Askul Co., Ltd.
- Mail Order Office Supplies

In December 1997 the president of Askul, Mr. Shoichiro Iwata, was thinking about the future direction of his company's mail order office supplies business.

Askul is a mail order company for stationery and office supplies, and was started in March 1993 as a new business venture of the stationery and office furniture manufacturer Plus Corp. Askul had Steadily increased its sales from the beginning. Furthermore, with its expansion of the assortment of supplies to include products by manufacturers other than Plus and with its low-price strategy, the business grew rapidly. In May 1997 it was established as a branch company, and Askul Co., Ltd. was born.

In December 1997, as had been rumored, massive American bulk stationery suppliers began entering the Japanese market one after the other, and mounted an intense price-cutting offensive.

Iwata had to make some very quick decisions about how he and his company should tackle this offensive.

Plus Corp.

Plus, Askul's parent company, was founded as Chiyoda Stationery, a stationery wholesaler, in 1948 by Shinjiro Imaizumi and Hohei Suzuki. The current president of Plus, Yoshihisa Imaizumi, is the oldest son of Shinjiro Imaizumi, and was appointed in 1983.

From its establishment, Chiyoda Stationery had a very strong orientation toward its company name brand, and as well as handling other brand-name products, it also attached its own Plus brand name to products designed and made by other manufacturers. In 1959 the company changed its name to Plus so it corresponded with its brand name. Plus steadily increase the line of its own brand name products and put considerable energy into product planning with the aim of integrating stationery and office supplies, and by the end of the 1980s, it was publishing a comprehensive catalog listing almost 20,000 products, which is roughly the same as the present product line (end of 1997). In the early 1980s, 80% of the company's sales were its own products, and these days this has grown to more than 90%.

In the mid 1980s Plus took its first steps to becoming a manufacturer. It had been producing staplers at a subsidiary company since the early 1960s, but most of the Plus brand name products were made by other manufacturers. In the mid 1980s Plus bought out the Saitama Silver Seiko company, and began its own stationery manufacturing on a full scale. In 1991 it established a factory at Maebashi, Gumma Prefecture, and began producing office furniture.

Sales in 1997 stood at ¥81.8 billion, and more than 30% of this were products made at its own factory. Figure 1 shows sales trends for Plus over the past 20 years. The sales makeup in 1997 was 55% office furniture, 33% stationery, and 12% miscellaneous products (education-related products etc.).

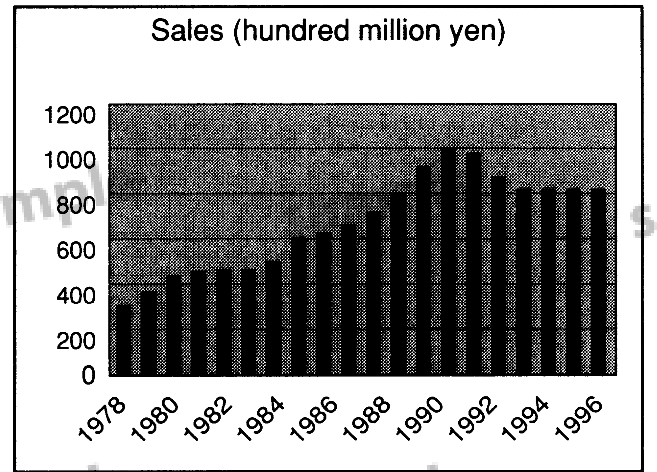


Figure 1 Plus sales trends (1978-1997)

Stationery Industry

Kokuyo Co., Ltd., which started as a manufacturer of binding for account books, is by far the dominant force in the stationery industry. Kokuyo's sales in 1997 amounted to ¥323.3 billion, of which stationery accounted for 48.3%. Following Kokuyo in sales figures were Uchida Yoko, Plus, and Lion. Uchida Yoko's fiscal 1996 sales were ¥157.4 billion, but a significant part of these sales were from its computer-related divisions, so if only stationery results are considered, it was below Plus. Lion's fiscal 1996 sales were ¥63.9 billion, of which stationery accounted for 30.7%. In addition to these companies, there are quite a few manufacturers specializing in a limited line of stationery products, such as King Jim, which holds a large share of the file market.

Stationery Distribution

The nation's roughly 23,000 stationery stores and 340 wholesalers have formed the core of stationery distribution in Japan. These stationery stores range in size from the small local stores with annual sales of around ¥5 million to the stationery superstore with sales reaching more than ¥10 billion. As well as over-the-counter selling, stationery stores also make door-to-door selling in which they take a range of their products direct to companies and other users. Stores could offer up to 30-40% discount for door-to-door selling, especially to their important customers, whereas over-the-counter selling is made in most cases at the list price. The margin on stationery for selling agents or wholesalers is 12-16%, while the retail margin is 40-45% when it is sold at the list price. Manufacturers also provide various kinds of allowances to the distributors.

The leading manufacturer Kokuyo has gained the most from this stationery store distribution channel. Kokuyo products are carried by practically all stationery stores through its 66 affiliated wholesalers. Through business associations extending over many years and strong brand recognition coming from its long history, Kokuyo has had a tremendous influence on stationery stores. In the stationery industry, where this stationery store distribution channel accounts for the majority of sales and where there is no major product differentiation, the influence Kokuyo has over stationery stores through its affiliated wholesalers gave the company a strong competitive edge.

