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Down-Filled "Futon" Bedding

CONTENTS

Introduction

This report describes the distribution conditions in Japan for down-filled Japanese-style bed covers, or down *futons* (HS No. 9404.90-010).

The findings have been arrived at by analyzing data including various statistical values for the Japanese market and interviewing members of industry associations, major wholesalers and retail companies. They are then used to present market characteristics and conditions that should be known by overseas companies seeking to enter the Japanese market.

I Market Overview

A. Trends in the Japanese Bedding Market

The estimated sales of bedding articles in Japan during 1998 is 1.2156 trillion yen. Compared to 1996, sales declined by 223.1 billion yen (15.5% decrease). This trend is apparent throughout the bedding market, and the industry interprets this to be caused by the prolonged slump in consumer spending and household saturation of bedding articles.

As shown in Table 1, the total sales of all types of futons, including down futons, has decreased. The rate of decrease in the sales of cotton and synthetic cotton futons is smaller than that for the total sales of all types of futons. The decrease in the sales of down futons is considered to be attributable to the slump in the sales of bedding articles as a whole as well as a change in consumer needs. Consumers normally tend to use down futons for a long period of time irrespective of the purchase price and are highly inclined to refurbish and recycle them. The industry regards this as one of the factors leading to the slump in new demand and lack of market expansion.

The Japanese living environment differs from that in the West, and sleeping style is different accordingly. The sleeping style unique to Japan is derived from the facts that most Japanese houses are of traditional wooden structure; bedrooms are of Japanese style with tatami flooring; bedding consists mainly of futons; there are large changes in climatic conditions due to four distinct seasons; and there are large temperature variations in regions due to the long north-south longitudinal layout of the country.

It is characterized by the use of a large number of bedding items, the complicated use of futons, including the routine of laying them out for use and folding and storing them in the closet afterwards, and severe quality requirements desired by the consumer, which can be said to be excessive.

The classification of bedding articles in Japan differs according to statistics. The "Annual Report on Family Income and Expenditures" of the Management and Coordination Agency previously included beds as an item of furniture, and then transferred them to be included as bedding articles 20 years ago. In the itemized sales statistics independently compiled by the "Bedding Living Times," a bedding industry trade journal, the category of beds is also included in bedding articles. In the "Annual Report on Family Income and Expenditures," pajamas and gowns are included in the category of nightwear, having been transferred from the clothing section.

Table-1 Estimated Sales of Bedding Articles (retail price base)						
	1996		1997		1998	
	Sales (100 million yen)	Annual rate of change (%)	Sales (100 million yen)	Annual rate of change (%)	Sales (100 million yen)	Annual rate of change (%)
Cotton, synthetic cotton	1,287	105.2	1,190	92.5	1092	91.8
Down	1,385	109.0	1,278	92.3	1091	85.4
Fleece	565	96.3	452	80.0	381	84.3
Futon subtotal	3,237	90.2	2,920	90.2	2564	87.8
Japanese cushions	176	96.7	161	91.5	129	80.1
Other	72	116.1	86	119.4	73	84.9
Items related futon subtotal	3,485	104.8	3,167	90.9	2766	87.3
Mattress	113	90.4	104	92.0	92	88.5
Blankets	1,116	100.6	1,042	93.4	868	83.3
Towelkets (blanket made of towel)	112	84.8	104	92.9	89	85.6
Sheets	1,145	91.2	1,033	90.2	911	88.2
Covers	2,390	97.6	2,284	95.6	2121	92.9
Pillows	642	109.2	755	117.6	793	105.0
Nightwear	2,950	104.8	2,662	90.2	2279	85.6
Intermediate total	11,953	101.3	11,151	93.3	9919	89.0
Beds	2,434	107.7	2,480	101.9	2237	90.2
Grand total	14,387	102.3	13,631	94.7	12156	89.2

Source: Compiled by Bedding Living Times

Further, the Bedding Newspaper, another bedding industry media, has released total demand figures (Table-2) that includes both the annual demand of households and commercial demand.

Table-2 Annual Total Demand for Bedding Articles					
					(Unit: billion yen)
		Demand of Ordinary Households	Commercial Demand	Total Demand	Annual rate of change (%)
1998	Futons	242.7			
	Other bedding articles	416.9			
Number of households	Other bedding	144.6			
46,156,796	Total	804.2	433.1	1,237.30	102.1%

(Note) Figures are estimates obtained using the household expenditure statistics, but are not the same as those in Table-1 due to a different means of taking statistics.

Source: Bedding Newspaper

The commercial market consists of that for hospitals, hotels, trains, ships, self-defense forces, governmental offices and private companies' lodging facilities. It also includes bedding articles kept on hand by local governments for occasions such as disasters. This market is estimated to comprise approximately 35% of overall demand.

