

E-COMMERCE IN JAPAN:

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EXECUTIVE SUMMARY

JAPAN IS A HIGH-TECH COUNTRY, AND E-COMMERCE IS ON THE RISE. Japan has the second-largest e-commerce market in the Asia Pacific region and the fourth-largest market in the world, behind China, the United States, and the United Kingdom.

The primary drivers behind the growth in the Japanese e-commerce market are increased internet penetration with strong infrastructure networks and customer preferences, such as convenience and increased product diversity available online. Moreover, e-commerce has gained market share from the general shift from bricks-and-mortar stores to online marketplaces.

E-commerce retailers enjoy many benefits in Japan, including tech-savvy consumers, urban density, and a single language used by consumers. The small size of the country and its highly developed distribution networks and logistics systems make shipping and delivery convenient, which adds to the attractiveness of the e-commerce market in Japan.

While the popularity of foreign retailers is growing, e-commerce customers in Japan still prefer to buy locally. Availability is the most common reason for cross-border online shopping, followed by condition, quality, and variety. Other important factors include country of origin and brand reputation. However, while e-commerce imports are small, Japanese online merchants export large amounts of merchandise across borders, mainly to the United States and China.

When operating an e-commerce business in Japan, it is important for retailers to understand the market and local culture. Customer experience, product quality, and loyalty programs are key to winning over Japanese customers. When advertising, companies should clearly present the brand name, highlight the quality and features of a product, and include pricing when appropriate. It is important to note that confrontational or high-pressure approaches are generally not appealing to Japanese consumers.

Overall, companies looking to enter the e-commerce market in Japan must consider a number of different factors, including leveraging existing platforms; payment methods and systems; the availability of logistics and shipping; language barriers; customer service and loyalty options; and advertising in a way that reaches the local audience.



INTRODUCTION

IN 2017, THERE WERE 82.59¹ MILLION E-COMMERCE BUYERS IN JAPAN, with approximately 70%² of the population making online purchases. It is estimated that by 2021, that number will grow to 88.92 million online shoppers.³

The main e-commerce platforms in Japan include Amazon Japan, Rakuten, and Yahoo Japan, which together account for over 50% of the country's yearly e-commerce revenue. Electronics and media (US\$23.73B in sales), as well as fashion (US\$22.28B in sales), make up the largest product categories purchased online in Japan.⁴ Travel is also trending in the Japanese e-commerce market, and in 2015, 91% of leisure travel and 86% of hotel stays were reserved online.⁵ Additionally, online ticket and entertainment sales are gaining popularity, as well as online car insurance and grocery purchases.

¹ <https://www.eshopworld.com/japan-ecommerce-insights-2017/>

² <https://www.export.gov/article?id=Japan-E-Commerce>

³ <https://www.eshopworld.com/japan-ecommerce-insights-2017/>

⁴ <https://www.eshopworld.com/japan-ecommerce-insights-2017/>

⁵ <http://www.ecommercefoundation.org/>



METHODOLOGY

THIS REPORT HAS BEEN CREATED WITH THE PRACTITIONER IN MIND and to satisfy the objective of providing Canadian firms with an understanding of e-commerce in Japan.

The research has been conducted based on a theoretical approach through a lens of providing practical and accessible insights. The report builds on multiple sources of data, including literature reviews, secondary research, data analysis, and statistics, as well as case studies.

The researchers have synthesized literature on consumption behaviour, patterns, trends, and consumer tastes and preferences. In addition to information taken from existing literature, the report also brings in statistical analysis conducted using data that was collected by a large market research organization as part of its annual research program. The sample panel includes 1,000 individuals from Canada and 1,003 individuals from Japan. Both the Canadian and Japanese sample aimed to be as representative as possible.

The researchers have also identified two case studies to give insights into the Japanese market and the challenges and opportunities that face firms desiring to operate, or already operating, in Japan. These provide the reader of the report with examples of what has happened in the Japanese e-commerce environment in the recent past.

THE JAPAN E-COMMERCE CONTEXT

THE GROWTH IN E-COMMERCE IS PRIMARILY DRIVEN BY the gaining of market share from other channels, including a general shift from bricks-and-mortar stores to online marketplaces. Online retailers benefit from the developed economy, tech-savvy consumers, urban density, and a single language used in Japan. Furthermore, the small size of the country and its highly developed distribution channels make shipping and delivery convenient, adding to the attractiveness of the Japanese e-commerce market.

As of 2018, the island country of Japan has a population of 127.3 million people, many of whom are rapidly turning to e-commerce for the convenience and variety of products available online. People between the ages of 24 to 54 make up the majority of the population (39.7%), while the second-largest segment (26.6%) consists of people aged 65 and over.⁶ The capital city is Tokyo, which has the largest urban population of the country.

Japan's economy and consumption habits have steadily increased over the last 50 years, allowing the country to develop a strong and highly competitive e-commerce market. According to the World Bank, Japan is among the richest countries in the world, with a total gross domestic product (GDP) of US\$4.94T. Japan ranks third overall when compared with other countries, while Canada ranks tenth with a total GDP of US\$1.54T.

When it comes to e-commerce, Japan has the second-largest market in the Asia Pacific region and the fourth-largest market in the world, behind China, the United States, and the United Kingdom. Business to consumer (B2C) e-commerce sales of goods and services were approximately US\$114.402B in 2015. The international Ecommerce Foundation has reported continued growth since 2012 and projects an estimated annual growth rate of 8.7%.⁷

CUSTOMER CONTEXT

Culture of Gift-Giving

Gift-giving is an important aspect of Japanese culture, related to values such as gratitude, recognition, generosity, and kindness. Gifts are given or exchanged on different occasions for a variety of purposes.

⁶ <http://www.ecommercefoundation.org/>

⁷ <http://www.ecommercefoundation.org/>

There are two common types of everyday gifts: omiyage and temiyage. Omiyage are souvenirs given upon return from a vacation or trip to friends, family, and colleagues. Temiyage are gifts given as a thank you by a guest to the host when visiting. Consumables are the most common items exchanged, and the average cost is approximately C\$10 to C\$50.

In all instances, the wrapping and presentation of the gift are paramount. In Japanese culture, certain numbers and colours should be avoided as they have negative associations. For instance, gifts should not be given in fours, and black and red should be avoided when giving cards in envelopes as these characteristics are associated with death and suffering.

Sophisticated Customers with Unique Shopping Strategies

In Japan's high-tech landscape, device ownership is prevalent. The data from our study revealed that the Japanese sample own more standard mobile phones (47.6%) compared with the Canadian sample (26.6%). However, the Canadian sample reported owning more smartphone devices (58.3%) versus the Japanese sample (40.3%). It is also more common for Japanese consumers to use desktop (87.4%) and laptop (73.0%) computers rather than tablets (14.6%) when making online purchases, although this trend is shifting toward increasing mobile device purchases, such as e-commerce exchanges through smartphones, or mobile e-commerce.

In terms of generational usage, younger people are skilled at making purchases online through apps such as Mercal, a consumer to consumer (C2C) organization for both selling and purchasing products. In contrast, older generations are less inclined to go online; however, this is changing due to the success of email marketing campaigns, online advertising, and the increasing prevalence of device ownership.

When it comes to advertising, targeting and audience segmentation can be difficult in Japan since different parts of the country have diverse shopping behaviours. For example, women in urban areas tend to visit physical store locations; however, they will compare prices online and search for the best deal. Indeed, women in Japan will conduct extensive research and turn to bloggers and social media sites such as Snapchat, Instagram, and Twitter to gather information. On the other hand, men tend to spend more time online searching on sites such as Amazon.

Consumers Who Prefer Domestic Products

Overall, the Japanese e-consumer market prefers domestic products. Reasons for this preference include the already-high availability of products in Japan; a lack of trust in foreign websites, products, or organizations; language and communication barriers with foreign retailers; concerns related to product return policies and processes; and delayed delivery times when purchasing foreign goods.⁸

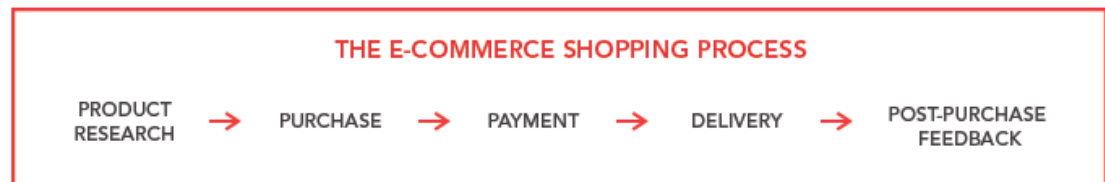
While domestic retailers dominate the market, the popularity of internationally made products is growing. In 2016, the most common products purchased online from abroad were books, CDs, DVDs, and video games (27%); cosmetics (21%); clothing and footwear (20%); food (14%); digital cameras (12%); and mobile phones (10%).⁹

⁸ <http://www.ecommercefoundation.org/>

⁹ <http://www.ecommercefoundation.org/>

THE E-COMMERCE SHOPPING PROCESS

A typical customer's active online engagement process is illustrated in the figure below. It can be broken down into various phases:



Product Research

The majority of Japanese consumers will search for and compare products and services on their mobile devices first, before determining what and where to purchase products and services. Smartphones are the primary driver of traffic to e-commerce websites; however, TV still remains a strong channel in Japan for advertising. Most commuter trains have televisions that can be leveraged by advertisers to attract consumers. It is not uncommon in the apparel industry for consumers to try on items in-store before making a purchase online. Mobile apps are often used as a form of window-shopping as well, where consumers will scroll through web pages without the intention of purchasing or searching for anything specific.

Purchase

In 2015, the average online shopper in Japan spent US\$1,488 per year. In the same year, 14% of online purchases were made on a mobile device.¹⁰ On Rakuten, a large e-commerce marketplace in Japan, mobile devices account for the greatest amount of traffic to its website. Rakuten's largest-spending consumers tend to visit the website on all three digital channels: mobile, tablet, and computer. The majority of purchases start on a mobile device and finish on the computer; however, mobile purchases are gaining ground.¹¹

Customer experience is key to reaching the Japanese market. Therefore, each touchpoint through the online purchasing process needs to be seamless. Not only do retailers need to be transparent about product availability and delivery times, they need to create a pleasant and effortless experience if customers are going to become loyal clients. Therefore, creating a positive customer journey is a proactive and important undertaking for all e-commerce retailers.

¹⁰ <http://www.ecommercefoundation.org/>

¹¹ <http://www.humblebunny.com/sell-on-rakuten-japan-e-commerce-market/>

Local retailers in Japan set the bar high with regards to exceptional customer service. In order to be competitive, foreign retailers must recognize the importance of the customer experience and also the need to tailor to the Japanese market. One key point here involves the use of the Japanese language on websites, in advertisements, and when helping customers via help functions. The importance of this is demonstrated by the fact that some e-commerce platforms, such as Rakuten, only allow third-party sellers on their website if their customer service representatives speak Japanese.¹²

Payment

In Japan, while cash is still common for in-store payments, credit cards are the most common payment method for online purchases. Despite this, many other payment options are also available. Alternative payment options include cash on delivery, Konbini (convenience store payments at participating retailers such as 7-Eleven, Lawson, and FamilyMart), PayEasy (bank transfers/ATM payments), PayPal, and loyalty points. Visa and MasterCard, as well as Japanese JCB, tend to be the most commonly used cards for online shopping. Indeed, credit cards and debit cards make up the large majority of online purchasing transactions (61%), followed by bank transfer (19%), cash on delivery (13%), and e-wallets (6%).¹³

Payment methods tend to vary based on the consumer. For instance, younger generations without access to a credit card or bank account tend to use convenience store payments (Konbini) more frequently than other customers. New forms of payment are also emerging. Zozotown, an online retailer in Japan, implemented a pay-later option to attract the younger generation. This option provides consumers with the choice to delay payment for approximately two months. This option is controversial since some people argue it triggers impulse purchasing among teenagers. According to one news source, over 1 million customers have opted to use this option, 57% of which were young adults.¹⁴

For foreign online retailers without a local presence in Japan, credit cards appear to be the best and most preferred payment method. In order to accept PayEasy and Konbini, a local business registration is required. In addition, the delay of e-banking payments may require some co-ordination with Japanese payment operators.¹⁵ In Japan, there are multiple payment service providers, including:¹⁶

2CHECK	CYBERSOURCE	ECONTEXT
BRAINTREE	DIGITAL GARAGE	LITLE & CO
CHASE PAYMENT	NTT DATA CORPORATION	PACNET SERVICES
PAYPAL	WEBPAY	WORLDPAY

¹² <https://www.practicalecommerce.com/Ecommerce-in-Japan-Marketplaces-Dominate>

¹³ <http://www.ecommercefoundation.org/>

¹⁴ <http://blog.btrax.com/en/2017/09/29/e-commerce-trends-in-japan/>

¹⁵ https://flyinglynx.com/dataflow/nsc/files/media/japan_trends2017english_29173.pdf