In contrast, Plus was a relative late-comer, and it was dealing with only about 10,000 stationery stores throughout Japan. Plus sold direct to stationery stores in the major urban areas, such as Tokyo, Osaka, Nagoya, Fukuoka, Sapporo, Sendai and Hiroshima, while in other areas, it distributed its products through 25 selling agents and some independent wholesalers. Selling agents of Plus were established as joint ventures between Plus and leading local businesses. About 5% of Plus products were channeled through independent wholesalers.

Yet because Plus was such a long way behind Kokuyo in terms of influence over distribution channels, it lost numerous sales opportunities. With a vast number of items and no major product differentiation, stationery is one industry where retailers tend to avoid carrying the same items from many different manufacturers. Because of this, Plus salespeople often had trouble convincing stationery stores that dealt with Kokuyo to carry the Plus products as well.

This distribution route centering on stationery stores had continued unchanged for generations, but the recent emergence of GMS (general merchandise stores) and home centers have started to undermine the foundations of stationery stores, especially from the early 1990s. Figure 22 shows changes in the market share of stationery stores. Industry sources estimated that the stationery stores share had dropped below 50% in 1995.

Upper figure: Sales (million yen); Lower figure: Percentage of total sales

	Stationery stores	Non-stationery stores	Total
1982	553,252 69.6%	241,783 30.4%	795,035
1985	551,681 65.7%	287,482 34.3%	839,163
1988	545,887 58.0%	394,784 42.0%	940,671
1991	668,526 58.4%	475,718 41.6%	1,144,244
1994	730,076 52.8%	652,136 47.2%	1,382,212

Source: *The Topics*, June 30, 1997

Figure 2 Stationery distribution trends

This steady loss of market share has rapidly pushed down the profitability of stationery stores, and reportedly a growing number are no longer making any money from their stationery sales. This distribution channel was able to continue over the decades because stationery stores would look after their customers by making sales rounds and providing other convenient services, while more than a few were also able to supplement their income through car park and house rental. Allowances from manufacturers have also been an important source of income for stationery stores.

The outlook for this stationery store distribution channel is quite pessimistic, and even the stationery manufacturers themselves now believe distribution is a major issue they have to address.

Askul Business

Examination committee

Feeling the winds of change in stationery distribution, in 1990 Plus President Imaizumi set up an examination committee to consider future distribution options. Sitting on the committee were Imaizumi, four executives from the stationery division, including Iwata, who was then deputy director of the stationery division, and a university professor from outside the company.

The committee looked first at who the company should be targeting as its main customers, then at whether it should focus on direct distribution to the end users or stick with the traditional indirect channels from the viewpoint of what was the optimum channel to meet society's present and future needs.

After discussions that continued over a year, the committee finally decided to adopt the mail order channel. To highlight its prompt delivery service, the new business was named Askul (in Japanese, Asukuru, loosely meaning next-day delivery). The committee looked at who the business should target in the initial stages, and, realizing that abandoning the indirect channels it had built up to date would be completely unrealistic, it also discussed how to make mail ordering and indirect distribution coexist and how to allocate the necessary functions in the mail order operations.

Target customers

Stationary and office supplies in Japan are said to be a ¥1.4 trillion market, of which business use accounts for 75%, and personal use for the remaining 25%. Two-thirds of sales to business use market were made by stationery stores through door-to-door selling. The other one-third of business use sales and all sales to personal use were over-the-counter at retail stores. Battling for these over-the-counter sales were stationery stores, GMS, home centers, and also discount stores, convenience stores, and character stores (such as Sanrio).

The business use market is reportedly made up of roughly 6.6 million business establishments, of which 5% have at least 30 employees, accounting for 53% of white-collar workers. Business establishments with at least 30 employees have long been the most important market for stationery manufacturers, and it is this market that stationery stores have been looking after with door-to-door selling, i.e. delivery rounds, and other convenient services.

In contrast, of the business establishments with fewer than 30 employees, those with fewer than ten have only a limited demand for stationery and office supplies, so most of the sales to these corporate customers were over-the-counter. The typical purchasing pattern for establishments with fewer than ten employees was that a female office employee would drop into the stationery store during her spare time at work and buy the office stationery needs with cash. Stationery stores would also make door-to-door selling to establishments with 10-30 employees, but because the volume was still relatively small, the level of service, such as frequency of delivery rounds, was quite low. For the most part, though, sales to these establishments were over-the-counter.

While the range of stationery products covers an enormous number of items, stationery stores stock on average about 12,000, so items are often sold out. Delivery of new stock normally takes at least two days, although it was by no means rare for small businesses with fewer than 30 employees to have to wait up to a few weeks for their stationery supplies.

The examination committee saw these small businesses as an enormous untapped market, and set them as Askul's target market (see Figure 3). The company thought to provide a uniform high level of service through frequent delivery of small lots to this market, which until then had received a lower level of service than that given to big business because of the smaller volume of demand.