B. Trends of Down Futons

1. Changes in sales quantities

Likewise in the case of general bedding articles, both sales and quantity sold of down futons have also dropped tremendously for these years (Table-3). Sales dropped by 81.6% in 1997 and 75.1% in 1998 over the previous year, respectively. It is primarily the imported products that are declining and their figures are only about one third of the peak sales period. Approximately 30% of down futons is comprised of *hadakake* futons (futons used in the rainy season and summer) and summer futons with down filling of 1kg or less. The share comprised by these futons is increasing annually.

Table-3 Estimated Sales Totals of Down and Feather Futons

(Lower line is annual rate of change: %)

	Quantity sold			Sales amount
	Domestic products (×1,000)	Import products (×1,000)	Total (×1,000)	Total monetary amount (100 million yen)
1996	2,857	4,189	7,046	1,385
	95.4	68.1	77.0	109.0
1997	2,557	3,193	5,750	1,278
	89.5	76.2	81.6	92.3
1998	2,300	2,019	4,319	1,091
	89.9	63.2	75.1	85.4

Source: Beding Living Times

2. Changes in sales price

An analysis of the average retail price per down futon reveals that it has continued to increase from 14,500 yen in 1994 to 19,600 yen in 1996 and 25,200 yen in 1998.

The factors for this increase are the product strategies for down futons by the companies dealing in them, a shift towards higher quality, implementation of the Product Liability Law, health consciousness of consumers and consumer demand for high value-added products. Consequently, the majority of the drop in import products consists of low-priced products.

Consumer demand is also shifting to be primarily comprised of replacement demand and consumers are beginning to look for products with excellent quality and functions.

3. Trends of 62 major Japanese companies

A survey conducted by the "Bedding Living Times," presented in Table-4, indicates the actual conditions of Japanese down futon manufacturers. In 1998, 71 % of the companies were comprised of small enterprises with annual sales of less than 1 billion yen. Conversely, the five companies with annual sales of 5 billion yen or more make up 66% of the total sales.

Table-4 Sales and Production of Futons by Company Size

Fiscal year	Composition by company size			Sales composition		Futons production (company's own)							
	Division by annual sales	Number of companies	Share of total (%)	Sales (100 million yen)	Share of total (%)	Coverings (×100)	%	*Hadakake* futons (×100)	%	Mattresses (×100)	%	Total (×100)	%
1998	5 billion yen or more	5	8	723.0	66	6,952	25	2,777	35	1,238	87	10,967	30
	1 ~ less than 5 billion yen	13	21	247.8	23	11,526	42	2,375	30	4	0	13,905	37
	Less than 1 billion yen	44	71	123.4	11	9,041	33	2,831	35	185	13	12,057	33
	Total	62	100	1,094.2	100	27,519	100	7,983	100	1,427	100	36,929	100
1999	5 billion yen or more	5	8	720.0	64	8,152	27	2,942	36	1,241	86	12,335	31
	1 ~ less than 5 billion yen	13	21	264.5	24	12,535	42	2,250	27	1	0	14,786	37
Plans	Less than 1 billion yen	44	71	133.3	12	9,450	31	3,010	37	204	14	12,664	32

Source: Bedding Living Times

C. Trends of Import Products

1. Overall bedding trends

An analysis of changes for 1996-1998 as indicated in the customs clearance statistics of the Ministry of Finance reveals that down futons and blankets decreased greatly both in monetary terms and weight.

Beds, linens, pajamas and other cloth products increased in import volume partially due to the reduction in domestic production facilities.

Table-5 Imports of Bedding Products (weight base)

(Unit: kg)

	1996	Annual rate of change (%)	1997	Annual rate of change (%)	1998	Annual rate of change (%)
Down futons	11,379,970	78.4	9,460,057	83.1	6,705,242	70.9
Sleeping bags	3,206,357	102.3	1,824,601	56.9	1,690,754	92.7
Other futons and bedding	29,854,720	99.6	28,278,043	94.7	27,316,628	96.6
Blankets	18,693,822	85	18,214,337	97.4	14,330,935	78.7
Bed linens	32,352,166	87	33,950,882	104.9	34,790,876	102.5
Bedspreads	960,864	79.6	908,078	94.5	831,519	91.6
Pajamas	32,573,401	109.6	27,204,311	83.5	29,233,027	107.5
Mattresses	10,931,224	109.9	10,147,672	92.8	9,231,982	91.0
Mattress supports	378,427	160.9	628,243	166.0	660,766	105.2
Hide-a-beds	6,512,313	100.4	6,428,857	98.7	5,883,048	91.5
(Wooden furniture for bedrooms)	(38,192,753)	102.7	(38,292,638)	100.3	(33,826,622)	88.3
Total	145,843,264	95.1	137,045,081	93.3	131,355,543	95.8

Source: Customs Clearance statistics

2. Trends of imported down futons

The 1998 import quantity has fallen dramatically to one third, approximately 6 million futons, as compared to the total imported in 1994-1995. The monetary import value has also fallen to just under one third its previous high, and is now a little more than 80 billion yen.

As far as the countries from which futons are being imported, Japan’s neighbor, China, has increased its share annually since 1993, accounting for more than 90% of the total since 1994. In 1998, China’s share accounted for 93%, and for 97% when including Taiwan.

