of slowdown in Osakaya's sales is due to the change of its accounting term.

3. The Current Status of Bookstores in Japan

According to Arumedia's research, the number of Japanese bookstores reached below 20,000. Within a year 2001, 1,436 bookstores were forced to close their businesses. Most of these bookstores have very small space, 50 tsubo(165 square meters) or less. About 18,000 bookstores exist in Japan, of which 8,000 bookstores belong to The Japan Booksellers Federation.

On the other hand, 376 new major chain bookstores were opened. The total floor space of all bookstores is increased by 5,200 tsobos (17,160 square meters).

In this decade, expanded total floor space reaches 600,000 tsobos (1,980,000 square meters). It indicates that 300 billion yen worth stock space has created in the market when estimated price of a bookshelf space per tsobo is about 500,000 yen.

However, the number of closed bookstore is 1436 which is 4 times as many as new bookstores and it indicate four bookstores disappears per day from Japanese market. This abnormal phenomenon is frightening since bookstores are the front end of publication distribution.

According to *Shoten Keiei Shihyo* (Bookstore Management Index) 2001 of Nippan, that totals the management data of 116 corporations including 411 bookstores, the gross margin of bookstores is 24.25%, however, the sales and administrative expenses are 25.23% which comes out to be minus 0.98% operating profit, and the recurring profit that adds a profit outside business is only 0.03%. When analyzing the sales data, these bookstores with more than 300 million yen annual turnover have very little profit and smaller ones are struggling in the bookstore management.

In addition to severe economic situation, the bookstores market is even more competitive with the influence of manga coffee shops (coffee shops where you can read comics) and new style used bookstores, which is estimated to exceed 100 billion yen annual turnover. (A new style used bookstore is a big chain used bookstore that buys and sells relatively new and clean used books.)

The industry is the negative growth for 7 years in a row and the economic situation of bookstores is getting severe with the influence of many factors:

- Unstable retail price maintenance system
- Decline in margin by the spread of point cards
- Expansion of manga coffee shops and new style used bookstores
- Increase the use of public libraries and increase of expenses by the cellular phone (mobile phone)
- Average 2 million yen loss year per store by shoplifting

On the other hand, the total sales of the Web bookstores have reached 35 billion yen. Especially, the presumed sales of Amazon.com Japan reached 20 billion yen. It sprang up to the first place of the Japanese online bookstore in only two years.

Although million seller books are coming out one after another, even major bookstores and publishers are facing difficult management situations.

Table 2. Number of Bookstore Opened (and its Floor Space), Member of Japan Booksellers Federation, Major Bookstore Sales (Billion Yen), Major Publisher Sales (Billion Yen).

Year	Number of Opened Bookstores				Japan Booksellers Federation's Members		Major Bookstores Sales (Billion Yen)			Major Publisher Sales (Billion Yen)		
	New	Remodeled	New Store's Floor space (tsubo)	Remodeled Store's Floor Space(tsubo)	Nationwide	Tokyo area	Kinokuniya	Urinodo	Maruzen	Kodansha	Shogakukan	Kadokawa
1993	619	359	39,189	20,973	11,537	1,122	97.3	40.0	124.7	190.0	143.1	55.4
1994	715	368	48,372	24,269	11,379	1,099	100.5	40.9	127.4	191.2	14.90	55.2
1995	915	423	70,677	34,121	11,205	1,073	101.6	41.5	13.03	197.6	147.4	56.5
1996	911	409	80,018	34,667	10,967	1,028	106.4	43.3	132.3	203.3	151.3	61.0
1997	843	371	85,001	38,326	10,629	1,002	11.40	43.8	1364	203.0	159.4	67.7
1998	742	291	65,407	*7,884	10,176	985	112.6	45.2	132.4	200.0	166.0	78.8
1999	849	223	61,457	*6,581	9,793	939	113.7	45.4	130.3	197.3	166.8	84.7
2000	600	226	58,362	*7,606	9,406	889	1151	44.5	127.6	179.7	161.3	107.8
2001	376	168	36,697	*5,200	8,853	973	113.3	47.4	119.6	176.9	157.9	105.2
2002	419	377	41,461	*9,925	8,288	927	115.9	48.5	127.6	171.2	158.2	101.9