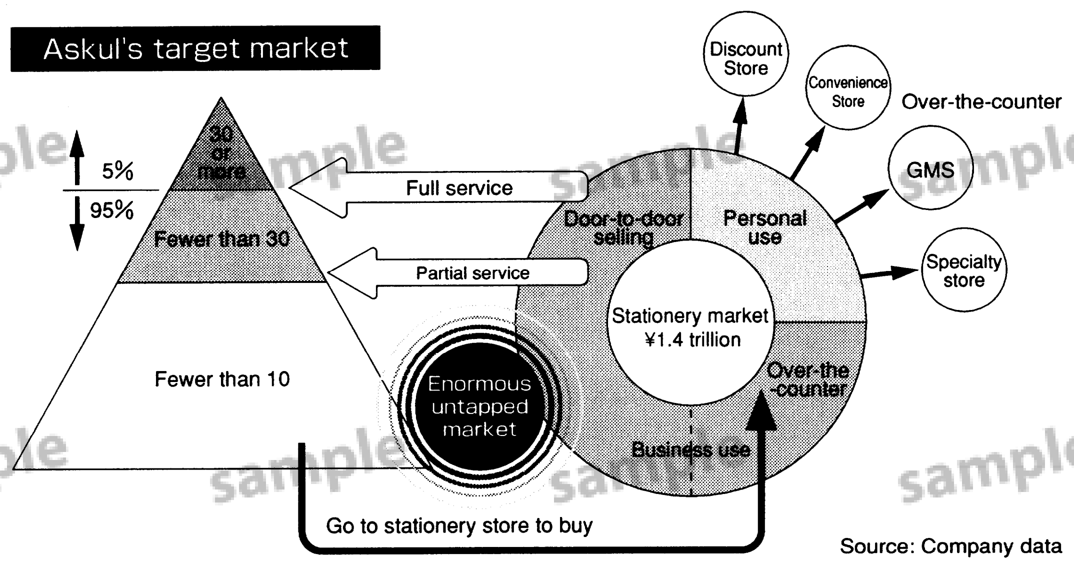


Figure 3 Askul's target market

Partnership

One problem the company faced when setting up Askul was the relationship with stationery retailers with which it had been dealing.

To Plus, stationery stores had been and still were its most important customers. But it was also a fact that the same old business practices were undermining these stores, and its rival Kokuyo was still the main power in this stationery store distribution channel. For this reason, Plus began planning the Askul business, but there was no argument about the importance of the traditional stationery store channel.

Under these circumstances, if Plus were to begin mail order through Askul, there would naturally be a reaction from stationery stores, and it could make life even harder for the already suffering stores.

So working out how the company could reconcile Askul's business operations with the stationery store channel became a critical theme for the examination committee.

They also had to think about the structure that would enable Askul to operate as efficiently as possible. What originally led the committee to consider the new mail order channel was a belief that the traditional stationary store channel was too inefficient for modern society's needs, and would therefore not last in its current form for very much longer. The mail order business itself was developed and grew because it met a social need, so when providing a mail order service, it was only natural that Plus management would see the importance of seeking socially the optimum allocation of functions to meet market demand. The committee also believed the relationship with stationery stores should be used effectively as a strength in case of competition from a rival outside the stationery industry.

The committee therefore decided to incorporate stationery stores into Askul business operations as partners from the viewpoints of coexistence with the traditional sales channel, running the mail order operations under the optimum framework for society's needs, and making the most of the company's strengths.

Operating system

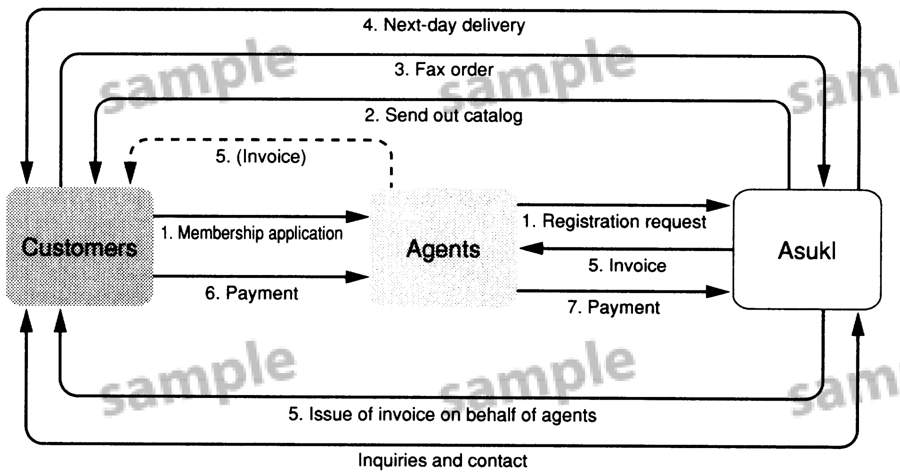
Askul's mail order business idea was to invite customers to register, then send out catalogs from which the customers would order items through the fax. The items would then be delivered and the goods invoice sent out, and finally the customer would pay on the invoice. Of this marketing flow, Plus wanted the stationery stores to look after the registration of customers for catalogs, and collection of payment and credit management.

In mail order, usually about 20% of the sales figure is used for advertising to attract customers, but Askul decided to delegate this function to the stationery stores, paying them a margin slightly lower than the normal mail order advertising percentage. This system also worked well for Plus, and it enabled the company to utilize the credibility and door-to-door selling strength of local stationery stores to attract new customers. Moreover, targeting small businesses with fewer than 30 employees would mean a massive number of small-scale transactions, and the stationery stores were best suited for this kind of credit management.

At the same time, to the stationery stores this was a chance for new growth that could put the brakes on their downward slide. Askul promised them that once clients had been obtained, they would not have to worry about stock or services as in the past, but would be paid a margin according to sales simply by collecting payments and managing customer credit.

In this way, Askul decided on the type of business flow shown in Figure 4, incorporating retailers as partners under the name of agents.

Askul business flow



Source: Company data

Figure 4 Askul business flow

At the start, Askul's service promise was that orders received before 1:00 p.m. would be delivered the following day. All deliveries were made by courier companies. Items handled in the early stages numbered 562, most of which were Plus products. Only a very small range of office furniture was handled. Considering the Plus catalog listed 6,000 items in stationery alone, this was quite limited. The catalog was issued once a year, and prices were set slightly lower than the manufacturer's recommended retail price (list price), partly in consideration of traditional distribution channels.