Although the slump in consumption caused by the recession is a factor in the declining sales volume, the primary reason for this decline is the market saturation of down futons. The penetration rate reached about 80% in 1998. On the other hand, corresponding with the rising market saturation, the import of down futons has begun to center on futons that are excellent in both quality and functions.

The market is seeking the supply of futons with high quality down rather than low-priced types, futons with very soft outer fabrics and futons that are competitive in all areas, including the sewing technique, sales price and after-sales service.

Table-6 Import of Down (Feather) Futons

	Total				China			
	Quantity	Annual rate of change (%)	Monetary amount (1 million yen)	Annual rate of change (%)	Quantity	Annual rate of change (%)	Monetary amount (1 million yen)	Annual rate of change (%)
1991	2,917,491	113.5	11,666	102.8	904,550	138.1	3,955	123.8
1992	2,697,914	92.5	10,725	91.9	1,105,319	122.2	4,444	112.3
1993	3,988,541	147.8	14,432	134.6	3,079,724	278.6	10,780	242.6
1994	6,138,622	153.9	20,465	141.8	5,450,255	177.0	17,289	160.4
1995	6,153,182	102.4	17,635	86.2	5,679,533	104.2	15,236	88.1
1996	4,189,333	68.1	15,301	86.8	3,883,680	68.4	12,586	82.6
1997	3,193,425	76.2	13,025	85.1	2,948,935	75.9	10,832	86.1
1998	2,019,033	63.2	8,167	62.7	1,879,365	63.7	6,896	63.7

Source: Same as Table-5

Table-7 Countries and Regions Exporting Down (Feather) Futons to Japan (1998)

	Quantity				Monetary Amount		Average unit price per futon (yen)
	Quantity	Annual rate of change (%)	kg	Annual rate of change (%)	1,000 yen	Annual rate of change (%)	
China	1,879,365	63.7	6,410,826	71.4	6,896,626	63.7	3,670
Taiwan	89,048	57.7	185,040	60.4	367,663	51.8	4,129
Hungary	23,609	45.3	48,140	59.0	286,870	41.9	12,151
Germany	19,527	111.9	43,676	107.5	518,960	91.8	26,577
U.S.A.	2,062	139.0	5,871	118.1	19,771	129.2	9,588
U.K.	1,918	96.1	2,867	97.0	10,940	116.3	5,704
Hong Kong	1,000		2,687		8,431		8,431
Finland	959	62.9	1,836	57.7	29,035	55.8	30,276
Denmark	842	132.6	1,065	80.3	17,631	133.9	20,939
R. Korea	542		2,194		3,312		6,111
Italy	95	58.3	692	59.7	4,539	75.2	47,779
Australia	40		92		1,468		36,700
Switzerland	13		21		1,156		88,923
Czech Republic	10		40		304		30,400
France	3	25.0	195	1,083.3	1,213	355.7	404,333
Total	2,019,033	63.2	6,705,242	70.9	8,167,919	62.7	4,045

(Note) The number of samples is small for the French unit price. Thus, the figure is an exception and should be used for no more than a reference.

Source: Same as Table-5

II Import System and Related Laws

A. Import System

1. Tariffs

a. Down futons

Products with preference treatment (Most-favored nations including China)

Tariff rate zero

Controlled on monthly basis, but with no ceiling volume set. However, application is suspended at a set volume when there is a sudden and massive surge in the importation of futons.

Convention agreed tariff rate 3.8%

When set by WTO or bilateral trade conventions

Note) When both tariff rates are applicable, the lower rate will be given priority. Therefore, companies desiring to export down futons should verify the rates with their embassies in Japan. The same also applies to raw materials.

b. Raw materials

1) Washed, sterilized and treated down — Tariff rate zero

2) Bleached and dyed down — Tariff rate zero (most-favored-nation treatment)

3.9% (convention agreed tariff rate)

2. Regulations

a. Wildlife Protection and Hunting Law

Geese and ducks used for down are not included in the 47 types of wildlife regulated.

b. Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES)

There is no problem as long as a domestic animal certificate has been obtained from a chamber of commerce or higher institute of the concerned country.

c. The Domestic Animal Infectious Diseases Control Law

For the import of raw feathers and down, this law stipulates that a certificate from the exporting country is required for some materials. An inspection is conducted at the Animal Quarantine Center. It is advisable to confirm in advance whether or not products to export fall under the stipulation of this law.

Companies wishing to export futons should verify related regulations with their embassies in Japan.

B. Related Laws and Ordinances

The following laws must be observed when selling imported down futons.

1. Household Goods Quality Labeling Law

This law includes stipulations regarding quality indications of fabric products. For futons, the composition of the outside fabrics and fillings as well as breakdown of down and feathers, and the name, address and telephone number of the labeler (importer) are required. The area code and zip code must be indicated with the telephone number and address, respectively.

2. Product Liability Law

This law assigns a ten-year product liability term to companies shipping and selling futons.

