

Japan Inc. 2006 - lost in transition?

Douwe Rademaker, Research International, looks at the Japanese consumer market and offers five tips for survival in a dynamically innovative marketplace

JAPAN IS ONE of the most difficult markets to crack, with very demanding consumers, mature domestic manufacturers and a protectionist environment. Many western companies have tried and failed to capture the hearts of the consumers and to penetrate the business practices. But the success of luxury brands such as Louis Vuitton and Haagen-Dazs is proof of what can be achieved.

Despite the challenges, the sheer size of the market and the spending capacity of the consumers means that Japan offers a tremendous opportunity for western companies. Its purchasing power (GDP per capita) is on a par with Europe's most affluent countries, setting it apart from other Asian countries. Given the current strong growth of the economy, an opening to a western style of doing business and an ageing population, this is a good time to target Japanese consumers (see Figure 1).

The Japanese used to love saving and shun borrowing, but lately their consumption behaviour is becoming more like that of western consumption societies'.

Particularly interesting for foreign companies is the open attitude towards western brands and a willingness to spend money on premium brands. Japanese consumers are known to be extremely demanding in terms of quality, attention to detail and service. At the same time, in contrast to many other markets, there is not much room for mid-market brands. The decision is usually between cheap products (drugstores) or luxury brands (flagship stores). A young Japanese woman may use an inexpensive lipstick every day, but when on a date at an expensive French restaurant only a Dior lipstick will be good enough to take out of her fashionable Vuitton handbag.

The biggest challenges are to create compelling offers for the Silver Generation, for generally hard-to-satisfy consumers and the fashionable, technogadget-loving youth. Having an insight into Japan's unique consumer mindset and behaviour, and the major social trends can help companies focus their product development and marketing successfully.

The trendsetting youth

Aged between 16 and 24, the Japanese youth called *7ost-Dankai* juniors have initiated a number of global trends. Japanese schoolgirls, Lolita Goths hanging out at the Harayuka park (Harayuka girls) or the teenage girls in Shibuya with their unnatural dark tans and blond hair, have been key sources for street fashion and innovative product design worldwide.

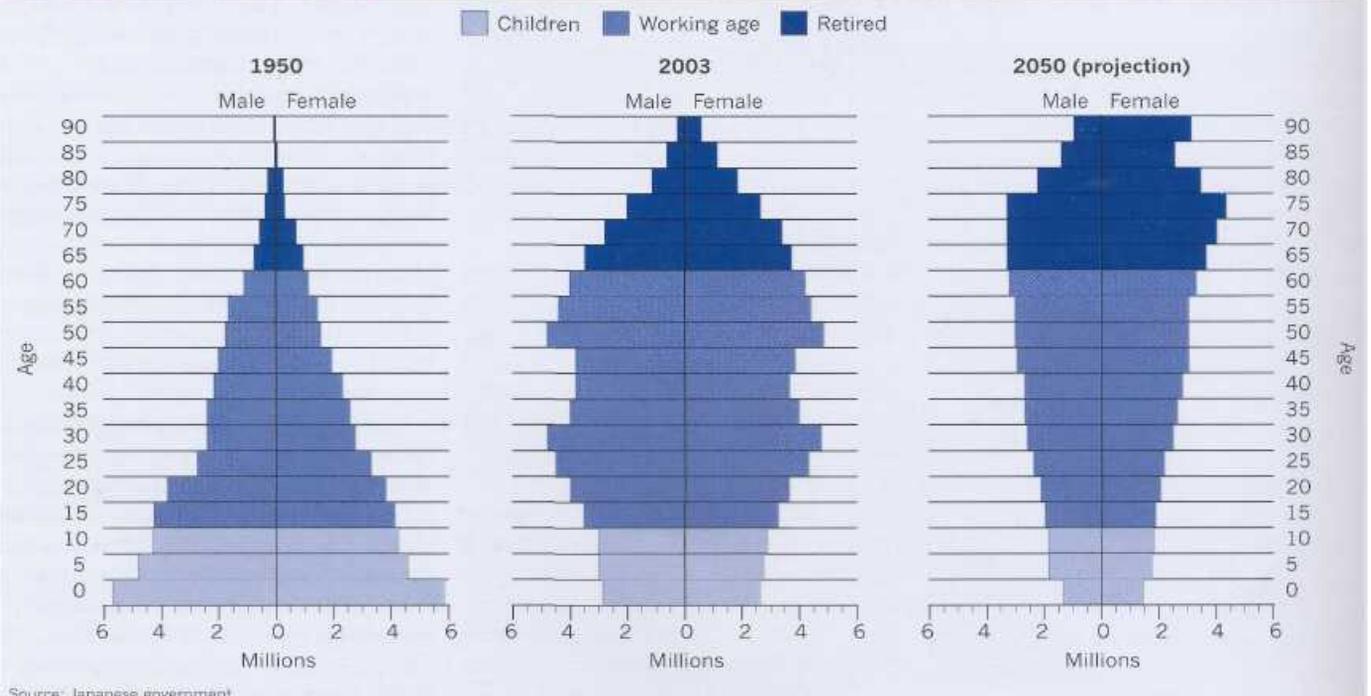
Many of the trends in the past ten years such as Tamagotchi, Pokemon, Hello Kitty, Photo sticker machines and individualized mobile phones originated with the trendsetting Japanese youth.