¹⁶ <https://www.thepaypers.com/payment-service-providers/japan/4>

Delivery

Geographically, Japan is a small country with strong logistics services, making delivery fast and reliable. It is not uncommon for local Japanese companies to offer same-day delivery services. Amazon offers same-day delivery to approximately 80% of Japan's population (approximately 100 million consumers), and one-day delivery to 95.1% of the population.¹⁷ Speed of delivery is an important factor impacting customers' purchasing decisions. Delivery, product insurance, and tracking are competitive advantages that customers value. The main delivery methods include international mail or private couriers. Japan Post is the local postal service provider and express mail service delivery is available for international shipments. There are countless private couriers as well who are able to manage the entire delivery process.¹⁸ Click and collect is an underdeveloped delivery option in Japan, as well as locker pickup; however, Rakuten is starting to develop opportunities in this area.¹⁹

Foreign organizations should be aware that customers expect short delivery times; therefore, when shipping from abroad, online retailers need to set clear expectations regarding delivery times. While Japanese consumers are aware that international shipping can take longer, it is important to inform the customer exactly how long it may take, to manage customer expectations. Many e-commerce sites in Japan have a separate international page highlighting foreign products that can be shipped to local consumers. Consumers also expect to be able to dictate specific delivery dates and times for most purchases, and companies should therefore take this into consideration.²⁰

In addition, Japanese consumers value the way a product is presented, including the packaging it comes in. The materials used should be of high quality, as receiving the product upon delivery is an important part of the online shopping experience. If required, product instructions should also be included and very detailed.²¹

¹⁷ <http://www.ecommercefoundation.org/>

¹⁸ https://flyinglynx.com/dataflow/nsc/files/media/japan_trends2017english_29173.pdf

¹⁹ <http://www.ecommercefoundation.org/>

²⁰ <http://www.ecommercefoundation.org/>

²¹ <http://www.ecommercefoundation.org/>

²² <https://www.practicalecommerce.com/Ecommerce-in-Japan-Marketplaces-Dominate>

Post-purchase – Reviews and Feedback

Complaining is not a common occurrence in Japanese culture. According to first-hand and secondary data, consumers who are dissatisfied with a retailer's product or service will likely not make it known; however, they will certainly not be repeat customers. It is therefore important for foreign retailers to impress customers with the first few touchpoints, as they may not get another chance if the customer is unhappy.

Loyalty programs and promotions are also important, not only when winning over the Japanese customer, but also to enhance the number of return consumers. Loyalty is highly valued in Japanese culture, and online retailers need to reward loyal consumers more than in North America. In Japan, retail contests with prizes, increasingly large discounts, and special promotions are not uncommon aspects of reward programs. Discount codes can often be used on already reduced items, and many promotions and markdowns align with holidays unique to Japan.²²

Returns

Generally, return rates in Japan have been low. Japanese consumers typically opt to sell or give away an unwanted product rather than returning it. This has been beneficial for the e-commerce market and has allowed high-end brands to offer greater free return thresholds; however, the introduction and growing popularity of Amazon may change this.²³

Providing consumers with the potential to return products is a large issue that affects purchasing decisions, particularly related to international products. Organizations need to be transparent regarding their return policy. Luxury brands tend to offer return instructions, while this is less common for appliance and furniture companies.²⁴

PRODUCTS AND BRANDS

The key motivators for consumers to try new brands or products are quality of materials, prestige of brand, and novelty of experience.

Product Categories

Electronics and media (US\$23.73B in sales), as well as fashion (US\$22.28B in sales) are the largest product categories purchased online in Japan.²⁵ Electronics include items such as laptops, tablets, and TV sets. Fashion is also a growing sector, and niche specialty providers tend to dominate in this area. Food and beverage, including online grocery shopping, is another growing area.

Overall, high-quality products and high-end brands are in demand. By 2021, it is estimated that fashion will become the most common product category purchased online, with an anticipated US\$32.23B in sales. Electronics and media are expected to reach US\$29.31B in sales within the same time period.²⁶

Travel is also trending in the Japanese e-commerce market. In 2015, 91% of leisure travel and 86% of hotel stays were reserved online. Other popular services purchased online include music and car insurance as well as event and entertainment tickets.²⁷

ONLINE BEHAVIOUR

In Japan, there is not a large difference between age groups when it comes to internet usage. People aged 35-44 use the internet most (98% on a daily basis), compared to 96% between the ages of 16-24 and 25-34. Internet usage among those 55 and over in Japan is greater than in other countries: 94% of individuals aged 45-54, and 95% of people aged 55 and over, use the internet on a daily basis.²⁸ The more significant difference in usage rates relates to gender, with men using the internet approximately 10% more.²⁹

With high internet penetration (91%) it is not surprising that the majority of online purchases made in Japan are completed with a laptop computer. While mobile e-commerce

²³ <http://www.ecommercefoundation.org/>

²⁴ <http://www.ecommercefoundation.org/>

²⁵ <https://www.eshopworld.com/japan-ecommerce-insights-2017/>

²⁶ <https://www.eshopworld.com/japan-ecommerce-insights-2017/>

²⁷ <http://www.ecommercefoundation.org/>

²⁸ <https://www.eshopworld.com/japan-ecommerce-insights-2017/>

²⁹ https://flyinglynx.com/dataflow/nsc/files/media/japan_trends2017-english_29173.pdf

is growing, currently only about 14% of sales are made from a mobile device and even fewer from a tablet.³⁰

Search Engines

The main search engines used in Japan are Google (57%) and Yahoo (40%).³¹ According to a 2017 Statista study, 70% of respondents used Google in the past four weeks. The websites visited most frequently via a desktop computer in 2016 based on the unique number of visitors were Google sites, Yahoo sites, LINE Corporation, Microsoft sites, FC2 Inc., Amazon sites, and Rakuten.³²

Mobile Evolution

As mentioned, m-commerce (mobile e-commerce) is rapidly gaining ground in Japan. In 2017, household smartphone penetration was 75.1%.³³ It is not uncommon for consumers to have multiple smartphones as well.

Japan ranks third globally for app use, with an average of 40 apps per smartphone and approximately 18% of those being paid apps.³⁴ iOS is the mobile operating system of choice in Japan, with 67.1% market share.³⁵ Most large retailers, such as Amazon and Rakuten, have developed applications to facilitate m-commerce for this operating system.

In 2016, the majority of smartphone use was dedicated to checking emails (40%), using search engines (35%), visiting social networks (22%), watching videos (15%), map and direction services (10%), playing games (10%), and searching for product information (10%).³⁶

It is expected that more Japanese customers will make purchases using their mobile devices as smartphone penetration continues to increase over the coming years and m-commerce platforms are developed, tested, and perfected for optimal customer experience.

Social Media

In Japan, 52.56 million people are active social media users.³⁷ The leading networks in Japan include Facebook, Twitter, Instagram, and Mixi, as well as YouTube. Facebook usership is about 17% of the population, Twitter is approximately 15%, and Instagram is less popular at 2%. Mixi, a social network unique to Japan, has about 5% of the population as users.³⁸

Social media is a strong influencer when it comes to the commercial market in Japan; however, anonymity is highly important. People in Japan enjoy the connectivity of social media but are often influenced by the cultural norms of conformity and shyness. Therefore, online anonymity allows for individual expression.³⁹

Social media users in Japan tend to focus on sharing moments and life events, as well as experiences. From a marketing perspective, positioning products alongside an emotion or sentiment allows retailers to connect with consumers.⁴⁰

Influencers are also an important consideration when determining a social media strategy; however, research from 2017 shows that when searching for product information related to

³⁰ <http://www.ecommercefoundation.org/>

³¹ https://flyinglynx.com/dataflow/nsc/files/media/japan_trends2017english_29173.pdf

³² <https://www.statista.com>

³³ <https://www.statista.com>

³⁴ <https://www.thepayers.com/payment-service-providers/japan/4>

³⁵ <http://www.ecommercefoundation.org/>

³⁶ <http://www.ecommercefoundation.org/>

³⁷ <https://www.eshopworld.com/japan-ecommerce-insights-2017/>

³⁸ <http://www.ecommercefoundation.org/>

³⁹ <https://www.export.gov/article?id=Japan-E-Commerce>

⁴⁰ <https://www.export.gov/article?id=Japan-E-Commerce>

a purchase, the Japanese market tends to prioritize comparison websites, search engines, customer reviews, and personal referrals. Social media is used 13% of the time, with blogs and podcasts at 6%, and celebrities at 2%.⁴¹ The top five domestic Instagram accounts in Japan as of June 2018 are Naomi Watanabe, Kiko Mizuhara, Rola, Yukina Kinoshita, and Tasty Japan. The top five domestic brand Instagram accounts as of July the same year are Tasty Japan, Nissan, Honda, Comme des Garçons, and Pokemon.⁴²

Instant Messaging

LINE is a widely used instant messaging application that offers a variety of features. It has approximately 218 million active monthly users globally, and an estimated 91% of Japanese social media users are also using LINE. In 2014, the company launched LINE Pay, which is a mobile payment and transfer service available in Japan.⁴³

SHOPPING EVENTS/TIMING

When it comes to the Japanese market, it is important to pay attention to the Japanese calendar. In addition to events celebrated in North America, such as Valentine's Day and Christmas, other important events in Japan are Hatsu-uri and White Day.

Christmas and Oseibo

While Christmas is not traditionally part of Japanese culture, and less than 1% of the population is of Christian faith, today Christmas is celebrated by the majority of the population (70%).⁴⁴

Oseibo takes place just before Christmas, between mid and late December. It is an occasion to say thank you and show gratitude toward others. Today, this tradition is most common among professionals, and gifts are often mailed to the recipient. Again, consumables are a common gift and presents are often packaged in a rectangular box and wrapped in paper (also known as noshigami).⁴⁵ The overall market for Oseibo appears to be decreasing in Japan as the year-end gifts retail market has steadily been decreasing since 2014.⁴⁶

Ochuugen

Ochuugen is the same as Oseibo but it takes place mid-year, during the summer in the month of June. Summer is a popular shopping season as employers typically provide employees with their annual summer bonuses. Bonuses are typically dedicated to the purchase of luxury goods, leisure, and travel. When giving gifts during Ochuugen, consumables are common, as well as household items. This tradition is generally celebrated among business people; however, in some instances family members and friends exchange gifts as well. Similar to Oseibo, the overall retail market for mid-summer gifts has been declining in Japan over the past few years.⁴⁷

⁴¹ <https://www.statista.com>

⁴² <https://www.statista.com>

⁴³ <https://www.export.gov/article?id=Japan-E-Commerce>

⁴⁴ <https://latitude.blogs.nytimes.com/2012/12/20/a-merrier-christmas/>

⁴⁵ <https://latitude.blogs.nytimes.com/2012/12/20/a-merrier-christmas/>

⁴⁶ <https://www.statista.com>

⁴⁷ <https://www.statista.com>

Hatsu-uri (New Year's Sale)

Hatsu-uri is a New Year's tradition in Japan. It is the first sale of the year, and people will line up outside of stores for the first few days of January to take advantage of the event. Fukubukuro is a common purchase; however, there are many other sales on popular brands available as well. Fukubukuro (also known as happy bags or lucky bags) are filled with products from a particular brand or store that have been greatly discounted. The items are presented in brightly coloured packaging or bags. These bags are known to sell out in a matter of minutes.

A wide variety of retailers take part in this tradition, including clothing stores and food and beverage shops. Traditionally, consumers were not made aware of what specific items were in the Fukubukuro. In some instances, only the number of items would be disclosed or the total value of goods before the discount was applied. Nowadays, the practice of hiding the contents of the Fukubukuro is changing. Retailers are beginning to market the contents of the bags in pre-sale advertisements in order to increase excitement before the event. Furthermore, in large cities such as Tokyo, there are often public spaces deemed as unofficial exchange areas for consumers looking to trade any unwanted items from their Fukubukuro.⁴⁸

Shichi-Go-San (7-5-3)

Shichi-Go-San is a Japanese festival that takes place on November 15. It is a celebration of well-being for children, specifically three- and five-year-old boys, and three- and seven-year-old girls. These ages are believed to mark important life stages and are lucky numbers in Japan. During this festival, girls often wear kimonos and boys wear hakama.

Golden Week and Children's Day

Golden Week takes place April 29 to May 5 and contains several Japanese holidays. For this reason, it is a popular vacation period for locals; however, prices can often be higher at this time. The last day of Golden Week is Children's Day on May 5. This holiday is traditionally celebrated by families with boys and is dedicated to their happiness and health. As part of this celebration, households will display carp-shaped flags outside the home. Girl's Day, also known as Hinamatsuri, takes place on March 3 and is celebrated by displaying decorative dolls.