The margin for stationery store agents was, on average, just below 20%. For single orders of less than ¥2,700, the customer would pay for ¥300 of the ¥600 delivery charge, and the remaining ¥300 would be split evenly between Askul and the agent. The delivery charge for orders of ¥2,700 or more would be paid entirely by Askul and the agent. Everything done by Askul for the agents, such as issuing and sending invoices to customers, sending catalogs, and the various marketing tools, was paid for by the agents.

Business Start

After a test marketing extending over eight months, Askul began its mail order operations on a full scale in March 1993.

Business proceeded quite smoothly with Askul achieving its first year's sales target of ¥200 million.

Because direct contact was made with customers, Askul emphasized the use of information gained through this. Askul looked at sales figures to determine what items were selling well, and what ones could be cut. Another way it gained information on customer needs was by sending out various kinds of questionnaires.

These questionnaires became a key source of information that let Askul know what products customers wanted and therefore what products it should handle. In fact, subsequent expansions of the assortment handled were based on these questionnaires. So from the sales figures, Askul determined what items it should cut, and from the questionnaires, it identified new items that it should market.

Along with this, all of these questionnaires also indicated some critical issues and expectations about Askul's business operations. The first was that it should also handle products other than those made by Plus; the second was that prices should be lower. That is, customers thought highly of the service provided by Askul, but they also wanted to be able to buy other manufacturers' products. In addition, regardless of how convenient the service was, there were more than a few customers that showed some resistance to paying clearly higher prices than those paid through other distribution channels, such as GMS, home centers, and door-to-door selling by stationery stores.

It was of course possible for Askul to handle non-Plus products, and it was also possible to lower prices in terms of cost.

However, to Plus, which had a strong sense of manufacturing identity and had invested significant sums to develop this, handling other manufacturers' products that were in competition with its own products would deviate from the primary aim of setting up this business, which was to build up a new sales channel for Plus products.

Moreover, if Plus, as a manufacturer, lowered its prices through its mail order operations, a further reaction from the traditional indirect distribution channels would seem to be inevitable.

Expanding Product Assortment and Reducing Prices

With a view to the future of the new venture, from the beginning the director of Askul operations, Mr. Shoichiro Iwata had some very definite ideas about expanding the product assortment to include non-Plus items, and lower prices. The concept of next-day delivery for mail order office supplies itself had enormous potential, but translating this potential into reality through the Plus product line alone would be too difficult. Handling other manufacturers' products would also help lower prices, and it was what the customers wanted. Furthermore, right from the beginning the Askul project had stressed a responsiveness to the needs of end users that broke free from the confines of selling to distributors that were completely detached from those end users. He believed that the products Askul would handle should be left up to the end users to decide, and that this in turn could elevate the attractiveness of Plus products. After improving sales through a series of hit products in the 1980s, including the Team-Demi (a stationery box set consisting of a compact stapler, cutter, ruler and scissors) and Copy Jack (a handy copier), Plus had been putting effort into lifting the competitive strength of its other products, and he believed the kind of stimulus provided by selling other company's products and lowering prices was just what was needed.

There was, however, fierce opposition to this from within the company, and because this decision concerned Plus's overall business operations, debate was quite heated. In the end, though, Imaizumi decided that Askul would handle other manufacturers' products, and would lower its prices.

In 1994, other manufacturers' products were introduced on a full scale, lifting the assortment handled by Askul to 900 items. In the March 1997 catalog, 75% of the 2,750 items listed were non-Plus products procured from more than 100 companies.

The other manufacturers normally did not have to pay for any selling or retail support costs in their dealings with Askul, so because costs were lower for the manufacturers, Askul demanded a cut in the shipment price for the products by that amount. Plus products were also handled under the same conditions as non-Plus products after Askul was set up as a company in May 1997. As of May 1997, Askul was already the biggest seller of Plus products.

Price cuts began in October 1995. With a few exceptions, stationery and office automation related supplies were about 30% below the manufacturers' recommended retail price, though bigger discounts were given to Askul's own private label products. For example, the discount for office files was 30% for the leading manufacturer King Jim, 33% for Plus, and 40% for Askul's private label. The price of coffee and similar office consumables was set at generally a comparable level to the price at general merchandise stores. The discounts were even higher for products whose price was indicated as being of great importance by a majority of customers in the questionnaires, and monthly specials pushed down some products below catalog prices. Details of the monthly specials were sent to customers by fax. From 1995, Askul published and sent out new catalogs twice a year.

Manufacturer/Distributor Cooperation

As Askul expanded the volume of non-Plus products handled, its identity steadily shifted from a new sales channel for Plus products to a highly independent distributor. For Askul to succeed as a distributor, it of course had to find out exactly what customers wanted and arrange its assortment accordingly, but along with this, Askul's cooperative ties with external suppliers also became increasingly important.

These cooperative ties with external suppliers had several underlying advantages.

The first was lower costs. For example, in the case of plain paper, which was one of Askul's best-selling items, the normal carton contained 2,500 sheets and weighed 10kg, but Askul requested its suppliers to produce cartons containing 5,000 sheets weighing 20kg. The reason for this was that Askul's surveys and sales data showed that many customers ordered in units of 5,000 sheets, and since courier services would deliver packages up to 20kg, a single carton of 5,000 sheets would be cheaper to handle and send than two cartons of 2,500 sheets. So this mutual cooperation eliminated wastage and reduced costs, and the benefits arising from this were shared among the manufacturers, Askul, and the customers.