If you want to know what will be hot in the western world in the next year, you may want to come to Japan and observe Japanese adolescents. See how the schoolkids abuse their school uniforms, how they interact with their mobiles, how they shop and what they wear at the weekends on the streets of Harajuku, Omotosando and Shibuya. Benetton treats Japan as leading edge in terms of fashion.

Lately, however, there has been a tendency among the next generation to

FIGURE 1

Japan's population changes



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move from individual styles to general fashion. Young consumers seem to be a little less concerned about the need for extreme individualism in fashion and are more open to western brands. As a result there is an opportunity for mid-market brands like Gap and Banana Republic to expand.

The problem is reaching these kids. They do not watch much television and they spend less time behind a desktop surfing the web. Most of the time, they are travelling on public transport or are at school or in the mall. So how do they stay connected? Ninety-five per cent of the Japanese own a *Ketai* (mobile phone) and are experts at using them for anything from voicemail, email, camera or movie camera, videophone, radio and television to downloading ringtones and QR reader (i). The latest trend in mobile communication between schoolgirls is not through SMS, but taking a picture of a written note and emailing the picture.

Young women in search of self

There has been a trend of young women who are more interested in having a career than in settling down in the role of wife and mother. There is now a significant number of young, single and professionally successful women who enjoy spending on clothes, dining out and travel. However, in a society that is still very traditional and without positive role models, they struggle to find a positive self-image. Names for these single women such as *Kurisuma keki* (Christmas cake, which does not taste good any more after the Christmas holidays), *Hari no Mushiro* (sitting on needles) and *Makeinu* (loser dog) illustrate how they are regarded.

One of the best-selling books in 2005 was *Makeinu no Toboe* (cry of a loser dog) targeted to this group of young women. It is a Japanese version of *Sex and the City* in which a successful and single young career woman struggles between the dual roles of a single career woman and that of a wife, a mother and a daughter.

This year, AM/PM opened its first convenience store targeted to these young working women, giving them a space to change their nylons and a comfort zone

away from men. The store will be staffed only with women (except during the night). The store, called 'Happily', will offer toilets only for women. These toilets will be furnished with a dressing table and an aroma fragrance. In addition, unlike most Japanese convenience stores, there will be no racks of adult men's magazines.

The end of the salarymen

With decreasing job security and an increasing focus on individuality, young people are looking for alternatives to the tradition of a lifelong commitment to a company. This is not just a fad - the impact on GDP is estimated to be more than 1.5% - and as this group gets older it may bring about the end of the soberly dressed, hard-working, salarymen.

Young people looking for a different way to live, described below, are relatively negative.

> Freeters (Free workers). Educated young people choosing to do part-time or low-paid work rather than entering the system and becoming salarymen.

> Neeters (Not in Education, Employment or Training, and below 25 years). Young people not willing to go to a university and choosing to go after low-paid jobs or to pursue a career in music or art.

> *Hikki Komodi*. Young people stay cooped up at their parents' house, unwilling to take up a job or to participate in life.

These parasite singles, as they are sometimes called, are a very interesting target market for many companies. They still spend approximately US\$180 per month on hobbies and leisure activities (compared to \$250 by people in full-time employment). This segment is largely



Luxury brands: Louis Vuitton store in Japan

responsible for the explosive growth of the convenience stores (especially the 100 Yen shops, where all items cost approximately US\$1) and video/DVD rental shops.

Still living at home

With the high cost of living, many young families decide to live with their parents in order to save money. Without the expenses of a house or a car (a parking place is a prerequisite for car ownership) these young families are relatively affluent. They are obsessed with luxury goods and the only way to express individuality is through premium fashion products like watches, handbags and mobile phones, or with anything cute (*kawaii*). Not surprisingly, Japan is Gucci and Vuitton's largest global market (see picture below).

Recreation and culture also form a high share of these families' spending. Many of these young families have to take care of their elders and so family outings and holidays to get away from the small apartments with the in-laws are very popular. For example, 25 million visitors come to Disneyland Japan annually and Japan represents one-third of Haagen Dazs' global sales.