White Day

White Day takes place on March 14, one month after Valentine's Day, and is a direct response to that holiday. In Japan, women often present their male partners with chocolates on Valentine's Day. White Day is an opportunity for men to return the gift and give chocolates or other gifts to their partners in return.

⁴⁸ <https://www.japan-visitor.com>

MAIN STAKEHOLDERS

E-commerce Platforms

The e-commerce market in Japan is a diverse and competitive landscape. Marketplaces are common and allow third-party vendors to sell to consumers on their sites. According to Statista, the four largest e-commerce platforms in Japan by share of unique visitors in 2015 were Amazon Japan, Rakuten, Kakaku, and Yahoo Japan. The largest three, Amazon Japan, Rakuten, and Yahoo Japan, together account for over 50% the country's yearly e-commerce revenue. The table⁴⁹ below provides a comprehensive overview of the types of e-commerce platforms active in Japan.

GENERAL MARKETPLACES	APPAREL MARKETPLACES	DEPARTMENT STORES & RETAIL	SUPERMARKETS	BOOKS & MEDIA
Amazon Japan	Zozotown	Seibu & Sogo	Ito-Yokado	Book Off
Rakuten	MASH Style Lab	Isetan	Maruetsu	Kinokuniya
Kakaku	Trinity Arts	Mitsukoshi	Daiei	Sanyodo
Yahoo Japan	FIVEFOXes	Daimaru	Apita	Tsutaya
Apple	Origami	Takashimaya	Walmart (Seiyu)	
DMM	Start Today	Aeon	Amazon	
	Mercari		FamilyMart	
	Onward		UNY	
	Kashiyama		H2O Retailing	
			Life	
			Izumi	
			QVC	

⁴⁹ <https://www.export.gov/article?id=Japan-E-Commerce>

While Amazon Japan appears to be the leader in terms of the number of unique visitors, a 2017 DI Marketing study found that 70.2% of online shoppers in Japan use Rakuten, compared to 66.7% who use Amazon. In addition, another study from NTTCom Research found that only 7.9% of internet users made weekly purchases on Amazon, and 27.8% every few months. The average purchase amount for Amazon Japan online shoppers is estimated between US\$9-90 for monthly shoppers. Popular product categories on Amazon Japan include books, magazines, DVDs, and video games. In addition, only 16.6% of Amazon Japan shoppers use Amazon Prime; however, Japan is still one of Amazon's largest foreign markets. Nikkei Asian Review estimates that Amazon delivers 300 million parcels in Japan each year.⁵⁰

The large marketplaces generally have in-house support teams to assist and educate vendors. Amazon Japan, Rakuten, and Yahoo Japan are relatively easy to conduct business on as a vendor; however, there are extensive on-boarding processes that are common among Japanese companies, which can make the process more elaborate for new vendors, particularly foreign retailers. While Amazon Japan operates relatively similarly to its US counterpart, Yahoo Japan does not because it was purchased by a Japanese investment company called SoftBank. An alternative for new retailers, and a way to void the long on-boarding process, is to partner with an existing vendor who is already authorized to sell on one of these platforms.⁵¹

Rakuten, established in 1997, is the largest e-commerce marketplace in Japan, with 70% of online shoppers registered on the site, and an estimated 95 million users.⁵² The platform sells products ranging from clothing, electronics, food, and health supplements. Its extensive loyalty program is a major benefit and encourages repeat business. Shoppers will likely prefer to make a purchase on Rakuten so that they can gain points. In order to sell on Rakuten, retailers must develop their own page. This is a mini-website within the larger marketplace. This format provides retailers with more freedom than other marketplaces, as retailers can control their own promotions and page design. It is important for retailers to customize their pages specifically for the Japanese market, gain a strong understanding of Rakuten's customer search algorithm, and leverage search engine optimization. For foreign retailers, understanding the Japanese language, common spellings, and characters is imperative. Detailed product descriptions are also popular in Japanese culture. Content-heavy websites that are highly stimulating are preferred. In addition, email, paid advertising, and social media can also be implemented to increase page traffic. For retailers interested in selling on Rakuten, the company must first determine if they are the producer of the products and are licensed to sell in Japan. Rakuten has a list of banned products that cannot be sold in their marketplace, and they must approve all products sold. All merchants must also comply with local laws and regulations.⁵³

Apparel accounted for 10.93% of the e-commerce market in 2016, and there are several apparel-specific e-commerce marketplaces in Japan. Zozotown is one of the primary online marketplaces for apparel stores in Japan. It offers a warehouse and fulfillment service. Commissions are only applied after a product is sold. The amount of commission varies depending on a variety of factors; however, it is typically higher than other platforms as there

⁵⁰ <https://www.emarketer.com/Article/Amazons-Efforts-Japan-Remain-Dogged/1016095>

⁵¹ <https://www.practicalecommerce.com/Ecommerce-in-Japan-Marketplaces-Dominate>

⁵² <https://www.practicalecommerce.com/Ecommerce-in-Japan-Marketplaces-Dominate>

⁵³ <http://www.humblebunny.com/sell-on-rakuten-japan-e-commerce-market/>

is no initial fee. In order to sell on Zozotown, a retailer must be offered the opportunity, as the marketplace only sells popular brands that they believe will perform well. Zozotown provides a lot of detail about each product as well as specific measurements. A significant amount of care is given to the consumer experience. For instance, the site remembers size preferences and offers suggestions for similar products. Going forward, Zozotown is developing its own brand. The SPA model (specialty store retailer of private label apparel), where the company is vertically integrated, is a popular business model in Japan.⁵⁴

Uniqlo is one example of an SPA model, and was ranked as one of the top Japanese global brands in 2017. Uniqlo is aiming to increase its online sales by 2020 and bridge on- and offline shopping. For instance, Uniqlo now issues mobile coupons that can be redeemed in stores.⁵⁵

As mentioned, e-grocers are becoming a large market. According to a 2015 Agriculture and Agri-Food Canada (AAFC) report, the market is valued at US\$7B and is estimated to reach US\$10.5B by 2020. Consumers are shopping more online for edible goods for both convenience and price. In terms of the online grocery market in Japan, consumers value quality (fresh with little additives), trustworthiness, and ethical sourcing (environmentally friendly), as well as excellent customer service. The top companies in 2015 in terms of sales in this area included:

- » Walmart Japan (Seiyu) – US\$195.8M;
- » Amazon – US\$158.8M;
- » FamilyMart – US\$73.9M;
- » UNY – US\$33.9M;
- » H2O Retailing – US\$13.3M;
- » Life – US\$7.7M;
- » Izumiya – US\$4.2M; and
- » QVC – US\$1.4M.

The same report also indicated that Walmart Japan (Seiyu)'s online sales grew 30% between 2010 and 2015. Seiyu has over 10,000 items sold online and focuses on fresh edible products. The company plans to increase the number of international retailers, importing goods not only for their online store, but also for their storefront locations. Seiyu has a total of 345 physical stores in Japan that provide a pickup service. In September 2016, FamilyMart and UNY merged as FamilyMart UNY.

⁵⁴ <http://blog.btrax.com/en/2017/09/29/e-commerce-trends-in-japan/>

⁵⁵ <http://blog.btrax.com/en/2017/09/29/e-commerce-trends-in-japan/>

C2C Market

Creema is an online marketplace for handmade goods and is the largest of its kind in Japan. The market for handmade goods has been growing. The online market for handmade goods doubled between 2014 to 2015 to US\$64M. Etsy, the largest US marketplace for handmade goods, launched in Japan in 2014.⁵⁶

Mercari is the largest community-driven marketplace app in Japan with 75 million downloads worldwide. The startup allows users to buy and sell used items from their mobile phones. Before Mercari, Yahoo! Auctions was the main player in this space; however, the former is not an auction site, but rather an online flea market that attracts a different market segment. Unlike an auction, on Mercari, sellers can choose who to sell their products to.⁵⁷ The following table⁵⁸ outlines the differences between the two sites.

	YAHOO! AUCTIONS	MERCARI
MARKETPLACE TYPE	Auction	Flea Market
TARGET DEVICE	PC	Mobile
FEE PER TRANSACTION	8.64%	10%
MONTHLY FEE	\$4.50	\$0
TRANSFER FEE	\$0	\$2
TARGET CUSTOMER	30 to 60 year old men	Women in their 20s

⁵⁶ <http://blog.btrax.com/en/2017/09/29/e-commerce-trends-in-japan/>

⁵⁷ <http://blog.btrax.com/en/2017/09/29/e-commerce-trends-in-japan/>

⁵⁸ <http://blog.btrax.com/en/2017/09/29/e-commerce-trends-in-japan/>

TECHNOLOGY AND INFRASTRUCTURE LANDSCAPE

INFRASTRUCTURE

The internet-related industry is considered one of the fastest growing segments in Japan. As mentioned above, the country's highly developed distribution infrastructure, logistics networks, digitally sophisticated population, and small size make delivery easy and convenient.

More than 10 years ago, the Japanese government took a major leap forward by passing the IT Basic Bill, which eased regulations on the internet and paved the way to expand e-commerce. Before this legislation was passed, internet penetration was quite low due to the high cost associated with accessing the internet. Nowadays, internet access is affordable and prevalent, making e-commerce available to the general population. Indeed, e-commerce is now one of the priority policies in Japan, with civil organizations and governmental agencies promoting ongoing construction of e-commerce infrastructure.

INTELLECTUAL PROPERTY

Intellectual property regulations are strong in Japan, and patents are awarded on a first-come, first-served basis. In 2015, Rakuten received the Commissioner of the Japan Patent Office Award. Rakuten and other online marketplaces are working to increase awareness of intellectual property rights and business model patents, locally and abroad, related to the e-commerce sector.⁵⁹

⁵⁹ https://global.rakuten.com/corp/news/update/2015/0417_01.html

PERSONAL INFORMATION

The growing e-commerce sector in Japan also brings risks related to online fraud. Online fraud prevention is an important topic in Japan, and includes issues related to payment fraud and identity theft. While chip technology (EMV) has assisted with overall rates of credit card fraud, it continues to be top of mind. In 2011, credit card fraud in Japan was estimated at US\$65M; however, this number is likely much higher as many instances go unreported.⁶⁰ E-commerce retailers need to take a proactive approach to protect customer accounts and information.

MARKET AND CUSTOMER CHALLENGES

Overall, Japan is a large e-commerce market with an aging population. It is a high-tech country with e-commerce on the rise. Its history and geographic location as an island country presents unique opportunities and challenges for the industry.

Language Considerations

Language is key in Japan. Online retailers must conduct business in Japanese if they want to participate in the local e-commerce market. This includes online customer support and services. As mentioned previously, some online marketplaces require this in order to sell on their platform.

Taxes and Duties

In 2015, Japan introduced new tax rules. A consumption tax of 8% was implemented, which impacts digital businesses abroad. International B2C e-commerce companies that sell to Japanese customers must now also pay this tax. Foreign companies need to be registered in Japan and designate a local tax agent or have an office in Japan. The yearly threshold is ¥10M. For B2B transactions, the recipient pays the tax, not the seller as in other countries.⁶¹

Product Import Logistics

Of 160 countries, Japan ranks 12th on the 2016 Logistics Performance Index (LPI). The LPI is a benchmarking tool that allows countries to assess their trade logistics performance with regards to clearance, quality, and infrastructure. Compared to Germany, the top performer, Japan conducts fewer inspections and is able to process 100% of declarations electronically; however, 100% of importers use a customs broker, compared to 35.48% in Germany, and only 50% of goods are released pending customs clearance in Japan, compared to 76.19% in Germany.⁶²

Yamato Transport and Sagawa Express are two of Japan's largest delivery service providers. In 2017, Yamato increased prices as it reached its volume limits, delivering 1.87 billion packages in 2016. The increasing demand and pressures for short delivery times are potentially causing a delivery crisis in Japan, something online retailers should consider.⁶³

⁶⁰ <https://www.thepaypers.com/payment-service-providers/japan/4>

⁶¹ To determine which products and services are applicable under the Japan consumption tax, visit: https://www.mof.go.jp/english/tax_policy/tax_reform/fy2015/fy2015ct_00.pdf

More information is also available online at: <https://www.taxamo.com/insights/japanese-ecommerce-services-tax/> and <https://www.ecommercedwiki.org/topics/40/online-taxes-vat>

⁶² <https://lpi.worldbank.org/domestic/performance/2016/C/JPN/C/DEU#chart-area>

⁶³ <https://www.nippon.com/en/currents/d00321>

MARKETING STRATEGY CONSIDERATIONS

ESTABLISH A STRONG DIGITAL ADVERTISING STRATEGY UPFRONT

Advertising in Japan is key to a product's success. Digital marketing has become an important channel for retailers to reach Japanese consumers, and mobile specific advertising is growing rapidly, as well as search engine marketing (SEM). In 2015, advertising spending in Japan was approximately US\$37.39B. The top categories included cosmetics, communications, food, and leisure.¹ In 2016, SEM accounted for 59% of digital advertising spending.⁶⁴

PLAN TO OVERCOME LANGUAGE BARRIERS

Get help with translation if you do not speak and write fluent Japanese. Language is key in Japan, where 99% of the population speaks Japanese. Online retailers must conduct business in Japanese if they want to participate in the local e-commerce market. Information about products, as well as the website, need to be translated into Japanese. Proper care needs to be taken to ensure that the translation is complete and accurate. While many online translation services are available, care must be taken to choose one that can be trusted.