Reference: *Bunka Tsushin* (Culture News), 5-1-2003. Data based on number of book displays requests to publishers

1. Tsubo: Area unit in Japanese Measurement system (1 tsubo = 3.3 square meters)

2. After 1998, only the increased floor space of remodeled bookstores are counted.

4. Structure of Japanese Publication Distribution System

Dealings of the publishing industry in Japan consist of 2 major systems: a consignment sales system and a retail price maintenance system (sale-at-list-prices system).

(1) The Fundamentals of Consignment Sales System

The consignment sales system means that publications are distributed for a limited period to wholesalers and bookstores under the condition that the unsold copies may be returned to the publishers.

New book consignment (regular consignment): Consigned for 105 days (three and a half months) between wholesalers and retailers, 6 months between wholesalers and publishers.

Magazine consignment:

Monthly magazines: Consigned for 60 days between wholesalers to retailers; 90 days between publishers to wholesalers.

Weekly magazines: Consigned for 45 days between wholesalers to retailers; 60 days between

publishers to wholesalers.

Long-term consignment: Usually, Consigned for six months which is shorter than regular consignment (no re-supply, event goods). However, unlike regular deposit books, items sold are not re-supplied; they are closed out.

Regular deposits: Special publications delivered under the condition of displaying for one year (re-supplied obligation, publisher's external stock).

Outright sales system: Special books ordered by bookstores (Non-returnable, Order sales).

Subscription sales system: Sale by subscription of large sum books over a long period of time, such as complete works and encyclopedias (Non-returnable, outright purchase).

Table 3. Consignment Sales System and Dealing Conditions

Consignments Sales System		Publishers to Wholesalers		Wholesalers to Bookstores	
		Consignment Period	Accounting Period	Consignment Period	Payment Term
New Book Consignment		6 Months	The 6 th Month (Condition Payment)	3 1/2 Months (105 days)	After the 4 th Month
Magazine Consignment	Monthly	3 Months	The 3 rd Month	2Months(60 Days)	After the 2 nd Month
	Weekly	2 Months	The 2 nd Month	45 Days	After the 45 Days
Long-term Consignment		e.g. 7 Months	The 9 th Month	6 Months	The 8 th Month
		Invoiced on the 8 th Month		Invoiced on the 7 th Month	
Regular Deposits (More than 1 year)		e.g. 13 Months	The 15 th Month	12 Months	The 14 th Month
		Invoiced on the 14 th Month		Invoiced on the 13 th Month	
Outright Purchase/ Order Sales System		The Nearest Accounting Term (10 th or 25 th)	End of the Month or 15th of Next Month (Average 42.5 days)	End of the Month or 15th of Next Month (depends on wholesaler)	End of the Month or 15th of Next Month
Deferred Payment (Outright Purchase)		e.g. Deferred Payment for 3 Months	The 4 th Month	3 Months Deferred Payment	The 4 th Month
		Invoiced on the 3 rd Month		Invoiced on the 3 rd Month	

Reference: *Syuppan Eigyo Nyumon* (An introduction to publication operating), Japan book Publishers Association

1. Although consignment sales system is the foundation of dealings, invoice to a bookstore are generated from next month.
2. Condition payment of consigned books means a temporary payment paid to a publisher from a wholesaler, without waiting for its accounting period. Since this temporary payment serves as a stopgap fund for a publisher, there is criticism that it becomes one factor of increased new publications.
3. Outright Purchase: Accounting terms vary, usually next month. Ordered books, restocked books etc...

(2) Fundamentals of Retail Price Maintenance System

Retail price maintenance system is that the publishers set the retail price on new publications and magazines, and the wholesalers, and bookstores must sell them at that price (According to the provisions of the Antimonopoly Law, Article 23).

The followings are specified as retail price maintenance goods; books, magazines, newspapers, music records, music tapes and CDs.