The main accidents that can happen with futons are the inclusion of sewing needles, fraying of thread and skin damage resulting from various chemicals used in production.

The attaching of product use manuals, caution indicators, etc. is mandatory.

C. Voluntary Labeling by Industry

1. Futons quality labeling regulations of the All Japan Bedding Goods Association (JBA)

- Product type

Indication of type by usage and type of fillings

- Type and composition of fibers used for futon fabrics

Type and composition of fibers used for outer fabrics, lining fabrics and (inner fabrics)

- Type and composition of fillings

For down futons, indication of percentages of down and feathers used

- Indication of volume and weight of fillings
- Size (length and width)
- Handling methods

How to use, cautions, method of airing, storing, and washing

- Name, telephone number and address of labeler
- A filling sample is to be attached

a. Futon size standards

- Scope of application

These standards regulate ready-made futon sizes (dimensions).

- Types applicable

The products covered thereby are coverings, mattresses and *hadakake* futons.

- Size definition

The standards apply to finished size for quilted futons and actual material length times width for other futons.

- Dimensions, abbreviations and sizes

The dimensions, abbreviations and sizes are stipulated as follows.

Coverings

		(Unit: cm)
Abbreviation	Size	Width×Length
S	Single	150×200
SL	Single long	150×210
D	Double	190×200
DL	Double long	190×210

Mattress

		(Unit: cm)
Abbreviation	Size	Width×Length
S	Single	100×200
SL	Single long	100×210
D	Double	140×200
DL	Double long	140×210

Hadakake coverings

		(Unit: cm)
Abbreviation	Size	Width×Length
S	Single	150×200
SL	Single long	150×210
D	Double	190×200
DL	Double long	190×210

b. Label example

Quality Label

Futon name		
Product number		
Size (cm)		Quilting (allowable range +5%, -3%)
Outer material of futon	Front	Cotton 100%
	Back	Cotton 100%
Filling		Down % Feather %
Filling weight		Kg
Labeler		**All Japan Bedding Goods Association** **Tel:03-3281-2679** **TK−○○○○**

The standard cover for this futon is a cover with the size symbol [SL].

Note 1) The example to the left shows the indication for a labeler who has been assigned a quality labeler number by the JBA.

Note 2) Finished sizes of down coverings
150×200cm (S)
150×210cm (SL)
190×200cm (D)
190×210cm (DL)

Down Futons

Voluntary Labeling of the All Japan Bedding Goods Association
Handling Method for this Down Futons

- Use instructions and cautions
  - Feathers will stick out of the smallest hole so do not attach a sleeve with needles or safety pins.
  - Regularly wash sheets and covers to prevent damage to or dirtying of the outside fabric.
  - Dry the futon in the sun or using a futon drier. These warm the futon, add fluff and resilience making the futon more comfortable to use.
  - Sometimes feathers will stick out of seams and such. The futon can still be used if the quantity is small.
  - If the futon smells, fold it and push the aroma out. Then let in new air and dry it in the sun for three to four hours before using it again.
- Hanging out in the sun
  - Hang the futon out in the sun with sheets or covers on in order to prevent damage to and dirtying of the outside fabric.
  - Turn the futon over while it is hung outside so the entire surface is exposed to the sun.
  - Hang the futon out about once or twice a month on sunny and dry days between the hours of 10 a.m. and 3 p.m. Hang the futon out so that both sides are exposed to the sun for about an hour.
- Storage
  - Avoid humidity when storing the futon. Also, when storing the futon, place the mattress on the bottom and the cover on the top.
  - When you will not be using the futon for a long time, hang it out in the sun once, remove the covers and sheets and store it in a location that is not humid.
  - Even when you are not using the futon, hang it out in the sun occasionally and dry out the closet in order to prevent ticks and mold from attaching to the futon.
- Washing
  - When the outside fabric is dirtied in areas, quickly dab those areas clean and dry the futon thoroughly.
  - When cleaning of the futon is unavoidable, consult with a futon store or dry cleaner.