The second was product planning based on sales data and the results of the questionnaires. These data were directly reflected in manufacturers' product plans, or Askul's own designed private label products, which were then ordered to the manufacturer. As Askul's sales volume grew, the volume of individual items ordered also grew, and this increased the opportunities for Askul to procure its own private label products from original equipment manufacturers (OEM). As of March 1997, the number of Askul private label products had risen to 83 items.

Reaction by Retail Stores

As was feared from the beginning, Askul's business operations aroused a reaction from the established stationery stores. And this reaction grew more intense as Askul continued to expand and its dealings with other manufacturers continued to increase.

In 1995 some stationery stores were already keeping a critical eye on Askul, and in 1996 stationery retailers' associations in Tokyo and the Kyoto-Osaka-Kobe area protested strongly to Plus over Askul's price-cutting, handling other manufacturers' products, and signing up sales agents from outside the industry (other than stationery stores). In response, Plus's marketing executives visited stationery stores and their associations to explain the situation, but there was no change to the company's policy and the direction of Askul's business operations.

More than a few stationery stores could sense the danger, especially considering the gradual demise of many traditional stationery stores in the U.S. with the advent of the specialty discount stores known as category killers, and the decline of many traditional retailers in Japan with ongoing distribution reform over a large range of product fields. An understanding of Askul's position gradually spread among these stationery stores, although this process was indeed gradual.

Askul's Internet Catalog

The internet gradually took hold in Japan from around 1995, and with it came the opportunity for Askul to reach and do business with a much greater number of potential customers by placing its mail order catalog on the internet. This was in effect mail order over the internet.

Askul's business lent itself to transactions over a computer network as the products were simple to understand without explanations or close examinations of the actual item, and there were many repeat orders, so Askul began looking at sales over the internet from the early stages.

In March 1996 Askul set up a home page (www.askul.com) aimed at introducing its services and gathering the views of its customers and potential customers. Customers who could connect to the internet could go to the Askul home page and find out about the services it provided, or fill in the questionnaire included.

In March 1997 Askul set up a new home page at www.askul.co.jp, and with it, Askul launched its mail order business over the internet. The home page introduces Askul, accepts requests for references, accepts internet membership registration, lists exactly the same products as in the catalog, and also takes orders. In other words, customers could register as members and order their products through their computers. And to promote its internet sales, it offered special discounts available only on its internet catalog. Customers could also fill in questionnaires and comment or make suggestions about the service through the home page.

Internet catalog orders were handled by the normal sales agent if it was an existing customer, or were allocated to the relevant area's sales agent if it was a newly registered customer.

Six months after its start, internet sales still only accounted for about 1% of total Askul sales, but monthly growth of 150% continued, and today there is considerable confidence in the future of this sales channel.

Situation in 1997

From its start in 1993, Askul continued to grow, due in part to its handling of other manufacturers' products and its price strategies. Sales rose from ¥600 million in 1994, to ¥1.9 billion in 1995, ¥5.6 billion in 1996, and were expected to soar to ¥12 billion in 1997. Registered customers (as of August each year) increased from 40,000 in 1994, to 78,000 in 1995, 156,000 in 1996, and by summer 1997 the number had reached 250,000.

Askul's customers covered a broad range of fields, from industry, mainly manufacturing but including construction, distribution, services, and finance, to hospitals, schools and general organizations, but the common thread linking the majority of its customers was that they were small-scale operations with fewer than 30 employees.

However, the expected growth of the SOHO (small office and home office) market and the trend in large companies away from bulk purchases by the general affairs department to decentralized purchases by individual departments are all seen as good signs for Askul.

In May 1997 the Askul business division was set up as a company to give greater clarity to its position as a distributor. With this Askul Co., Ltd. was born. Mr. Iwata, the director of the Askul business division, was appointed the company's first president, and the company started with 41 full-time and 44 part-time employees.

Iwata believed that Askul's attraction as far as the customers were concerned was that it enabled one-stop shopping at low prices with reliable next-day delivery to the customer's office. So to maintain this advantage into the future, he planned to expand the assortment. The September 1997 catalog was increased to 3,700 items, and the March 1998 catalog was to be further expanded to 5,000 items. On the service side, previously orders had to be in before 1:00 p.m. for next-day delivery, but the cut-off time was put back to 3:00 p.m. in September 1997. He also believed that the service area, which was limited to Honshu and Shikoku, would eventually have to be expanded to include Hokkaido and Kyushu as well.

Increase of Competition

From the start, in each product Askul faced competition from various quarters, but the change in the office supplies market and distribution coupled with Askul's strong growth has seen the emergence of new competition from new modes of distribution from about 1995.

Entry of overseas companies

Amid the competition arising from the new distribution channels, the most serious threat to Askul was seen as the invasion of massive foreign-owned stationery suppliers. In the U.S., innovation in product distribution is much more advanced than in Japan, and the SOHO market evolved much more rapidly than anywhere else in the world. Large specialty stores known as category killers also became established in the office supplies industry, among them retailers such as Office Depot, Staples, and Office Max.

In the U.S., with the emergence of these category killers and their direct transactions with manufacturers, distribution through wholesalers dropped sharply, and many traditional independent retailers vanished. Sales in fiscal 1995 for Office Depot amounted to ¥5.313 billion, Staples ¥3.1 billion, and Office Max ¥2.543 billion.

Office Depot opened its first store in Gotanda, Tokyo in December 1997 as a joint venture with the major consumer electronics store Daiichi, and claims it will open a total of 50 stores by 2002. Office Max established ties with the major GMS operator Jusco for its entry into the Japanese market, and opened its first store in Yokkaichi, Mie Prefecture at the end of November 1997. Office Max plans to open 50 stores in Japan by 2000.