ALIGN WITH SOCIAL INFLUENCERS

Influencer marketing is impactful in Japan. Social influencers can play a key role in building trust with customers and convincing them to try a new, foreign brand.

Japan has a number of trusted brand influencers, such as bloggers and Twitter, YouTube, and Instagram influencers. Many are previously known to customers, and customers are more likely to trust their recommendations. There are online tools offering to find and connect firms with people to promote their brands.

⁶⁴ <https://www.export.gov/article?id=Japan-E-Commerce>



A FUTURE OUTLOOK ON E-COMMERCE IN JAPAN

Expectations for the Near Future

As the number of online shoppers continues to grow, so does the e-commerce market as a whole. Statista projects that retail e-commerce sales in Japan in 2019 will be US\$134.1B, and that e-commerce will account for approximately 10% of all retail sales in the country.⁶⁵

The use of artificial intelligence (AI) among online retailers to increase customer service and sales volumes is expected to enter the market in the near future. Apparel, specifically the ability to try on clothes virtually and via augmented reality, is one example of an application of AI aimed to improve the customer experience and also decrease the number of returns caused by product fit issues.

The 2020 Olympic Games in Tokyo is another opportunity for increased e-commerce through the expected economic stimulus that the Games will bring to the country. Furthermore, it may also be an avenue for foreign organizations exporting to Japan to showcase themselves to future customers.

Those companies interested in expanding to Japan have ample opportunities to explore the Japanese e-commerce market further, such as through the annual eCommerce Fair Tokyo, a B2B trade exhibition that provides sessions on topics such as payment, delivery, logistics, and marketing. Other events include the CEATEC Information Technology Trade Show, the SEMICON Japan Trade Show, and the Inter BEE Trade Show.⁶⁶

⁶⁵ <https://www.statista.com>

⁶⁶ <https://www.export.gov/article?id=Japan-E-Commerce>



CONCLUSION

IT IS DIFFICULT TO SAY WHAT BUSINESS MODEL AND ENTRANCE STRATEGY will be most successful when operating an e-commerce business in Japan. One important point is that foreign retailers need to determine whether or not to set up their own e-commerce website or to leverage an existing online marketplace. As the market grows, there is certainly room for new platforms that allow for more customization; however, the ease of doing business on an existing platform such as Rakuten also has its benefits.

In general, Canadian organizations looking to enter the Japanese e-commerce market must consider the following:

- » E-commerce platforms, such as online marketplaces;
- » Payment methods and systems;
- » Logistics and shipping methods;
- » Customer experience throughout the entire e-commerce process;
- » Delivery presentation and packaging;
- » Language barriers and customer service and support;
- » Rewards and loyalty programs;
- » How to collect customer feedback and address returns; and
- » Consumer segments: as the population ages, there may be different opportunities.

CASE STUDIES

THE FOLLOWING CASE STUDIES illustrate real-life examples of firms considering entry to the Japanese market with an e-commerce platform as the major component of their strategy. The cases are not intended to demonstrate correct or incorrect approaches to participating in the Japanese market. Rather, they serve to provide illustrations of how firms recognize opportunities, embark on an initiative, encounter positive and negative trends, and in so doing attempt to profit from the Japanese market. Ideally, the reader should be able to place themselves in the shoes of the protagonist in the case and question whether they would have embarked on the same strategies or have chosen to do things differently.

CASE STUDY I: JAMES REID'S⁶⁷ FISHING RODS: FROM HOBBYIST TO LUXURY RETAIL

While working as a full-time mechanic and fishing whenever he could, James Reid found that he was never satisfied with the quality of the off-the-shelf rods that were sold commercially. He thought that he might build his own rod. He started with graphite, but, wanting something that was more authentic, traditional, and craftsman-like, Reid bought a vintage bamboo rod on eBay that he spent a long time restoring to its original condition. Working in the evenings from his home in North Vancouver, British Columbia, Reid subsequently restored around 35 vintage bamboo rods at the request of enthusiasts, before deciding that it would be even more challenging to build his own. After being approached to build a rod for a wealthy angler, Reid finally decided to quit his job as a mechanic and to become a full-time rod builder in 2012. By that time, he had sufficient orders to keep him busy for a year.

Bamboo rod enthusiasts form a tight consumer community who love to compare notes and talk about fish, fishing, and their equipment. Word spread rapidly about the very special rods that James Reid was making, and so he was able to rely on word of mouth as the main source of customer leads. He also became very active in two online fishing forums dedicated to the art and craft of the bamboo rod. These forums enabled Reid to interact directly with anglers, answer questions about the rods he makes, and to display photographs of his work.

⁶⁷ The front section of this case is based largely on Rousseau, E., Pitt, L.F., McCarthy, I., and Hannah, D. (2017) *JM Reid Bamboo Rods, Case Study of the Beedie School of Business, Simon Fraser University*.



Manufacturing Bamboo Rods

A JM Reid bamboo rod is not made from a single piece of cane. Rather, a piece of imported bamboo is first scraped clean, and the knots in the cane smoothed down. Then the piece of bamboo is cut into straight, thinner strips, and these are heat-treated. Six strips are joined together very precisely to form a long, thin, tapered hexagonal pole, which becomes the rod. This part of manufacturing, referred to as making the “rod blank,” takes up about 75% of the total manufacturing time. The other 25% of the manufacturing time includes attaching the wooden reel seat to the base of the rod and attaching the line guides (the small hoops through which the line moves from the reel to the end of the rod). Each of these is attached by winding silk thread around each of the two bases of the guide to the rod itself. The silk binding then receives a number of coats of varnish, both to strengthen it and to add to its aesthetic appeal.

The different rod models are made for different types of fishing and conditions (for a full description of the different rods, see the section on the JM Reid website: <http://www.jmreidbamboo.com/rods/>). Each rod is custom made for the client, depending on where and how he fishes. Reid makes and delivers between 30 and 35 rods annually. He has considered employing workers to help him in an effort to boost production and has tried this with little success. As Reid says, “It’s really difficult finding someone with the right skills and dedication. I’ve also had retirees offer to work for nothing just to be able to enjoy the pleasure of crafting a product like this. However, I find I spend more time supervising them and fixing their mistakes, and this distracts me from my own work. I’d really prefer not to do this.”

Reid is about to undertake an investment in machinery of around C\$15,000, which he estimates would allow him to craft an additional six bamboo rods each year.

Prices of rods vary according to the rod model. Model 8052, a standard trout rod, sells for around US\$1,400, and the costs of raw materials for this are around US\$225. Model 11973, a summer run rod, sells for around US\$2,000, and the costs of raw materials for this are

approximately US\$360. Reid's highest priced rods are about US\$2,500, and these include some extra options such as a three or four piece single or double hand rod. Again, the cost of the raw material is quite low (under US\$400), but this does not take into consideration the many hours of labour that Reid put into crafting these special, customized rods.

The Potential for Fibreglass Rods

Many modern fishing rods are made from fibreglass, which gives them both strength and flexibility. Essentially, it was fibreglass rods that replaced bamboo rods for most anglers in the latter half of the 20th century. They are generally stronger and less susceptible to cracking than graphite rods, and also less expensive overall. Reid decided to do a test run of fibreglass rods in early 2016. He purchased a number of blanks from a manufacturer and finished them in his own distinctive style. However, the manufacturer refused to make the blanks in a more distinctive colour for Reid, who wanted something unique that would stand out as "his rods." He has continued negotiations with another fibreglass rod manufacturer who will cast the blanks in a unique colour for Reid, on condition that he takes a larger quantity. Reid believes that he could produce a "few hundred" of these rods a year, and that they would be a "bread and butter" line.

Other Merchandise

Thus far, Reid has sold a limited number of JM Reid fishing shirts and caps, mostly at the resorts where he has fished as an artist in residence, or directly to clients. He also produced a very limited run of engraved hook gauges and fly boxes. Reid produced around a hundred gauges and a hundred fly boxes, which were snapped up rapidly by enthusiasts at premium prices. "I could probably have ordered many thousands of each from China at about a tenth of the cost," Reid says, "and they might also have been sold easily. However, I think that would have cheapened my brand. As it is now these have all become collectors' pieces, and sometimes sell on eBay and on anglers' forums for a lot more than the original price."

Marketing

Word of mouth from bamboo rod aficionados and his website are Reid's major marketing communication vehicles. He has always been very active on various online forums like www.speypages.com, and the attention he gets on these forums has been important for building his reputation. He also has a presence on Instagram, where he has more than 3,000 followers, and he posts about his activities regularly.⁶⁸

Many of Reid's wealthy clients invite him on their fishing trips, often to luxury lodges in locations inaccessible to the ordinary weekend angler, and certainly beyond their wallets. He considers this face time with his clients to be very important, and promotional, but he also admits that it is a lot of fun. "What I love about my business," Reid enthuses, "is that I have a lot of freedom, a flexible schedule, free trips, and a great quality of life. I'm really doing what I love." A number of luxury fishing lodges invite him to pay them complimentary all-inclusive visits, where he can interact with their guests, and of course many of these then become Reid's clients.

⁶⁸ <https://www.instagram.com/j.m.reid-bamboo/>

The Japanese Opportunity

During one of these visits, Reid met a very wealthy Japanese fly-fishing enthusiast who begged him to make and sell him a rod. By chance, Reid was putting the final touches to a rod that he had intended to keep for himself, and he was so taken aback by the Japanese angler's genuine enthusiasm that he agreed to let him purchase the rod. A few months later the angler contacted Reid and invited him to join him and a small group of close friends as a guest at a luxury fishing lodge on the Skeena River, in Northern British Columbia.

Reid enjoyed his time spent fishing with his Japanese companions. They spent long nights talking about fishing, and the visitors enthusiastically told him of their fishing activities and pursuits in their home country. These included trout-fishing season on the Nagara River in central Gifu Prefecture, fishing for taimen on Shumarinai Lake, and fishing for rainbow and brown trout in the rivers and lakes among the mountains of Nagano and Gunma prefectures. His new Japanese friends also talked enthusiastically of Reid selling rods in Japan, especially if he were to market fibreglass rods under the JM Reid brand, in which case he would be able to increase his production and sales significantly.

Reid was pessimistic about selling his products in Japan. For a start, he argued, he had no distribution channels and would need to set these up. Also, he mainly sold from his website, and this would have to be translated into Japanese, and logistics would need to be put into place. His new friends quickly dispelled these concerns. "You don't set up a conventional distribution channel," they said, "you're too small for that. And no one will ever find your website, so forget that as well. Simply use what's there already. Amazon is huge in Japan. But Rakuten is even bigger and better. Start there." Reid began to read up all he could on Rakuten and Amazon Japan.

Amazon.com and Japan

Amazon.com, based in Seattle, Washington, was founded by Jeff Bezos on July 5, 1994. Initially, the company started as an online bookseller, before moving into recorded music (still in the days of CDs and cassettes), and then into movies (video cassettes and DVDs). Today the company sells just about everything and has become the largest internet retailer in the world as measured by revenue and market capitalization, and second largest after Alibaba Group in terms of total sales. Apart from Amazon.com in the United States, the company has separate retail websites for the United Kingdom, France, Canada, Germany, Italy, Spain, the Netherlands, Australia, Brazil, Japan, China, India, and Mexico. By February 2018 Amazon was the fourth most valuable public company in the world, and the eighth-largest employer in the United States.

Bezos believed that being first was critical to his success: "There's nothing about our model that can't be copied over time. But you know, McDonald's got copied. And it still built a huge, multibillion-dollar company. A lot of it comes down to the brand name. Brand names are more important online than they are in the physical world".⁶⁹ He also chose a company name that began with "A" because he knew that it would occur at the top of any list that was alphabetized.

⁶⁹ Murphy, 2013.

Today Amazon.com operates retail websites for Sears Canada, Bebe Stores, Marks & Spencer, Mothercare, and Lacoste. For many companies Amazon also provides a unified multichannel platform where a customer can interact with the retail website, stand-alone in-store terminals, or phone-based customer service agents. Almost all of the company's online sales come from third-party sellers who sell products on the Amazon website. Associates receive a commission for referring customers to Amazon by placing links to Amazon on their websites, if the referral results in a sale. Today, worldwide, Amazon has almost 1 million associates. The company lets anyone sell nearly anything using its platform. In addition to the associates program, there is now a program that lets those associates build entire websites based on Amazon's platform.