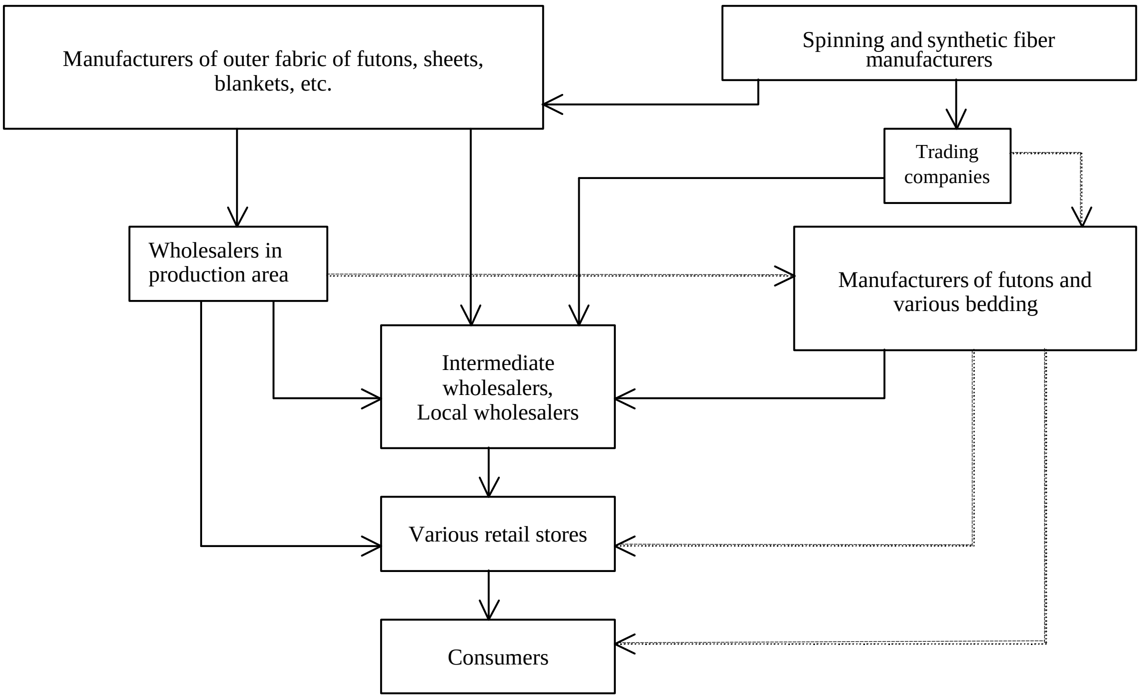
III Distribution Conditions and Business Practices

A. Distribution Channels of the Overall Bedding Industry and Changes Thereto

1. Conventional distribution channels

As the following diagram reveals, the industry is driven by intermediate wholesalers who bear the inventory risk. Raw materials, materials, production and sales were handled by other parties concerned.

Figure 1 Distribution Channels for Bedding



2. Changes in distribution channels

The distribution channels are undergoing great change as a result of the nationwide expansion of volume retail stores, the huge growth in door-to-door and mail-order means of selling directly to consumers, a large growth in imports and the increased handling by the companies of other industries.

The following is an explanation using changes in information regarding production, wholesaling and specialty shops (source: Ministry of International Trade and Industry) and information regarding retail companies handling bedding articles (source: Bedding Living Times) as references.

a. Changes in the bedding manufacturing industry

According to “Business Statistics” researched by the Ministry of International Trade and Industry, in the five years from 1992 to 1996, the number of manufacturers has declined by 270, or about 15%. This industry is characterized by the fact that small companies with 4-29 employees comprise more than 90% of the manufacturers. It is forecast that the number of manufacturers will decrease further as a result of the slump in consumer spending and, increase in import products.

b. Bedding wholesale industry

According to the “Commercial Statistics Table” released by the Ministry of International Trade and Industry every three years, in 1997, the number of companies and employees had both declined by approximately 15% as compared to 1994.

Since 1997, the environment surrounding wholesalers has become more severe, and the number of bankruptcies among major companies and closing and liquidation of smaller companies is increasing. Consequently, it is forecast that the next study to be released in the year 2000 will show decreases of 20% or more and 30% or more for the number of companies and employees, respectively.

Table-8 Changes in the Sizes of Bedding Wholesalers

	Number of companies	Variation		Number of employees	Variation		Annual sales (1 million yen)	Variation		Product in stock (1 million yen)	Variation	
Fiscal 1991	1,868	▼	26	22,027	▼	186	1,381,050	△	150,921	146548	△	15,761
Fiscal 1994	1,940	△	72	22,334	△	307	1,278,569	▼	102,481	136763	▼	9,785
Fiscal 1997	1,649	▼	291	18,832	▼	3,502	1,138,806	▼	139,763	126753	▼	10,010
Compared to previous study (%)	(85.0)			(84.3)			(89.1)			(92.7)		

Source: Ministry of International Trade and Industry

c. Bedding retail industry

The declines in the retail industry are greater than those for the wholesale industry. A comparison of the number of companies, number of employees and annual sales in fiscal 1991 and 1997 shows a decrease of about 30% in all cases.

The bedding retail industry has felt a tremendous impact due to a large increase in high volume discount stores, department stores and other major retail stores, a major increase in companies without physical stores such as door-to-door sales and mail-order sales, the increased handling of bedding by furniture stores, do-it-yourself centers and clothing discount stores and other factors. A decline of 30% or more compared to the previous study is expected for the forthcoming study in the year 2000.