For stationery stores, the first stores opened by these two companies were indeed huge: Office Depot's covered 2,900m2 and Office Max's 2,200m2. Both stock around 10,000 items, and offer, on average, roughly 40% discount. Office Depot has already started a mail order service virtually the same as Askul's, while it appears that Office Max will begin a similar service before summer 1998.

The strengths of these American category killers were in their purchasing power, their ability to procure goods at a low cost through direct dealings with the manufacturers, and their expertise at running stores with low overheads. One factor contributing to their rapid growth was the sharp expansion of the computer-related market. Combined, Office Depot and Daiichi form the world's largest computer sales channel, and the purchasing power this provides to secure computer-related products at low cost is a major advantage.

However, in Japan most customers want consistency with past office supplies purchases, such as office files, so regardless of how much they may have been category killers overseas, these companies had to rely on Japanese suppliers for a considerable part of their product procurement, and it was thought that this may lessen some of their advantages. In fact, the content of Office Depot and Office Max stores is about 90% Japanese.

Many Japanese stationery manufacturers were negative about dealing directly with them when first approached because of concerns about how it may affect their existing distribution channels, but in the end most agreed. Not just Plus, but many other Japanese stationery manufacturers as well produce only a relatively small range of products, instead relying on a large number of cooperating manufacturers, and some American category killers tried to skip the stationery manufacturers and deal directly with these subcontracted manufacturers.

Considering that the giant Toys “R” Us rose to number one with sales of ¥75 billion just five years after bursting on to the Japanese toy market, there was every possibility that the American category killers would present the same severe threat in the office supplies market as well.

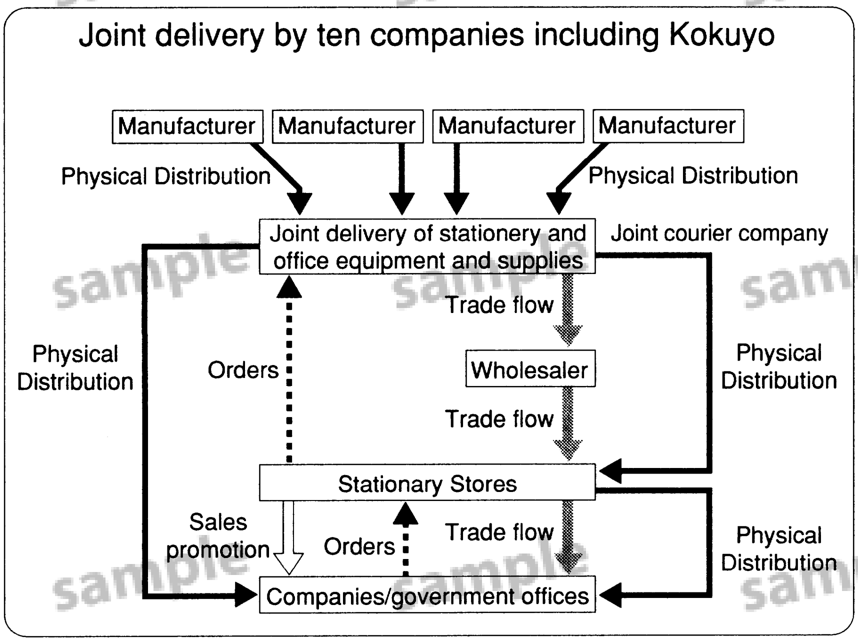
Apart from the category killers, in the U.S. Viking Office Products, an office supplies mail order company similar to Askul, has a strong market presence. In 1995 Viking achieved sales of ¥140 billion, mainly in the U.S. and Europe, and posted out 150 million catalogs. As well as purchasing power, Viking is said to have a strong expertise in customer management, and publishes several different catalogs according to the customer profile. In contrast, Askul planned to list up to 5,000 items in one catalog, but at the current level of sales, it was impossible from an efficiency point of view for Askul to increase the number of items handled and the types of catalogs published.

Developments among Japanese companies

There were several attempts within Japan's stationery industry to tackle these developments in distribution head-on. Kokuyo began direct deliveries in autumn 1997 with nine stationery manufacturers having limited product lines. Under this system, retail stores would receive orders from their customers, and the manufacturers would deliver direct to the customers the next day using joint courier companies (see Figure 5). Separate from Askul, Plus also began providing a QDS (quick delivery system) service in which it would take orders through stationery stores and deliver the orders direct to the customers the following day. This QDS service was provided only by Plus, but even then, Plus adopted an open marketing policy, and 70% of the 10,000 items covered by the service were made by other manufacturers (see Figure 6). Kokuyo's joint delivery service and Plus's QDS were both geared toward large customers, and the service area was quite limited, but there was the potential to expand the service area and also the customer base. Meanwhile, some wholesalers started to feel a growing sense of crisis over these developments, and began making their own direct deliveries to customers.