Amazon Japan opened in 2000 by selling books only. While the company has expanded into most of the categories sold today by its US parent, the most popular categories in Japan are still books, magazines, DVDs, and video games. Market research reveals that Amazon Japan trails the homegrown competitor Rakuten by a slight margin. In April 2017 online marketing research firm DI Marketing reported that 70.2% of digital buyers in Japan used Rakuten, while 66.7% used Amazon Japan.⁷⁰

Rakuten

Three years after Jeff Bezos founded Amazon.com, Hiroshi Mikitani launched Rakuten in Tokyo in 1997. Today Rakuten (pronounced “luck ten” and meaning “optimism”) is the largest e-commerce company in Japan and is also among the largest in the world by sales. The company provides e-commerce, digital content, and communications services to over 1 billion members worldwide, and many refer to it as the “Amazon of Japan.”

Rakuten's major expansion outside of Japan began in 2005, and this was mainly done through acquisitions and joint ventures. One of its best-known acquisitions was that of Canadian e-book and content provider Kobo, and more prominent recent investments have been in the social network Pinterest and the ride-share firm Lyft. The company's total revenues were US\$7.2B in 2016.

Mikitani believed that setting up as an online shopping mall that would permit merchants to establish an online presence without having to control everything themselves would be a good business model. Rakuten charged smaller commissions than other online alternatives and also gave merchants more controls over how they would set up and customize their storefronts.

Transpacific Enterprises (TE), a Tokyo-based marketing strategy firm, sees Rakuten this way: “If you've ever tried to search online for a small or medium-sized B2C business in Japan, you probably had mixed luck. The results were sparse, and you thought, surely there are more businesses in the third-largest economy in the world with 79.1% of the population online?”⁷¹ The reason for this, TE explains, is that most smaller retailers in Japan don't set up and own their own e-commerce websites, and most of the more than 20 million Japanese consumers who shop online each day don't look for them. Rather, these smaller merchants rely on

⁷⁰ <https://www.emarketer.com/Article/Amazons-Efforts-Japan-Remain-Dogged/1016095>

⁷¹ <http://www.transpacific.jp/2014/11/where-are-all-the-websites-how-rakuten-dominates-e-commerce-in-japan/?lang=en/&lang=en>

Rakuten. Whereas in countries like the United States and Canada, many smaller retailers who sell on Amazon will still have their own web presence, in Japan, small vendors rely on Rakuten, as do the millions of Japanese consumers.

TE speculates, however, that this will change in the future. Certainly, Rakuten offers easy setup and very high traffic. However, many smaller retailers currently using the platform may decide that this comes at the expense of customization, differentiation, and most importantly of all, control over branding.

The comparisons provided between US-based e-commerce giant Amazon.com and the Japanese e-commerce behemoth Rakuten provide useful indicators for all firms considering entry into the Japanese online market. Obviously, Reid will need to consider his options carefully. Essentially, he has four choices: *First*, he can simply rely on his own website and Instagram presence. While this won't require any additional effort, it is unlikely that Japanese buyers will rush to the website, and they might find dealing with the current North American conceptualization difficult. *Second*, he could use both Amazon and Rakuten in Japan. This would give him optimal exposure since both websites are widely used by Japanese customers. However, this would also mean spreading his already thinly spread attention even further and might be problematic. *Third* and *fourth*, he could decide to focus his marketing efforts on either Amazon or Rakuten. If either of these were to be his decision, he might want to take note of the difference between the two, as summarized in the table below:

AMAZON JAPAN VERSUS RAKUTEN: A COMPARISON	
AMAZON JAPAN	RAKUTEN
The world's largest online retailer, and one of the world's largest companies	Largest online retailer in Japan
Used by 66.7% of Japanese consumers	Used by 70.2% of Japanese consumers
For everyone	Very targeted
Not particularly customizable for individual vendors	Very customizable for individual vendors
Less control for individual vendors	More control for individual vendors
Vendor still relies on the company's main website	Vendors can construct their own page on the website; they are less reliant on the company

As Reid pondered the different options for expanding into the Japanese market, he discovered an interesting fact about this group of consumers: those that he had sold rods to (through the connections with the Japanese fishing enthusiasts he made on his trip) were keeping their rods on display. In other words, they weren't using them, but instead displaying them as prized possessions. Reid was surprised to learn this and realized that his approach to the Japanese customer would have to be different from his approach to customers from North America. Reid had always spent a great deal of time with his customers, discussing their fishing needs and the technical specifications that the rod would need in order to hook a great catch. Reid realized the importance of knowing his new customers and considered how this new knowledge would influence his choice of e-commerce platform.

Key Takeaways

- » Think carefully about the platform that you use, because selling from an independent website is unlikely to work in Japan. Amazon is a worldwide brand and if you want to expand to other areas, especially in Asia, it may be a more universal platform when compared with Rakuten, which is very specific to Japan.
- » Japanese consumers are used to extremely high-quality and locally produced goods. Be “local” in how you engage the market and how you present yourself. Again, people in Japan love things from overseas, but it has to be served in the right way. A great example in Tokyo is a very popular Japanese Italian restaurant that serves Italian food in Japanese style. While Japanese people may say they love Italian, authentic Italian food probably wouldn't go down well, especially in the mass market.
- » Social capital is a valuable asset in Japan since the typical consumer can be wary of foreign brands. Building connections, such as the ones that Reid had with the Japanese fishing enthusiasts, is an important part of establishing brand presence and can serve as a conduit for additional connections and resources when expanding to Japan. Reid can use his online presence to continue to connect with these enthusiasts and to build a community around his Japan venture.
- » Realize that not all your customers are the same. Customers need to be segmented, usually by geographic area, but also by needs. Similar to Reid, who discovered that some Japanese customers may not use a fishing rod for fishing, but instead put it on display, firms that are expanding beyond their home market must work to understand their customers in order to build a successful market entry strategy.

CASE STUDY II: FINGER LICKIN' GOOD: CHRISTMAS IN JAPAN MEANS KENTUCKY FRIED CHICKEN⁷²

"I'll definitely miss the lineups this year," says Ryohei Ando. "I'll make sure to reserve our bucket online at least two weeks before Christmas on the KFC website. We won't get the cake this year, but I may get some bath salts as a novelty gift. And of course, we'll get the big Party Barrel of chicken." Ando is a 40-year old marketing executive in a Tokyo sporting goods company, who celebrated Christmas as a child with his family by tucking into a big bucket of Colonel Sanders' finger lickin' good Kentucky Fried Chicken (with 11 secret herbs and spices). He carries on the tradition with his own family, his wife and two children: "My kids, they think it's natural," he says.

Most Westerners would cringe at the idea of celebrating Christmas with a bucket of fried chicken, although nutritionists might argue that roast turkey with all the trimmings isn't exactly health food either. Yet in Japan, every Christmas season, around 3.6 million Japanese families celebrate with large buckets of KFC with the mashed potatoes or fries, coleslaw, and bread rolls that accompany them. In what has become a national tradition, in the days before Christmas, KFC stores rack up 10 times their average sales volumes. Christmas meal offerings account for almost a third of KFC's annual sales in Japan. Ando views KFC chicken at Christmas as a family tradition. "It's not just a company promotion," he says, "it's been around too long for that. It's not really about chicken; it's about families getting together. Chicken's just a part of it. KFC means family on Christmas Day. It's kind of a symbol of family reunion."

It Came to Him in a Dream

KFC opened its first store in Japan in the late 1960s. Not long afterwards, in 1970, Takeshi Okawara, a store manager, woke up at midnight having just had a vivid dream. In his dream he saw a KFC Party Barrel being sold and enjoyed by Japanese customers at Christmas. Okawara, a Harvard Business School graduate, had heard foreign tourists in his store wondering out loud why there was so little turkey served in Japan, and why Japanese consumers didn't celebrate the holiday with a roast turkey. They would miss their turkey this Christmas. "I'll serve chicken," he thought, and promoted it locally for his own store. It wasn't foreign tourists who bought the chicken, however, but Japanese consumers. The innovation proved so popular that KFC took the program nationwide in 1974 under the slogan "Kurisumasu ni wa Kentakkii," loosely translated as "Kentucky for Christmas." A significant investment in advertising paid off, and Japanese consumers began to say, "Christmas is Kentucky." The initiative paid off handsomely for Okawara as well: He eventually became president of KFC Japan and served as such from 1984 to 2002.

Christmas in Japan

What makes the custom so unusual from a business perspective is that only 1% of the Japanese population is Christian, with the majority of the population culturally Shinto/Buddhist. Christmas Day is not an official holiday in Japan. Whether KFC chicken gave

⁷² This case was written by Leyland Pitt, Sarah Lord Ferguson, Kristin Matheson, and Tess Eriksson, based on materials from a number of published sources, including the BBC (see <http://www.bbc.com/capital/story/20161216-why-japan-celebrates-christmas-with-kfc>)

Japanese consumers something to celebrate, or they wanted to celebrate and did so with KFC chicken, is an open question. The fact remains that a significant percentage of the Japanese population now celebrates Christmas with KFC. It is estimated that 3.6 million Japanese families purchase a KFC Christmas meal between December 23 and 25, with sales amounting to over ¥6B. According to Fortune magazine,⁷³ those sales are the equivalent of approximately 24 million pieces of KFC chicken or the equivalent for every person in Tokyo to have two and a half pieces. Due to the massive success of the KFC Christmas dinner in Japan, annual sales during the Christmas period have risen every year, with 2017 recording a 1.4% gain on the previous year, the highest sales ever for KFC in Japan.

KFC Japan now offers five different Christmas Packs and three different Party Barrels. The company has also made some product modifications and extensions over the years. Cake and wine have since been added to the choice mix that customers face. Because so many Japanese consumers rely on trains for transport, KFC has developed a chicken that doesn't smell too strongly on the train and bother other passengers, so that no one misses out on the tradition. The company even developed bath salts that smell like KFC chicken (assuming that someone wants to take a bath and come out smelling like fried chicken). This has proven popular as a novelty gift at Christmas. A KFC Christmas dinner ranges from a box of chicken for ¥3,780 (around C\$46), to a "premium" whole-roasted chicken and sides that is priced at ¥5,800 (around C\$71).

Marketing, Logistics, and E-commerce

KFC launched the Christmas program in 1974 with a major nationwide advertising campaign on television. KFC sustained significant levels of advertising expenditure on the Christmas offerings after that, recognizing that while Christmas had little significance for most Japanese, it did fulfil the role of a holiday that people liked to celebrate, rather like Valentine's Day or Mother's Day. More recently the company attributes a lot of its success to its promotional campaigns. A Colonel Sanders character dressed as Santa Claus features in a cheery, Christmassy television ad to the music of a song written exclusively for the campaign by famous Japanese singer Mariya Takeuchi. All television and print ads emphasize the fact that KFC's chickens are raised in Japan, not imported, and feature the "made-in-Japan" logo.

Despite KFC's efforts to entice customers with their television ads, this approach wasn't particularly effective. By the early years of the new millennium, KFC realized that two factors were impeding the success and profitability of the program. First, the costs of mass media advertising were growing prohibitively expensive and beginning to erode profits. Second, the logistics behind the program were becoming an operational nightmare. E-commerce was seen as a solution to both problems.

Rather than rely on broadcast media, especially television, to inform and persuade Japanese consumers to purchase their Party Barrels, KFC partially shifted its promotional spending from conventional television commercials, magazines, and newspapers to advertising on its website. This turned out to be far more cost effective, resulting in lower advertising expenses.

⁷³ <http://fortune.com/2016/12/19/japan-christmas-celebration-kfc/>

Obviously, this was helped by the fact that 101 million Japanese consumers, or 91% of the population, were online by 2015, 77 million (70%) of whom regularly shop online. Over time Japanese consumers had become far more accustomed to seeking information online and to making decisions and choices that lead to purchases.

Over the years, as the KFC Christmas tradition became more and more a part of Japanese culture, the company began to experience significant logistical problems. Extremely long lines formed in the cold winter weather outside of KFC stores on Christmas Day and on the days leading up to it. Many customers went home disappointed as stores ran out of chicken, or they were simply not willing to stand in line for many hours. KFC then allowed customers to place orders long before Christmas Day by visiting stores or calling orders in, but customers still had to visit stores or make calls and hope to get through in order to do so. While back office staff and executives all pitched in to ease the waiting times over the Christmas period, this only helped slightly. Long lines even formed on November 1 each year, as KFC steadily shifted the opening date for Christmas orders further and further ahead of December 25. Lineups sometimes took several hours.