Table-9 Changes in the Size of Bedding Retail Companies

	Number of companies	Variation		Number of employees	Variation		Annual sales (1 million yen)	Variation		Product in stock (1 million yen)	Variation		Sales space (m^2)	Variation	
Fiscal 1991	18,579	▼	1,390	57,820	▼	5,651	684,932	△	29,860	119,938	▼	591	1,218,555	▼	12,596
Fiscal 1994	16,689	▼	1,890	52,919	▼	4,901	643,491	▼	41,441	110,104	▼	9,834	1,195,546	▼	23,009
Fiscal 1997	14,484	▼	2,205	45,484	▼	7,435	539,284	▼	104,207	91,563	▼	18,541	1,046,558	▼	148,998
Compared to previous study (%)	(86.8)			(86.0)			(83.8)			(83.2)			(87.5)		

Source: Same as Table-8

d. Emergence of non-store retail sales

The figures obtained in a study by "Bedding Living Times" for the sales of bedding retailers are very different from those provided by the "Commercial Statistics Table" of the Ministry of International Trade and Industry. The reason for this is that door-to-door sales, mail-order sales, event sales and other non-store sales (companies selling without a physical store) are included in the announced figures for bedding sales.

According to the study mentioned above, sales by department stores, volume discount stores and bedding specialty stores - the core formats for sales - decreased greatly from 1994 to 1997, and the overall drop for store retail sales was about 16%.

On the other hand, the decrease in non-store retail sales was minuscule. The breakdown of sales between stores and non-stores was 57.4:42.6% in 1994 and 49.5:50.5% in 1998. Thus, the fact that non-store sales have climbed on top is apparent.

The primary entities in the non-store sales area are the group of companies without physical stores that sell directly to consumers. Their principal products are expensive "health" mattresses and luxury down futons. This distribution channel is probably unique to Japan.

Table-10 Estimated Bedding Sales by Sales Channel

	1996			1997			1998		
	Sales (100 million yen)	Annual rate of change (%)	Market share (%)	Sales (100 million yen)	Annual rate of change (%)	Market share (%)	Sales (100 million yen)	Annual rate of change (%)	Market share (%)
Department stores	1,468	97.2	10.2	1,335	90.9	9.8	1,156	86.6	9.5
Chain stores (volume sales stores)	2,121	99.1	15.4	2,110	95.4	15.5	1,865	88.4	15.3
Bedding article specialty stores	2,142	95.5	14.9	1,868	87.2	13.7	1,571	84.1	12.9
Other retail stores	1,702	102.5	11.8	1,646	96.7	12.1	1,425	86.6	11.7
Total for store sales	7,524	98.4	52.3	6,959	92.5	51.1	6,017	96.5	49.5
Retail sales by non-stores	6,863	107.0	47.7	6,672	97.2	48.9	6,139	92.0	50.5
Grand total	14,387	102.3	100.0	13,631	94.7	100.0	12,156	89.2	100.0

(Note) Other retail stores include kimono stores, furniture stores, general clothing stores, do-it-yourself stores, discount stores, etc.

Source: Bedding Living Times

B. Down Futon Distribution Channels

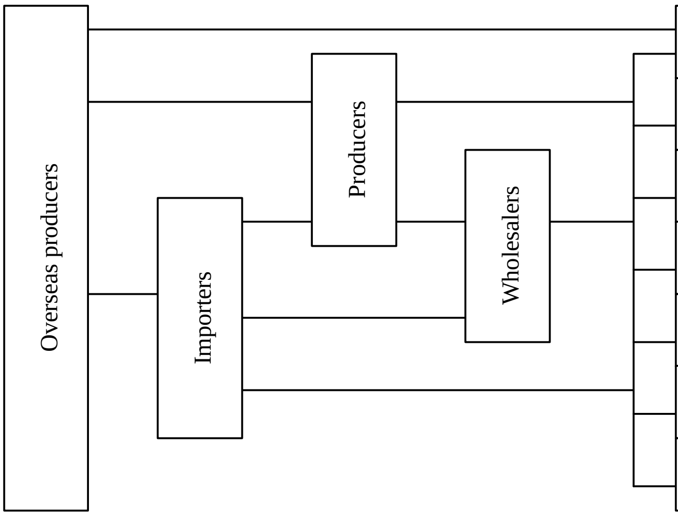
The general distribution channels for down futons are as shown in Figure-2. These channels are primarily controlled by major wholesalers who comprehensively handle bedding, approximately 30 Japanese down futon manufacturers and a small number of major door-to-door sales companies that have their own factories and sell nationwide.

These companies import down and produce bedding domestically, but also, depending on client demands and corporate convenience, produce down futons in overseas countries and import them, thereby causing the volume of imported products to surpass that of futons produced domestically.

Ninety-three percent or more (1998) of raw down and down products are imported from Japan's neighboring country, China. In many cases, Japanese manufacturers, major wholesalers and door-to-door sales companies are overseeing production and quality control in Chinese factories that are on par with Japanese factories.

In 1998, about 2 million futons were imported and about 2.3 million were produced in Japan. It has been announced that the 62 major Japanese down futon manufacturers handled about 3.7 million futons.

Figure 2 Distribution Channels for Imported Down Futons



	Quantity sold in 1998 (10,000)	Share (%)
Door-to-door sales	70	16.3
Major furniture stores	20	4.7
Volume discount stores	120	27.9
Department stores	60	13.9
Specialty retail stores	100	23.3
Mail-order sales	30	7.0
Other	30	7.0
Total	430	100.0

Source: Interview of individuals related to the industry

Figure-2 shows the estimated volume of down futons handled by retail channels in 1998 and reveals that the greatest volume was handled by volume discount stores.