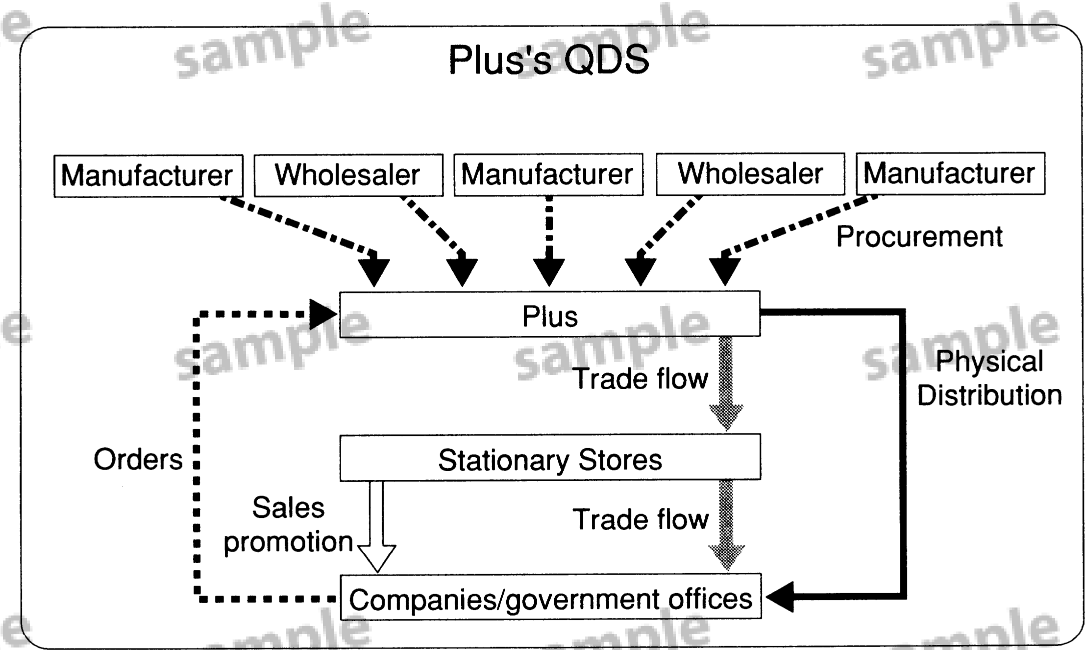
In Sendai, Office Vendor, a Japanese discount store similar to the American office supplies category killers, opened, and steadily grew their sales based on a wide assortment and extremely low prices. Similar kinds of stores also began appearing in other parts of Japan, and it would seem that their numbers are likely to continue increasing in the future.

More companies began mail order services for office supplies similar to Askul's operations. Stationery and office supplies wholesaler Asahi Shokai began mail order services for office supplies in 1992, and after establishing business ties with Asahi Shokai, the general trader Sumitomo Corporation began similar operations through a subsidiary in 1995.



Source: *Nikkei Ryutsu Shimbun*, July 22, 1997

Figure 5 Kokuyo's joint delivery service



Source: *Nikkei Ryutsu Shimbun*, July 22, 1997

Figure 6 Plus's Quick Delivery System

Besides these, Business Coop was formed as a parent body to prominent companies such as Pasona, Mitsubishi Corp. and CSK, and began offering business purchase and welfare services. Business Coop services were characterized by use of the internet and low costs, but because of deficiencies in the business structure, by 1997 the company was floundering.

Askul held an overwhelmingly dominant position in mail order services for office supplies with a roughly 85% market share. However, because it was seen as such a promising market, rival companies were seeking aggressive innovations to seize a greater share, while other companies were expected to move into the market and establish a new presence.

Price Offensive

Surrounded by such intensifying competition, Iwata was most concerned about the price offensive mounted by Office Depot and Office Max, which had already opened their first stores in Japan.

Office Depot handled about 5,000 items through its mail order service, and of those items handled by Askul as well, about 60% were priced lower than at Askul, and the remaining 40% were about the same price. Some of the items were sold at a huge 50% discount. Office Depot's service area initially consisted of the 23 wards of Tokyo, Kawasaki and Yokohama, and delivery charges and conditions were the same as Askul's. Furthermore, Office Depot gave a guarantee that its prices were lowest, promising that if a customer found a lower price, it would refund the difference plus 10%. Similar lowest price guarantees were also offered for Office Depot's and Office Max's store sales as well.

Of course, Iwata did not believe Askul's appeal was necessarily low prices. So he put his energy into improving Askul's assortment and offering various office-related services with a view to greater convenience and a brighter atmosphere in the office. In this way, he sought to set Askul apart from Office Depot and Office Max, which basically focused on office furniture, stationery, and office supplies, as a strategy to maintain the company's profit.

However, while it may have been necessary to improve products and services, Askul still had to compete against Office Depot and Office Max on prices as well. Regardless of how much more convenient Askul may have been, it had to make sure that its prices were competitive enough so that those responsible for ordering supplies who chose Askul because of greater convenience did not come under fire within their company because of higher costs.

In the U.S. Office Depot and Office Max built up their image of overwhelmingly lower prices by using loss-leaders from the very start. So to prevent them building up the same kind of image in Japan, Askul had to compete with them head-to-head on price, and win. This would lower their profitability and impact on their plans for expansion in the Japanese market.

Most of Office Depot's and Office Max's product handled were locally made, so it was unthinkable that Askul would be at a disadvantage in terms of cost, Rather, with its volume of sales, Askul would be expected to enjoy a considerable cost advantage. Office Depot and Office Max may have had an expertise in low-cost operations, but considering the high land prices in Japan and the high indirect costs because of the limited number of stores, it was difficult to see them exploiting their cost superiority in Japan, at least in the early stages. Iwata therefore believed their low-price offensive would be hard to sustain, and that it was possible for Askul to counter this.

Nonetheless, these companies had enormous capital backing, so Askul could ignore their price offensive only at its own peril. It was therefore necessary for Askul to carefully choose the most effective strategy.

Askul's Counteroffensive

Iwata believed he had three possible options for countering the price offensive.