E-commerce was an obvious solution to the logistics problem. Nowadays Japanese consumers can log on to the KFC website, view all the products on offer, make their selections, pay for and place their orders, and nominate the KFC store where they will pick their order up on a particular day at a particular time. This has streamlined the process for customers considerably and waiting times have been significantly reduced. As a result, the company believes that the average spending per customer has increased as well. Customers now have more time to peruse all the different offerings and can make choices at their leisure. They can pay for them ahead of time knowing that they will be waiting for them when they visit the store to pick up their orders. The company has also benefited enormously as a consequence. Aside from the increased profits as a result of increased sales, production planning has been streamlined. KFC has a very accurate estimate of what sales, and hence production requirements, will be, well ahead of time, and the customer no longer has to wait in long lineups for their Christmas KFC meal.

Key Takeaways

- » Japan is very different from the West and very different from other parts of Asia. KFC's American executives would unlikely have seen the prospects presented by Christmas in Japan. It took a local to see the opportunity – engage them as soon as possible.
- » Start small with a localized campaign (Okawara started in one store), then really emphasize what works. Have people in the country who really understand the culture and give them the freedom to try their ideas.
- » Look for openings that are not filled by other traditions and habits – Christmas didn't really exist and wasn't celebrated until the KFC Party Barrel came along.
- » Adapt the product or service for cultural appeal (KFC has added wines, cakes, and even bath salts). Don't impose your solution or culture; try to blend with local rituals.

APPENDIX:

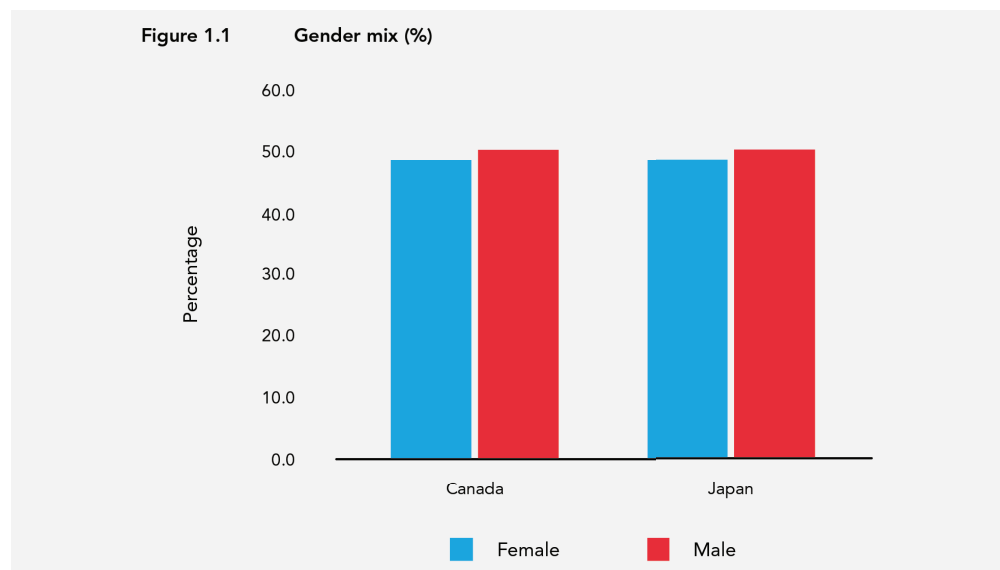
DIGITAL TECHNOLOGY IN JAPAN AND CHINA

A COMPARISON OF DIGITAL DEVICE OWNERSHIP,
DIGITAL MEDIA CONSUMPTION, AND DIGITAL BEHAVIOUR

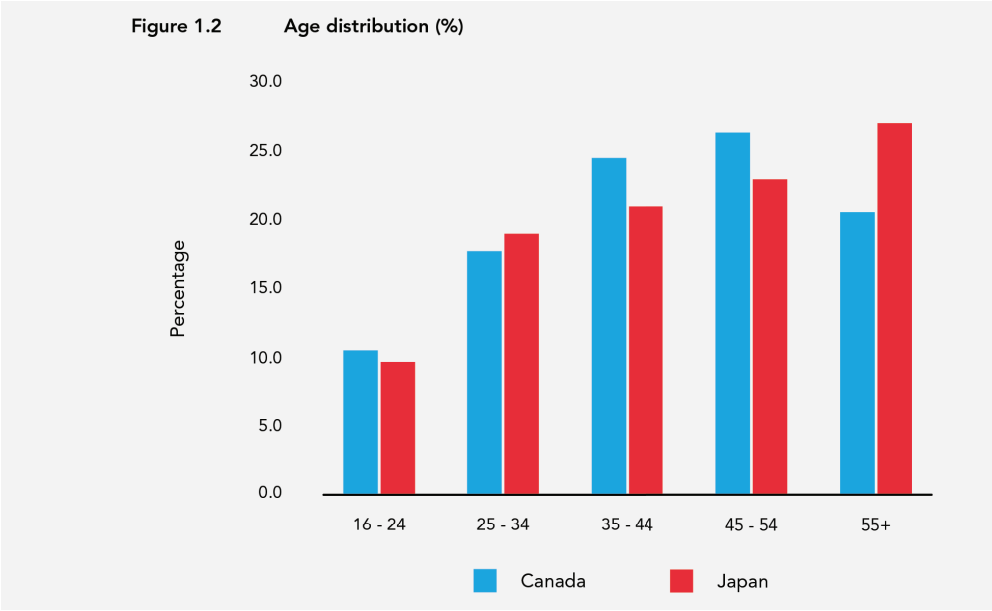
1.0 INTRODUCTION AND SAMPLE PANEL STATISTICS

This data was professionally collected by a large market research organization as part of their annual research program in 2014. The sample panel includes 1,000 individuals from Canada and 1,003 individuals from Japan. Both the Canadian and Japanese sample aimed to be as representative as possible.

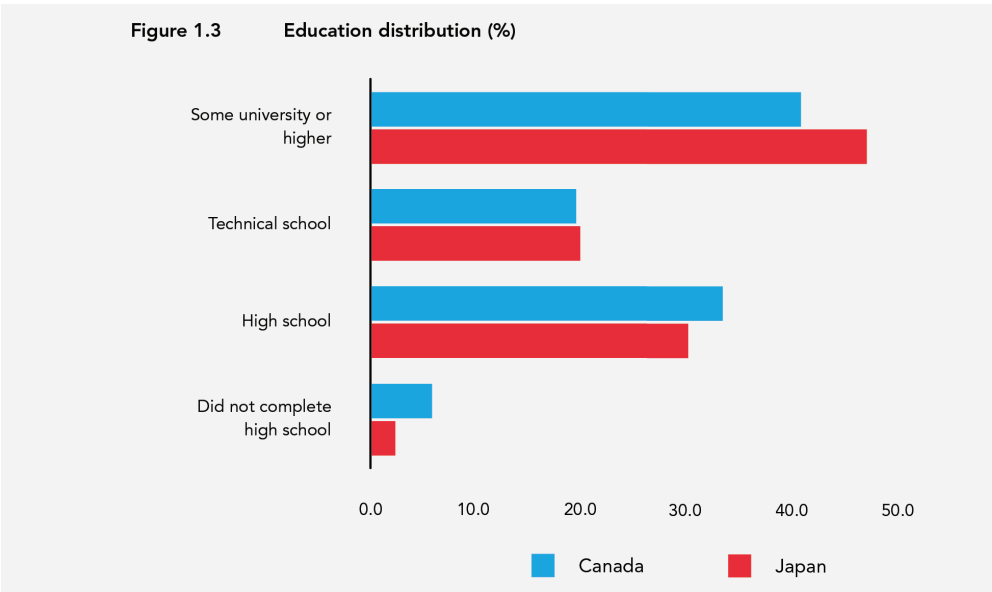
The Canadian sample is balanced in terms of gender, with 49.3% women and 50.7% men (see Figure 1.1). The Japanese sample had slightly fewer women with 49.1% and slightly more men with 50.9%.



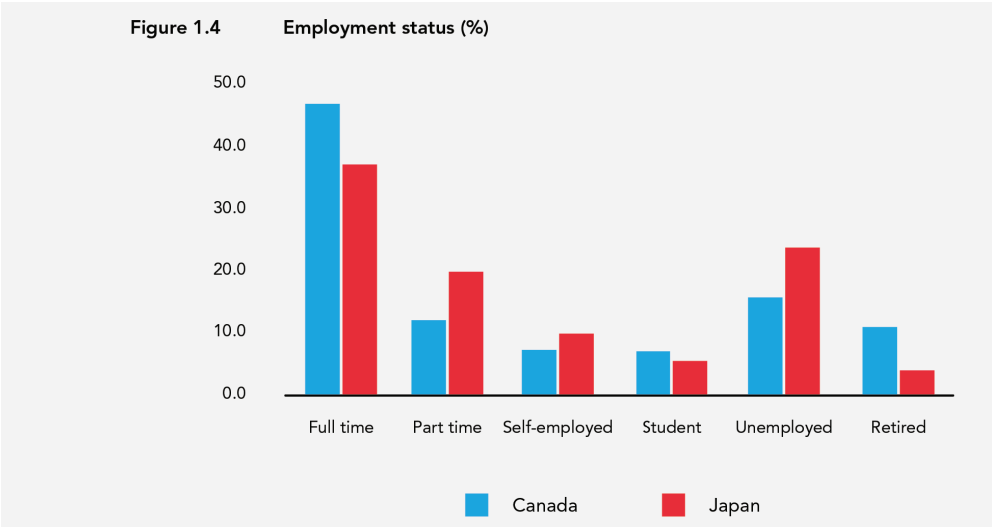
The average age of the sample was younger in Canada, at 42.9 years of age, than in Japan with 43.8 (see Figure 1.2). The Canadian sample was fairly evenly distributed around the average age, but the Japanese sample was older, with 27.2% of the sample being above 55, compared to 20.6% in the Canadian sample.



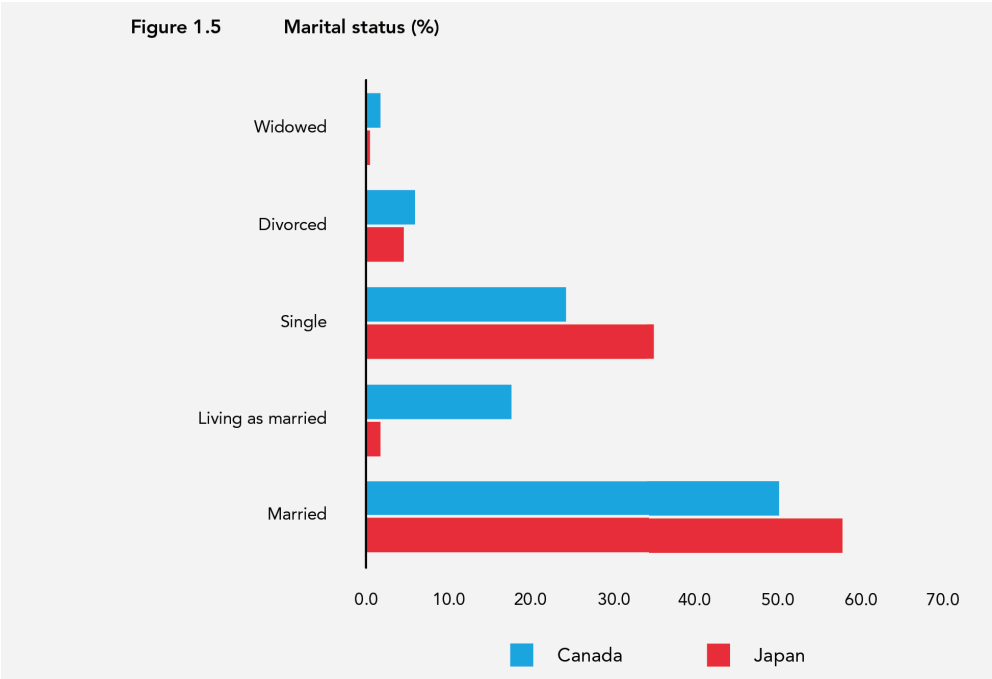
In terms of education completed, the Japanese sample was more educated, with 47.2% graduating university versus only 41.0% in Canada (see Figure 1.3). Similarly, only 2.6% of the Japanese sample did not complete high school, compared to 6.1% in the Canadian sample.