Moreover, the wholesalers positioned at the center of the industry have primarily supplied volume discount stores, department stores, retail stores and mail-order sales companies. This accounts for about 50% of the total volume handled.

C. Distribution Margins

In the past, the standard price margins for bedding in the respective levels of production, wholesale and retail were generally 30, 20 and 50%, respectively. However, a review of the sales price and margins at each level is being sought due to intensified price competition, shortened distribution channels, increased market penetration and decreased sales volume.

There are volume discount stores that have lowered the retail sales price by 30% and set margin standards at production/36%, wholesale/21% and retail/43% levels as well as mail-order sales companies and others that handle inexpensive products. There are also direct sales companies, department stores, large furniture stores, bedding specialty stores and others who are attempting to raise prices and margins by seeking measures for the decrease in quantity such as product differentiation. There is a growing number of cases where intermediate companies are being eliminated to improve margins.

D. Leading Japanese Companies

In Japanese distribution channels for bedding, spinning and synthetic fiber makers are responsible for supplying raw materials and manufacturers for the production of finished futons. Most retail bedding stores that sell to consumers are very small with an average annual sales of 37 million yen and 3.14 employees. Therefore, the industry has in fact been led by major wholesalers and door-to-door sales companies that directly sell down futons and "healthy" mattresses as a set to consumers.

In the wholesale business, the three companies of the Nishikawa Group hold a key place in the Japanese market with each of the companies using a common trademark. Of the door-to-door sales companies, Maruhachi Mawata, which advertises heavily, has a large share. Maruhachi Mawata also owns production factories for down futons and beds and is a company with good profitability.

The total bedding sales of the major mail-order companies is approximately 7-8% of the overall total, at about 10 billion yen annually.

Senshukai and Fuji Sankei handle down futons but primarily white futons. Cecile and Nissen handle futons with designs and patterns. They predominantly sell 3-piece sets consisting of 100% feather futons, pillows and mattresses and inexpensive products with covers that are priced at 10,000 yen or less.

Table-11 Sales for Bedding Wholesale and Non-Store Sales Companies (Fiscal 1998)

◇ Bedding Wholesale Companies

Company name	Head office	Sales (1 million yen)	Annual rate of change (%)	Gross profit rate (%)
Nishikawa Sangyo	Tokyo	63.486	▲ 5.3	NA
Osaka Nishikawa	Osaka	33.695	▲ 6.1	NA
Kyoto Nishikawa	Kyoto	29.065	4.7	30.0
Kosugi Shoji	Kyoto	14.576	▲ 8.6	NA
Yamajin Bussan	Osaka	13.702	▲ 17.4	17.5
Taido Living	Tokyo	12.538	▲ 2.6	29.2

(Note) It is estimated that sales of down futons comprise 20-30% of the total.
NA indicates no response.

◇ Non-store Sales Companies

Company name	Head office	Sales (1 million yen)	Annual rate of change (%)	Business format
Maruhachi Mawata	Shizuoka	53.084	▲ 11.3	Door-to-door sales
Senshukai	Osaka	169.088	▲ 9.5	Mail-order sales
Cecile	Kanagawa	155.592	▲ 13.2	Mail-order sales
Nissen	Kyoto	132.199	▲ 3.5	Mail-order sales
Fuji Sankei	Tokyo	65.141	▲ 4.9	Mail-order sales

(Note) Bedding comprises 7-8% of the sales for mail-order companies.
Source: Nikkei Ryutsu Shimbun

IV Advice Concerning Market Access

A. Selection Standards of Japanese Consumers Concerning Raw Down and Futons

1. Attitude concerning raw down
The type of raw down is critical criteria for selecting down futons. Japanese consumers strictly examine the type of bird (eider, goose, duck, etc.), the way of breeding (natural breeding is considered to be luxury) and the type of raw down (down, feather, small feather, etc.) when making their purchase. In particular, white down is popular and there is a tendency to judge the quality of the down by the area the bird is from.

2. Attitude towards down futons
The standard filling amount for coverings is 1.4kg. The products are of a high quality, generally unthinkable in the West. The filling amount differs according to the type of futon. Futons filled with 0.8-1.0kg of down are sold as *hadakake* futons. Summer futons are filled with 0.2-0.5kg of down.
Japanese like odor-free products and dislike down or products with a smell. Therefore, there is a demand for down that has been washed well. The uniform industry standard is a clean grade of 500mm or more and oxygen factor of 4.8mg or less. The outer fabrics of products produced in Japan have undergone anti-bacteria, anti-odor, anti-tick and other sanitation-related processes. They are also made to feel soft and comfortable. Moreover, most of the outer fabrics are sewn in a mesh-like manner so that it is difficult for the down to shift. As a result, the detailed requirements for treating down and product standards greatly differ from the West.