Bookstores via wholesalers as selling channels are joint-selling stores of the whole industry. About speaking, the sales margin is around 22 to 24% for retailers and 8 percent for wholesalers.

Moreover, compared with other types of industry, demand forecasts are difficult because publications are high-mix low-volume products. Books are affected by its culture with diversified values.

Table 4. Net Sales for Bookstores and Publishers

	General Book					Technical Book					Magazine			
Wholesaler's Net Purchase (%)	62	68	69	70	71	72	73	74	75	~80	Existing	68	New	65~68
Wholesaler's Net Selling (%)	70	76	77	78	79	80	81	82	83	~88		77		77

1. net, the base of deals, for each publisher is decided between publishers and wholesalers.
2. 62% net for atlas, 80% for medical books, and 68% for paperbacks in general.
3. 68 to 69% net for new dealings with unfavorable conditions such as 5% rebate on distributed consigned books and 6months payment suspension of 20 to 30% of customers' order.
4. List price net: 69 to 77% for 780 yen or less, 70 to 78% for 780 to 1,700 yen, 71 to 79% for 1,700 to 4,200 yen, 73 to 81% for 4,200 yen or more.

5. The Current Status of Publishing Industry in Japan

According to *Shuppan Shihyo Nenpo* (Annual Publication Index Report) of The Research Institute for Publications, the estimated sales of the publications that went through wholesalers in 2002 are 2,310.5 billion yen (0.6% decrease compared with last year). The book sales are 948.98 billion yen (0.4% increase), and the magazine sales are 1,361.5 billion yen (1.3% decrease).

From 1960 to 1975, the growth rate is on two digits and from 1976 to 1996, it went down to 1

digit. Since 1997 on, the industry is under negative growth 7 years in a row.

In 1976, the presumed publication sales broke through 1 trillion yen and burst through 2 trillion yen in 1989. In the beginning of the 1970s, the magazine sales rose above the book sales. After that, the growth of magazine sales was the driving force for the growth of publishing industry.

The growth rate of the 1980s is 40.4%, however, it was only 5.1% in the 1990s. It means that the presumed sales in 2002 had fallen off to the level of ten years ago.

To look at the presumed sales, the sales peak was in 1996 with 2,656.3 billion yen. Meanwhile, the number of presumed book sales was 943,490,000 in 1988 at the peak and was decreased even to 720,550,000 by 2002.

In 2002, the number of new publications is 72055 with consistent increase. It means that about 280 new publications are distributed to bookstores with consignment sales systems.

The exhibition period of new publication consignment sales was remarkably shortened due to the increase of the new publications which is also known as one on the factor of returned unsold books rate increase. However, when look at the postwar returned-unsold-books rate, the increase of the new publications is not necessarily correlation of a rate of returned-unsold-goods rate.

Rather, the key factor of the high returned-unsold-books rate of 37.7% is the trading conditions between the wholesalers and the bookstores under consignment sales systems.

Generally, the period of consignment for new publications is 6 months between publishers and wholesalers and 4 months between wholesalers and bookstores. However, wholesalers send the bills of 100% payment to the bookstores from the next month after the book delivery.

In other words, book consignment sales system actually means sales contract with returned books condition. From the standpoint of bookstores, in order to avoid overpaying, rushing to return unsold new publications is the key factor of constant high returned-unsold-book rate.

On the other hand, even though the consignment contract period is 6 months between publishers and wholesalers, the payment is made on certain conditions by the next month of the book delivery.

Now, it should be the time to consider the ideal way of publication distribution system in the 21st century since we came up with the constant conclusion, which is being drawn from all the issues involving the resale-price-maintenance system.