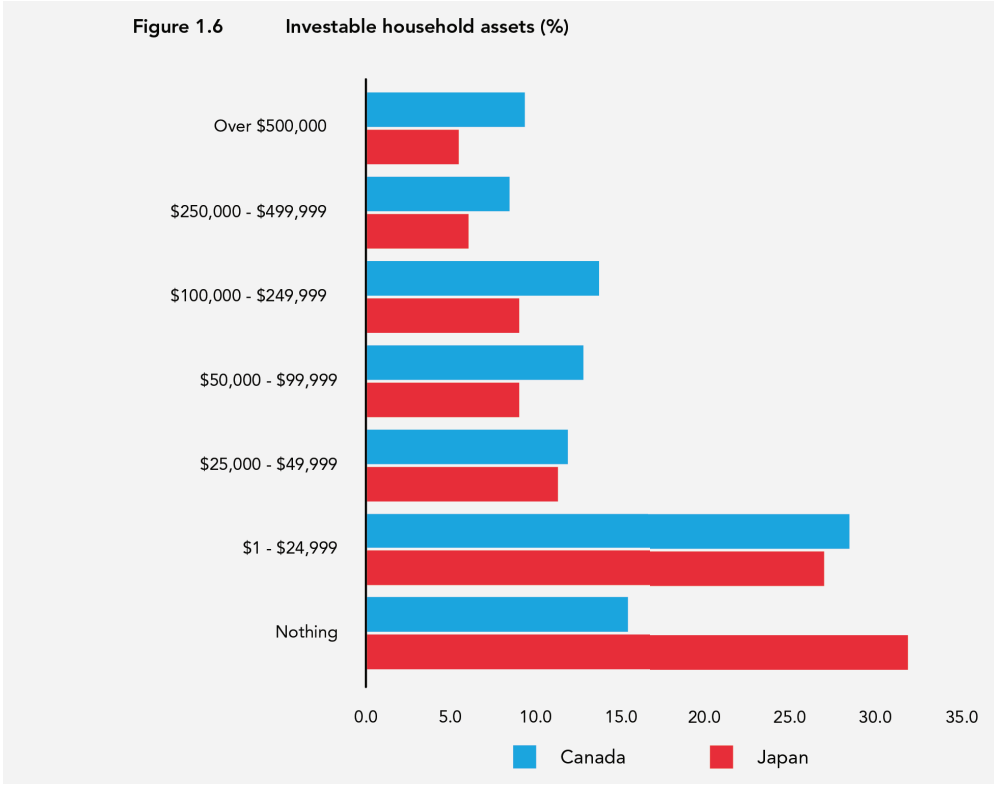
In terms of employment status, the largest group of individuals were employed full time, [with 37.0% in the Japanese sample and 46.6% in the Canadian sample (see Figure 1.4). Nearly a quarter, 23.8%, of the Japanese sample reported being unemployed, compared to 15.7% of the Canadian sample. While the Canadian sample was slightly younger, 11.0% of the Canadian sample were retired versus only 4.2% of the Japanese sample.



In terms of marital status, most people in both countries were married, with 57.8% in the Japanese sample and 50.1% in the Canadian sample. Only 1.9% of the Japanese sample reported living as married, while this designation was more common, 17.7%, in the Canadian sample. Many respondents in both countries stated they were single, with 35.0% in Japan and 24.3% in Canada.

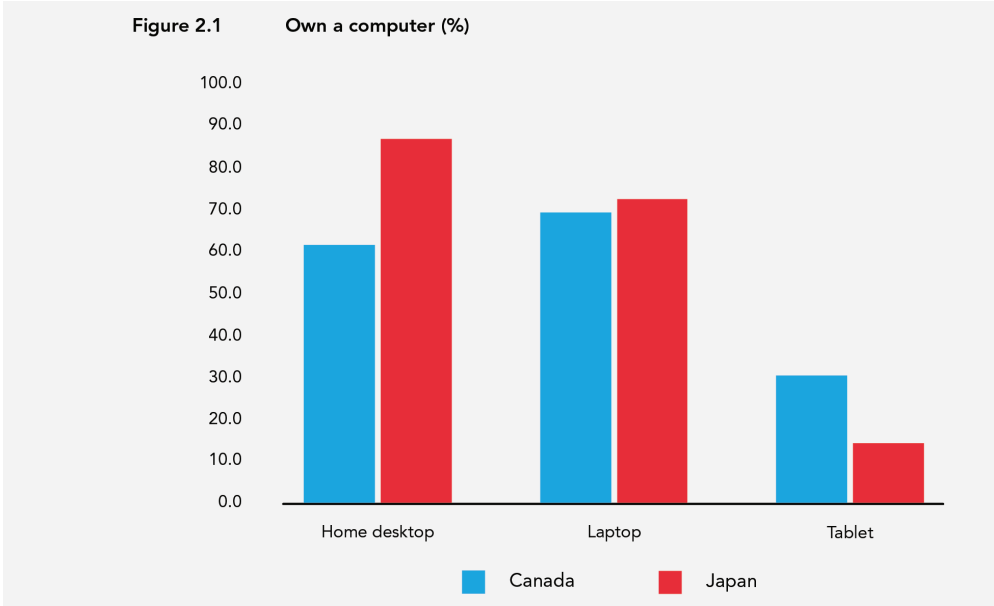


In terms of household investable assets, Japanese respondents on average reported that they hold less than individuals in the Canadian sample. Many individuals (31.9%) in the Japanese sample reported having no household investable assets, compared to 15.4% in the Canadian sample (see Figure 1.6).

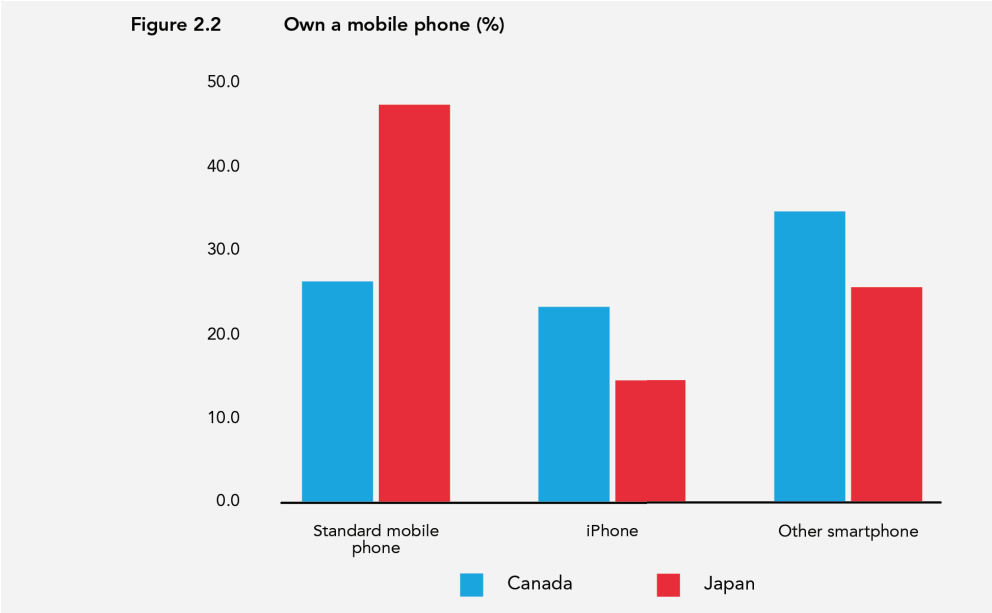


2.0 DIGITAL DEVICE OWNERSHIP

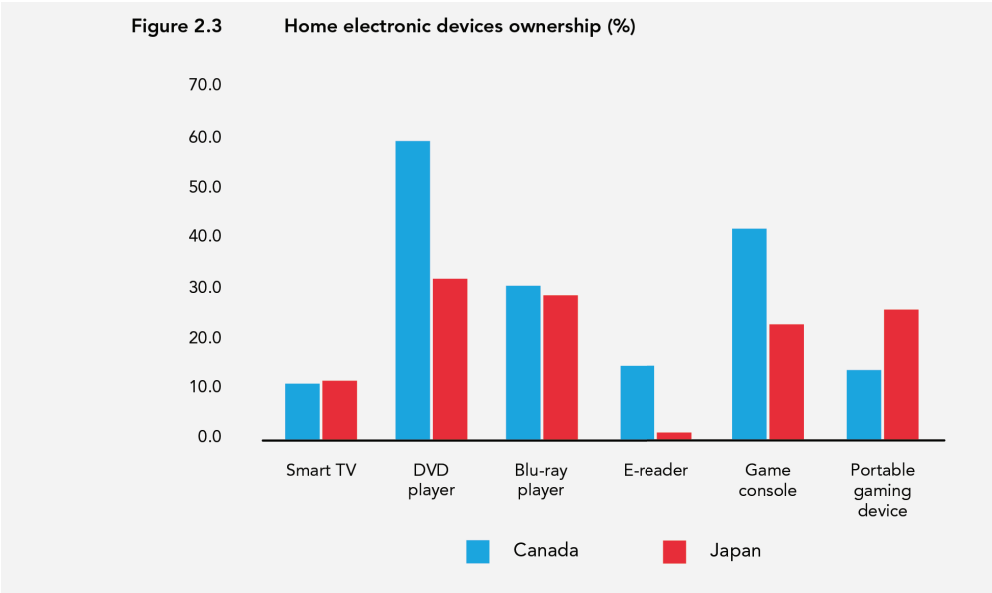
Before investigating the extent to which digital technology has penetrated the daily lives of individuals in Japan and Canada, it is important to assess their access to or ownership of basic digital technology. Most individuals in both countries seemed to have access to at least one personal computer at home, with some having access to more than one computing device (see Figure 2.1). The Japanese sample reported having access to desktop computers (87.4%) and laptops (73.0%) more than to tablet computers (14.6%).



The picture changes slightly when examining mobile phone ownership (see Figure 2.2). The Japanese sample reported owning more standard mobile phones (47.6%) compared to 26.6% of the Canadian sample. With the Canadian sample, 15.1% reported not owning a mobile phone. However, the Canadian sample reported owning more smartphone devices (58.3%) versus the Japanese sample that reported owning 40.3%.



In terms of home electronic devices, the Canadian sample reported higher percentages of ownership of DVD players, e-readers, and game consoles (see Figure 2.3). Smart TVs and Blu-ray players are similarly popular in both samples. Portable gaming devices are relatively more popular with the Japanese sample (25.7%) than the Canadian sample (14.3%).

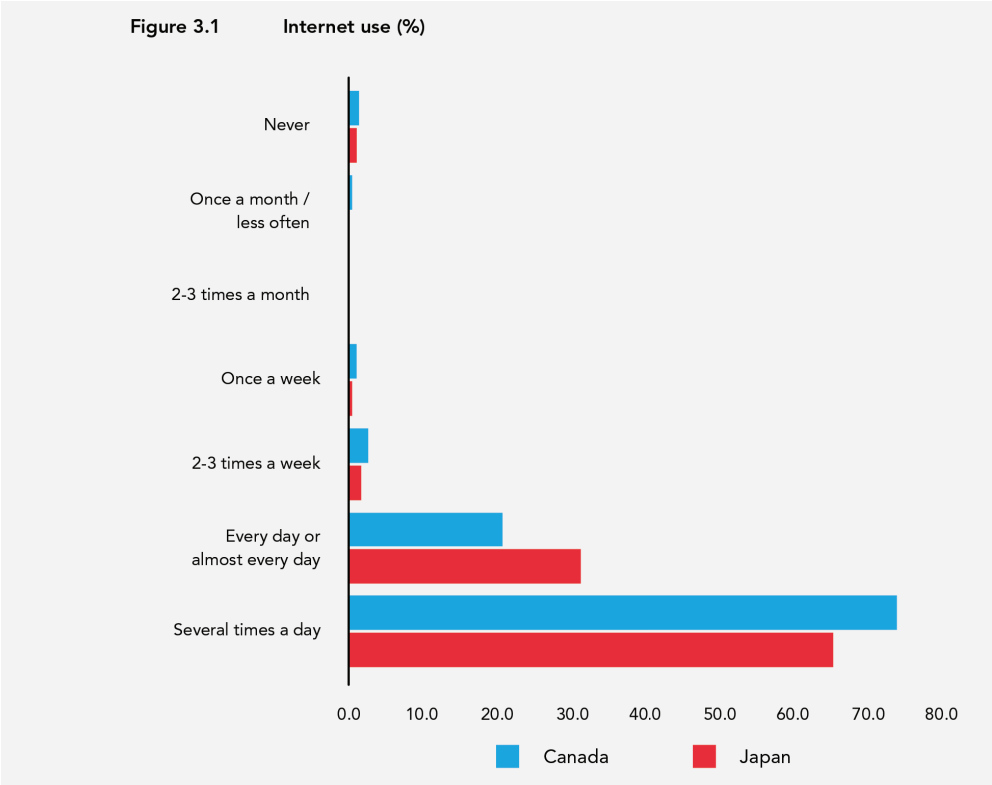


In short, although there are some differences in device ownership, digital technologies are pervasive in both Japan and Canada, with many individuals responding that they own digital devices.

3.0 DIGITAL MEDIA CONSUMPTION

Media consumption has been changing with the widespread adoption of the internet and associated web and networking technologies. First, individuals reported their overall internet usage, then questions drilled down to understand how these individuals consume media both in offline and online contexts. Finally, the survey explored the extent to which they used social media and the reasons for that use.