Spending the inheritance

Japan's population is ageing as the baby boom generation (*Dankaf* generation) begins retiring. This is the generation who experienced the Tokyo Olympics, Coca-Cola and McDonald's coming to Japan, and the rise of luxury brands like Louis Vuitton.

This Silver Generation has postponed its own consumption for 40 years. They have cash and are ready to spend it. 'I would not want to leave any more than the absolute necessity for my daughters because they are not likely to care for my wife and myself,' says Fujio Ando, senior managing director of Chiba Bank Asset Management. There also are tax reasons: assets valued at more than 40 million yen (\$380,000) to be passed on to each of his daughters are subject to a 50% inheritance tax. 'Why bother saving money and then pay half of it in tax?' says Ando. >

The average spending potential of this segment is higher than in the same age group anywhere else in the world. Interestingly, this generation is traditionally very healthy and is looking at 25 years of retirement.

Nintendo recently introduced its most successful game, or rather application, to this Silver Generation: the BrainTrainer. In the last week of 2005 alone, more than 400,000 copies of this game were sold. More than 80% of these users are over 40 years old. In the same week, almost 400,000 units of hardware (Nintendo DS) were sold, which was more than all other systems combined in this week)

Golden age of romance

Traditionally men and women have lived their lives independently. Men would work, drink and play golf until they retire at a late age. Women would take care of the children and once their children have grown, they would spend their time on various hobbies.

The new more competitive market is leading to earlier (forced) retirements and more independent women. Suddenly, salarymen who have retired early and have a social circle to fall back on are back home with their wives - who have hobbies, friends and are more independent than ever. Many of these older couples are struggling to find a new balance and need to start to learn to communicate and to appreciate each other again. Roughly translated, some of these women refer to their retired husbands as, 'the wet leaves



Microsoft's Xbox 360 lounge in Omotosando

that get stuck under your shoes when you come in the house'.

Daytrips, romantic holidays, movies, dance lessons, relationship therapy, dinners targeted to this segment are booming business in Japan. According to a recent study, luxury travel, priced anywhere from US\$4,000 to US\$30,000 to destinations all over the globe, is the most popular product among Japan's seniors. Other popular products include digital cameras (for taking pictures of grandchildren), *raku-raku hon* (easy-to-use mobile phones), dinner shows by old-time stars, Toyota Prius, high-quality walking shoes, flat-screen TVs and membership hotels.

Five tips to be successful in the Japanese market

The keys to being successful in this tough market are to stay in control, to listen to the consumer, be creative, over-deliver and innovate.

1. Stay in control

To be successful, a company has to be on the ground and should not leave control to a local partner or licensing agreement. Success is not an overnight guarantee - it takes a long-term investment and skilled brand management. To capture the full potential of this market, you have to be in the market. Do not leave it to others to do it for you. This does not necessarily mean you have to bring in *gaijin* (non-Japanese) managers. After the successful turnaround of Nissan by a non-Japanese CEO, Gosh, many foreign companies started to replace their CEOs with a *gaijin*, with mixed results. Since then most of these companies have gone back to trusting the local expertise of senior Japanese managers to run the local subsidiary.

2. Adapt offering to consumer needs

A deep understanding of Japanese attitudes, behaviour, tastes and mindsets, as well as perception of price versus quality is key to developing a competitive value proposition. The Japanese market is too competitive for a me-too product or a product that is not targeted exactly at the right local segment. Products, services and

marketing communications have to be adapted to the specific needs of each target group.

3. Be creative in building your brand awareness and positioning

With the Japanese spending less time watching television than ever, companies are looking for alternatives to 30-sec TV ads to build their brands. Some of the alternative ways to build their brands are *Ketai* (mobile phones), online games, advertising inside train cars and creative in-store marketing. Recently, Microsoft built a large temporary lounge-annexe gaming area to build awareness for its new-generation Xbox 360. The lounge, with large-screen TVs and the newest video games, was built in Japan's hottest shopping district, Omotosando. Recently, this example has been followed by Apple with an iPod lounge (see picture below).

4. Do not compromise on quality

Price is regarded as a key indicator of quality. The Japanese consumer will pay a high price if the product matches high Japanese expectations. However, added value is expected and an over-the-top product experience is almost a hygiene factor.

5. Be prepared for shorter product cycles ... innovate

The life cycle of products in Japan is shorter than ever and innovation is key to survival in this market. In general Japanese consumers have an early-adopter mentality and expect products to change. They get bored relatively easily and are quick to switch to a new version, a new taste or a new package. Most successful companies in Japan have a well-developed consumer-centric innovation process that enables them to bring innovative successful products to market quicker than anywhere in the world. •

- i. *QR = Quick response: QR readers read increasingly ubiquitous 2-d barcodes which act as the entry point to pages on the mobile internet.*

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