Table 5 Returned-Unsold-Book Rate and Estimated Sales of Books and Magazines

Year	Book Sales (Billion Yen)	Year-on-Year Rate	Returned-Unsold-Book Rate (%)	Magazine Sales (Billion Yen)	Year-on-Year Rate	Returned-Unsold-Book Rate (%)	Monthly Magazine Sales (Billion Yen)	Year-on-Year Rate	Returned-Unsold-Book Rate (%)	Weekly Magazine sales (Billion Yen)	Year-on-Year Rate	Returned-Unsold-Book Rate (%)	Total Sales (Billion Yen)	Year-on-Year Rate
1993	1,003.4	4.1	33.6	1,486.6	6.8	23.0	1,082.7	7.6	25.5	403.7	4.7	15.2	2,490.0	5.7
1994	1,037.5	3.4	34.1	1,505.0	1.2	24.3	1,109.3	2.5	26.6	395.6	-2.0	16.7	2,542.5	2.1
1995	1,047.0	0.9	35.5	1,542.6	2.5	25.3	1,135.1	2.3	27.9	407.4	3.0	17.0	2,589.6	1.9
1996	1,093.1	4.4	36.1	1,563.3	1.3	27.1	1,169.2	3.0	29.4	394.0	-3.3	19.3	2,656.3	2.6
1997	1,073.0	-1.8	39.3	1,564.4	0.1	29.5	1,169.9	0.1	32.2	394.5	0.1	20.2	2,637.4	-0.7
1998	1,010.0	-5.9	41.0	1,531.4	-2.1	29.2	1,141.4	-2.4	31.7	390.0	-1.1	20.9	2,541.5	-3.6
1999	993.5	-1.6	39.9	1,467.1	-4.2	29.6	1,096.4	-3.9	32.1	370.6	-5.0	21.1	2,460.7	-3.2
2000	970.5	-2.3	39.4	1,426.0	-2.8	28.9	1,073.6	-2.1	30.8	352.4	-4.9	22.4	2,396.6	-2.6
2001	945.5	-2.6	39.1	1,379.4	-3.3	29.4	1,037.4	-3.4	31.3	341.9	-3.0	23.2	2,325.0	-3.0
2002	948.9	0.4	37.7	1,361.5	-1.3	29.4	1,019.4	-1.7	31.2	342.2	0.1	23.2	2,310.5	-0.6

Reference: *Syuppan Shihyo Nenpo* (Annual Publication Index Report)2003, The Research Institute for Publications

Estimated Sales is calculated by prices times estimated number of books sold. Returned-Unsold book rate is derived from returned sales amount

Table 6 Estimated Number of Books Sold, Estimated Sales, New Publications Issued, Average Price, Advertisement Expenditure

Year	Estimated Number of Books Sold			Estimated Sales		New Publications Issued		Average Price		Advertisement Expenditure (Billion Yen)			
	Copies (Million)	Year-on-Year Rate	Returned Unsold Book rate	(Billion Yen)	Year-on-Year Rate	Copies	Year-on-Year Rate	Yen	Year-on-Year Rate	Total	Mass Media	Magazine	Year-on-Year Rate
1993	87,715	-3.2	33.6	1,003.4	4.1	45,799	8.4	1,094	7.9	5,127.3	3,250.8	341.7	-7.4
1994	88,795	1.2	34.1	1,037.5	3.4	48,824	6.6	1,113	1.7	5,168.2	3,314.8	377.3	1.6
1995	89,371	0.6	35.5	1,047.0	0.9	61,302	-	1,111	-0.2	5,426.3	3,503.5	374.3	7.8
1996	91,531	2.4	36.1	1,093.1	4.4	63,054	2.9	1,136	2.3	5,769.9	3,779.5	407.3	8.8
1997	87,592	-4.9	39.3	1,073.0	-1.8	65,438	3.8	1,173	3.3	5,990.1	3,935.7	439.5	7.9
1998	81,337	-7.1	41.0	1,010.0	-5.9	65,513	0.1	1,195	1.9	5,759.7	3,770.3	425.8	-3.1
1999	79,186	-2.6	39.9	993.5	-1.6	65,026	-0.7	1,208	1.1	5,699.6	3,688.2	418.3	-1.8
2000	77,364	-2.3	39.4	970.5	-2.3	67,522	3.8	1,207	-0.1	6,110.2	3,970.7	436.9	4.5
2001	74,874	-3.2	39.1	945.6	-2.6	69,003	2.2	1,206	-0.1	6,058.0	3,888.6	418.0	-4.3
2002	73,909	-1.3	37.7	949.0	0.4	72,055	4.4	1,228	1.8	5,703.2	3,594.6	405.1	-3.1

Reference: *Annual Publication Index Report 2003*, The Research Institute for Publications:(Estimated Sales is calculated by prices times estimated number of books sold. Number of new publications issued added since 1995.)