3. Preference of colored patterns over white in outer fabrics
Ninety percent of the outer fabrics on the market is printed with colored patterns. That is, Japanese consumers prefer colored patterns over white which is popular in the West. It is necessary to take such a taste of Japanese into consideration when planning to enter the Japanese market.

B. Lack of Effectiveness of Overseas Companies' Brands in the Japanese Market

The brands of overseas companies are virtually unknown in Japan. The names of Japanese specialty wholesalers, mail-order companies and others are interpreted as brand names in the market. In other words, the penetration of brands of overseas companies are affected by the Japanese company that handles them. Therefore, it is necessary to note that application of the brand strategy used in your home country will not be as effective in Japan.

C. Selecting Wholesalers or Retailers as Partners

1. Specialty wholesalers

Although the bedding and futon industries are experiencing declining sales and distribution channels are changing, the volume handled by specialty wholesalers continues to hold at a 50% share. Moreover, specialty wholesalers continue to be the suppliers for most department stores and specialty retailers who handle expensive products.

Major specialty wholesalers sell many Western fashion brands as gift products and coverings. However, since product specifications for down futons are unique to Japan, they use their own brand name to sell these products to consumers.

2. Specialty retailers primarily sell products for household use

Retail stores and stores specializing in interior goods that had traditionally not sold futons are beginning to sell them. In addition, the sales by retail stores that handle miscellaneous interior goods and cover a comprehensive range of household products as well as sales by major bedding retail stores that sell futons are rapidly increasing.

Since these stores have a particular concern about their store concept, it is difficult to sell down futons alone as an independent product. One suggestion would be to team up with home product companies of your country or region and promote product groups that meet the concepts of these stores.

D. Understanding Differences in Business Practices and Contracting Methods

Compared to various foreign countries, business practices in Japan concerning bedding are conducted in a very unclear manner. In Japan, order sheets are issued but written contracts are rarely exchanged. Therefore, products are sometimes returned if they aren't sold, and department store sales sites, in effect, use a consignment sales approach. Since the ordering party bears the risk concerning imported products for which Japanese business practices do not apply, imports center on low-priced products that can be sold easily.

An analysis of down futons reveals many cases where down producers, major retail companies and door-to-door sales companies in Japan use overseas manufacturers as their cooperating factories and import products from them. Participation in this form of development and import should also be studied adequately.

F. Study of Overseas Company Entry Examples - Product Standards Must Meet Those of the Japanese Market

Germany and Eastern European countries have used down futons from early on. However, other Western countries primarily use blankets, and the same can be said for hotels around the world.

The greatest reason that down futons began to spread throughout the world was the oil shock which occurred in the fall of 1973. The Japanese market also suffered from a lack of kerosene and interest in down futons, with their excellent ability to maintain warmth, increased due to reduced spending and other reasons. At that time, Northern Feather of Denmark, which was the top company globally, entered the Japanese market in a joint venture with a Japanese trading company and used its factory in Singapore as the base. It was first successful selling to the largest hotel chain in Japan, which had lowered its room temperatures.

In 1980, it established a Japanese entity, began production at its own factory and raised annual sales at one time to some 1 billion yen. However, sales slumped due to its late response to the improved quality of domestic down futons, the increased percentage of down used (70-90%), improved quality of outer fabrics and other factors. In 1990, it closed the Japanese entity when the head office underwent reorganization.

The primary products originally sold in Japan contained 30-50% down, the European standard. However, in line with increased market penetration, competition over quality differentiation intensified and products containing 90% or more down gradually became common. In addition, the processing of the outer fabrics and sewing technique have both increased in complexity. Consequently, the market is controlled by products that are superior to the quality standards of the West.

Nishikawa Sangyo, a leading company, began importing products over a decade ago. It handles products made by Paradise of Germany. The futons use the top fabrics available in Germany and also have designs suitable for Japanese consumers printed on them. Single-sized futons containing eider down from Ireland and single-sized futons containing goose down are widely sold at department stores and specialty retail stores for 1.8 million yen and 200,000-300,000 yen, respectively. Currently, there are no other imported products that particularly stand out.

Appendix

A. Government Offices

General Affairs Section, Customs and Tariff Bureau, Ministry of Finance
Tel: 03-3581-4111

Office of Wildlife Protection and Hunting, Environment Agency
Tel: 03-3581-3351

Import Division, International Trade Administration Bureau, Ministry of International Trade and Industries
Tel: 03-3501-1511

Animal Health Division, Life Stock Industry Bureau, Ministry of Agriculture, Forestry and Fisheries
Tel: 03-3502-8111

B. Associated Organizations

All Japan Bedding Goods Association
Tel: 03-3281-2679

All Japan Cotton Wedding and Bedding Goods manufactures Corporative Association
Tel: 03-3281-2714

Japan Down Products Corpoartive Association
Tel: 03-3281-7828

Japan Bedding Manufacturing and Wholesale Federation
Tel: 03-3666-824