Lowest-price guarantees

One was to guarantee lowest prices. Although catalog prices, which could only be changed once every six months when new catalogs were published, could be lowered to a degree, they could not be revised regularly to match Office Depot's and Office Max's prices. Instead, the catalogs could contain a message promising that if customers found a competitor's catalog with lower prices, the difference would be refunded in the following month's account statement.

Proponents of this proposal argued that it was possible to create a low-price image through this lowest-price guarantee, further strengthened by loss-leaders at super-low prices.

Similar to the case at normal retail stores, what was important regarding price, even for mail order companies, was the overall price image, and this overall price image could be greatly influenced by the price of certain products. Plain paper is a typical example of this, so Office Depot and Office Max set radically low prices for these items, and it was thought that Askul had to counter this to the maximum.

Of course, with plain paper customers have little real preference regarding brand, and Askul had handled its own private label products. Depending on the product category, but it was possible to build up a low-price image while maintaining profitability through the effective use of private label products.

The advantage with this proposal was that it enabled Askul to pinpoint its price counteroffensive to Office Depot and Office Max, which were only operating over a limited area. Askul could compete instantly without having to wait six months to revise its catalog, so it could keep a firm grip on its rivals. Lowest-price guarantees were an effective promotional tool that could highlight Askul's low prices, and the cash-back guarantees offered in this way would cost virtually nothing to administer.

One problem with this proposal was that it ceded initiative for price competitiveness to Askul's rivals. It in effect introduced discriminatory prices among customers, and this flew in the face of its one-price policy, which had been a fundamental principle of Askul's operations. There was also some uncertainty about how many customers would actually take up the cash-back guarantee. That is, they were concerned that many customers would look at Askul's catalog, then order from a rival whose catalog prices were lower. They also pointed to the possibility that Askul customers may not bother asking for a refund of the difference, but simply shift straight across to the rival.

Reducing catalog prices

Another option was to lower all catalog prices. Askul's prices were on average about 30% below the manufacturers' recommended retail prices. In contrast, suppliers offered major customers discounts of 30-40% in their door-to-door selling, while Office Depot and Office Max offered discounts of about 40%.

This second proposal aimed at appealing to customers through an aggressive discounting policy by dropping prices a further 10% to generally match those of Office Depot and Office Max. Iwata had already carried out a feasibility study for this option in terms of operating costs, and the findings showed that if Askul dropped prices by that 10%, the company's profits would be next to nothing, so costs would have to be reduced to secure even the slightest profit.

Such a drop in costs would of course not be impossible with Askul's own business effort and its ties with the manufacturers. At the same time, though, it was thought that if this proposal were to be adopted, an expanded assortment of general office consumables and services would be essential if Askul was to make a profit.

Apart from a small number of items such as writing implements and files, customers generally have no strong brand preference with not just plain paper but most stationery items, so it was thought that using Askul's own private label products would also be an effective way of raising its price competitiveness and maintaining its profitability.

The merit of this option was in the point that Askul could fully compete with Office Depot and Office Max in catalog prices. It was also hoped that if Askul could slash prices in other areas as well while Office Depot and Office Max were still only focusing on certain parts of the major cities, it would be able to establish an overwhelming dominance over the traditional stationery stores in those areas, thereby accelerating the pace of its growth. And with 40% off the manufacturers' recommended retail prices, there was every possibility that Askul would be able to entice some major customers away from their regular door-to-door suppliers.

On the other hand, a drop in profitability, at least in the short-term, would be unavoidable. There was also the risk that an aggressive price offensive could stir up trouble with the local stationery stores. If Askul were to cut in on their major customers, which they regarded as their lifeline, fierce resistance could be expected.

Still, these stationery stores could see the writing on the wall, and realized it was only a matter of time before they would be battered by competition from Office Depot and Office Max, so it was possible that Askul's innovative approach of drawing them in as sales agents could welcomed as a chance of surviving this inevitable competitive onslaught.

Indeed, in the latter half of 1997, the effects of the recession and the constant undermining of their sales foundations by competitive forces drove an increasing number of stationery stores into the Askul camp, and with this, Askul's agent network steadily expanded. In this light, some within Askul believed the entry into the Japanese market by Office Depot and Office Max could in fact work favorably for Askul, which seemed to have been fighting a lone battle in the midst of distribution reform in the stationery industry.

Wait and see

The third option was to wait and do nothing to change the March 1998 catalog, see how things developed with Office Depot and Office Max, then if necessary take a more aggressive stance with the September 1998 catalog.

The reason was that regardless of how successful Office Depot and Office Max may have been in the U.S., in Japan there were no stationery category killers, and very few full-scale specialist discount stores, so how Japanese customers would respond to their entry was a great unknown. In Japan the custom of buying stationery items from the local stationery store was deep-rooted, so there was some doubt as to whether there would even be any significant demand for the stationery category killers.

It was therefore thought that Office Depot and Office Max would place importance on mail order services in Japan, but this was still just an emerging market, and Askul had expended considerable energy in cultivating it through the effective use of its extensive sales agent network. Office Depot and Office Max had no track record in Japan, so Iwata believed that even though they had entered the market, without a comparable agent network, their sales figures would most likely be only average at best, at least in the initial stages.

If so, an overreaction by Askul would merely eat into their own profits for no gain at all, and invite a unnecessary backlash from the traditional stationery stores.

Equally, though, if Askul were to vacillate, there was always the risk that Office Depot and Office Max could in no time build up a low-price image, and through it enjoy rapid growth.

Making the Decision

Iwata did not have an easy time trying to decide which option he should adopt. But to make the deadline for the March 1998 catalog, a quick decision had to be made.

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