Reference: Dentsu Report:(Mass media are the total of four media of TV, radio, newspaper, and magazine. Internet advertisement is still only 84.5 billion yen but 15% increase compared to the year before.)

6. Path to Publishing Industry Revival

The current status of Japanese economy is very severe and publishers, wholesalers, bookstores are hardly surviving. The essential issues should be organized to consider the way to publishing industry's rejuvenation.

The top priority issue for publishers is a carefully selected plan for a new publication in order to improve the new publication rushes which paralyze the distribution system.

Usually, the fundamental idea of list price (cover price) is about 3 times of a direct manufactured cost (estimated cost). This idea was established on the retail price maintenance and consignment sales system.

However, the distribution system is supported by the underlying severe reality of low sales margins for wholesalers and bookstores. While the front line of the book distribution is on the verge of collapse and the industry has a hard time to sell books, the reconsideration of the concept of list price is necessary to insure the sufficient distribution sale margin.

Table 7 List Price and Direct Cost

Direct Production Cost (46%)						Overhead Cost (14%)		Gross Margin			List Price
Paper	Typesetting	Plate making	Print	Bookbinding	Royalty	Advertisement	Expense	Publisher	Wholesaler	Bookstore	Total
16%	4%	4%	6%	6%	10%	8%	6%	10%	8%	22%	100%

1. The list price is set to 3 times of direct cost. According to Japan book Publishers Association, the average list price is 3 ~3.5 times of its direct cost.
2. Example: A book list price is 1000 yen (plus tax)
Suppose, the list price of this is 1000 yen and the direct cost is 460yen. A publisher sells to a wholesaler at 70% of list price. The wholesaler purchases the book from the publisher at 700 yen and sells it to a bookstore at 780 yen. The bookstore buys the book from the wholesaler and sells it to a reader at 1000 yen plus tax.
3. Distribution margins are 8% for wholesalers and 22% for bookstores, which are very low.
Net: Portion of list prices. e.g. Net purchase price and net selling price.

According to the marketing method, focusing to establish the distribution system which can deliver books upon the order from a bookstore.

Simultaneously, increasing sales volume should be emphasized by developing diversified

sales networks other than wholesaler/bookstore channel.

Wholesalers should improve the unfair trades for the new participating deals with small and medium-sized publishers. Moreover, whole the industry should make efforts to improve the distribution system by modifying the consignment sales and retail price maintenance systems and reconsidering the flexible solutions.

Bookstores should consider to establishing responsible sales system and low net outright purchase system in order to reduce the returned-unsold book rate.

Now, the big concern is that those veteran bookstore-workers who used to organize the bookshelves are not available anymore due to the severe management situation of bookstores. In addition, introduction of an automated order system is causing unsold order book remainders in a bookshelf because the system does not check the future of displayed books sales.

Once, publishing industry and bookstores were a bookworm community, but losing those people cast a dark shadow over the future of the industry.

A criticism made against the distribution system is “it is like a convoy fleet protected by the consignment sales system and retail price maintenance system”. In the United States, foundations the distribution system based on the concept of flexible retail price (no retail price maintenance) and outright purchase system. However, still it is suffering the agony of high returned-unsold book rate. The US publishing industry is approaching the market with a hard line attitude, which is something the Japanese industry should learn from.

A bookstore is the place where a reader encounters a book. The development of publishing industry barely can be accomplished at the current situation where the bookstore business is shaky.

Compared with the time when the publishing activities rose from the postwar ruins, the industry is in an environment that has a far possibility.

The path to publishing industry revival may have to begin from choosing what is needed and what to convey to readers out of the overflowing information as the start point and talking over the future of books.

Moreover, freedom of the press cannot be enacted without freedom of the distribution. Presumptively, the future of a book will not be established without rejuvenation of the publishing distribution.