As expected, internet usage was pervasive among individuals in both countries (see Figure 3.1). Of the Canadian sample, 94.5% reported using the internet at least every day or almost every day. This was echoed by the Japanese sample, where 96.5% reported using the internet several times a day, every day, or at least almost every day.



Television habits have been largely offline in both the Canadian (77.3%) and Japanese (79.1%) samples, with reports that individuals watch conventional TV at least once a day or almost every day. In contrast, 5.4% of Japanese respondents and 14.9% of Canadian respondents report watching online TV at least every day or almost every day (see Figures 3.2 and 3.3). Conventional TV still seems widely adopted in both countries with only a relatively small percentage in each country reporting that they do not watch it (Japan: 7.9%; Canada: 4.9%). Furthermore, the spread of online TV media has not been pervasive in Japan among the sample, with 78.9% reporting they never use online TV. This is contrasted by the Canadian sample, where 44.8% reported never using online TV.

Figure 3.2 Conventional TV use (%)

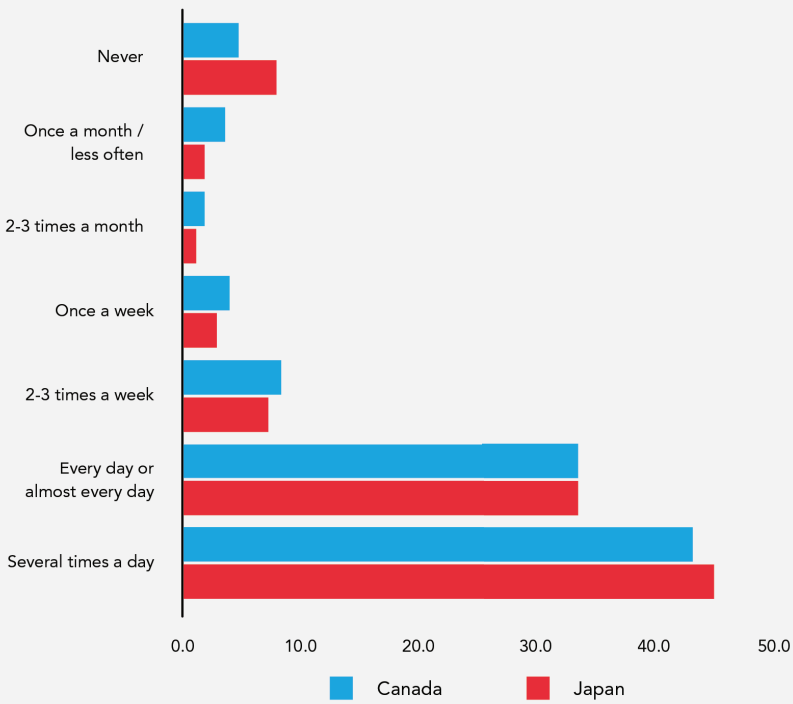
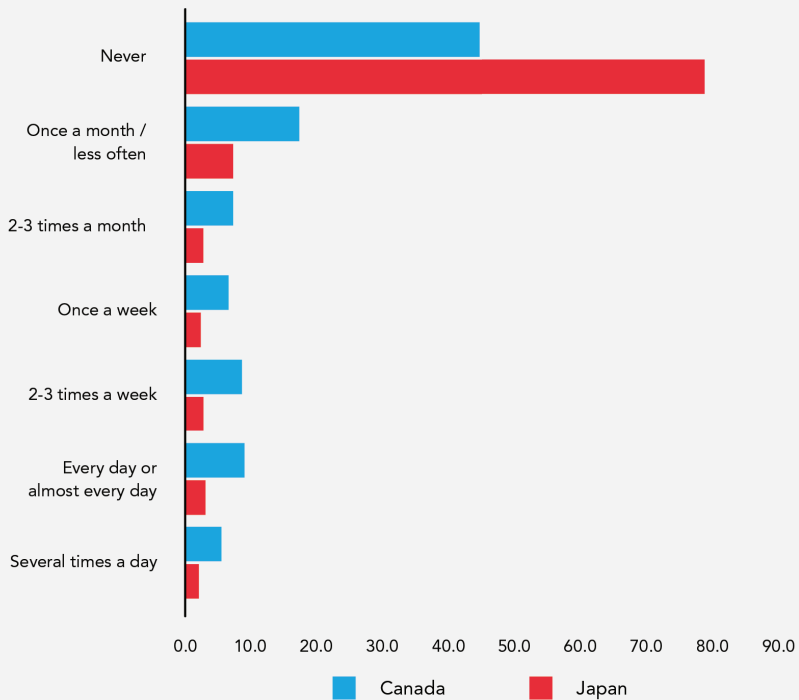


Figure 3.3 Online TV use (%)



In terms of how people access news, Japanese individuals seemed to rely more on both print (53.0%) and digital (53.0%) newspapers at least once a day or almost every day (see Figures 3.4 and 3.5). The Canadian sample reported much smaller percentages of relying at least once a day on both print (23.5%) and digital (33.1%) newspapers.

Figure 3.4 Print newspaper use (%)

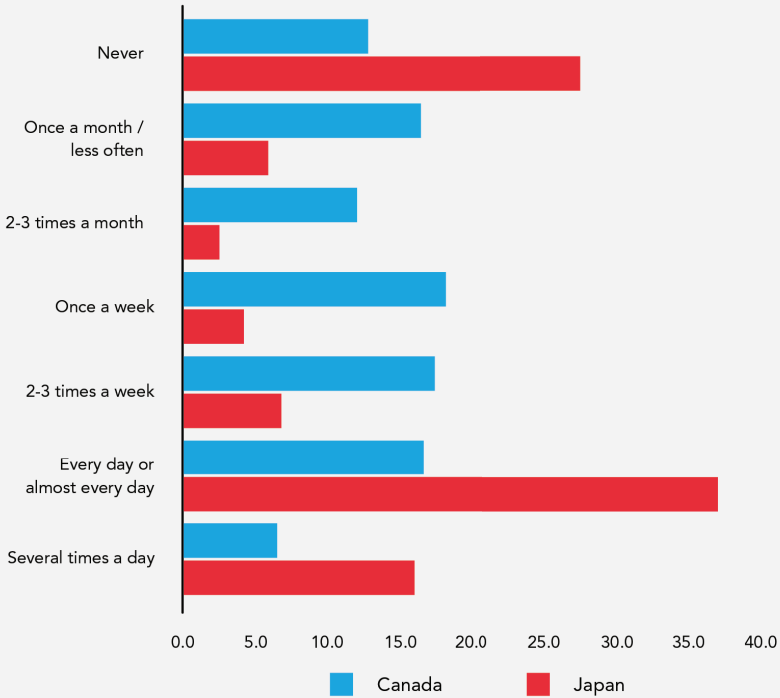
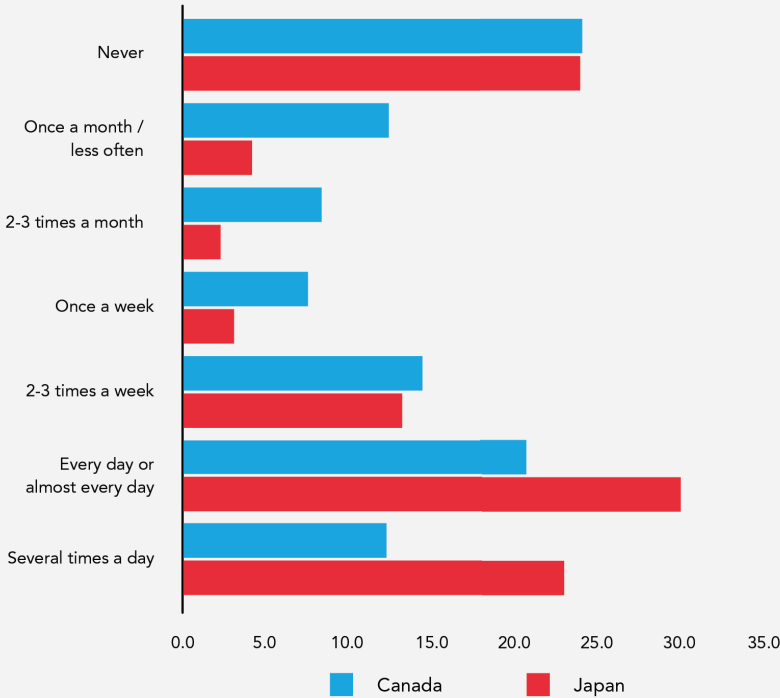


Figure 3.5 Online newspaper use (%)



Whereas newspapers were not as widely used in Canada compared to Japan in the study, 55.8% of the Canadian sample used conventional radio compared to only 19.0% of the Japanese sample (see Figures 3.6 and 3.7). However, this pattern does not carry over to digital radio media, as many individuals in both countries report not using or rarely using radio on the internet.

Figure 3.6 Conventional radio use (%)

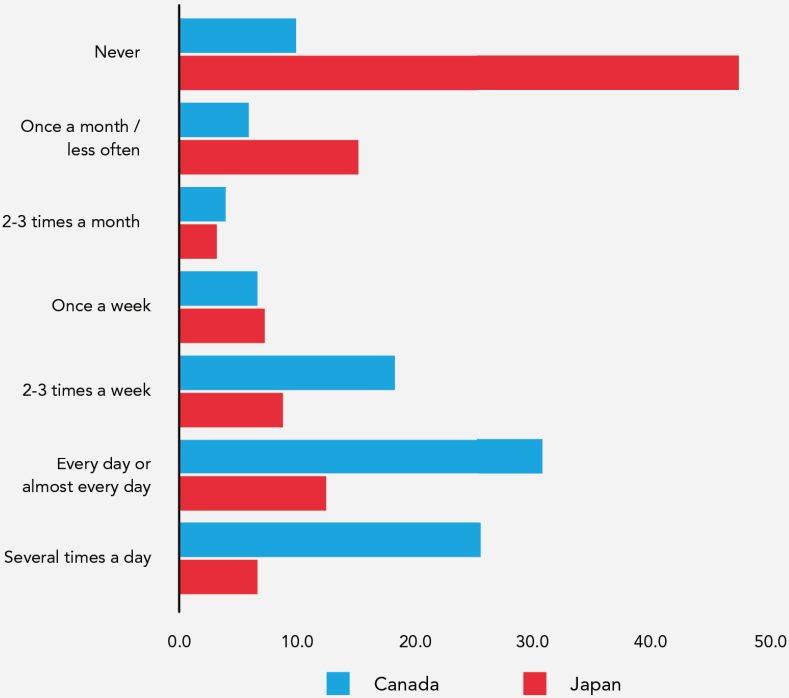
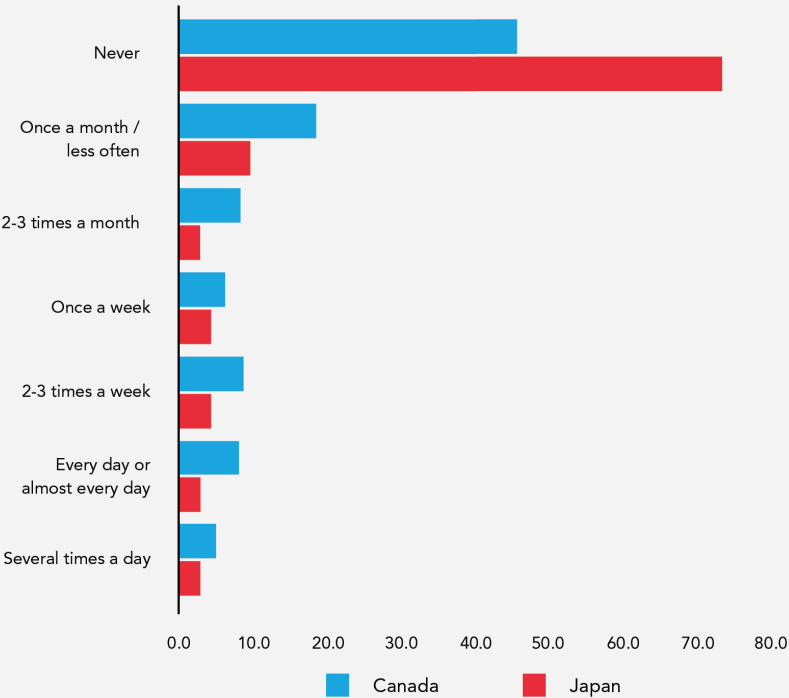


Figure 3.7 Digital radio use (%)



Japanese individuals reported less usage of magazines in both print and digital formats compared to Canadian individuals (see Figures 3.8 and 3.9). Digital magazines were especially unpopular among the Japanese sample, with 79.5% reporting never using the medium, whereas only 51.1% of the Canadian sample responded the same way.

Figure 3.8 Print magazine use (%)

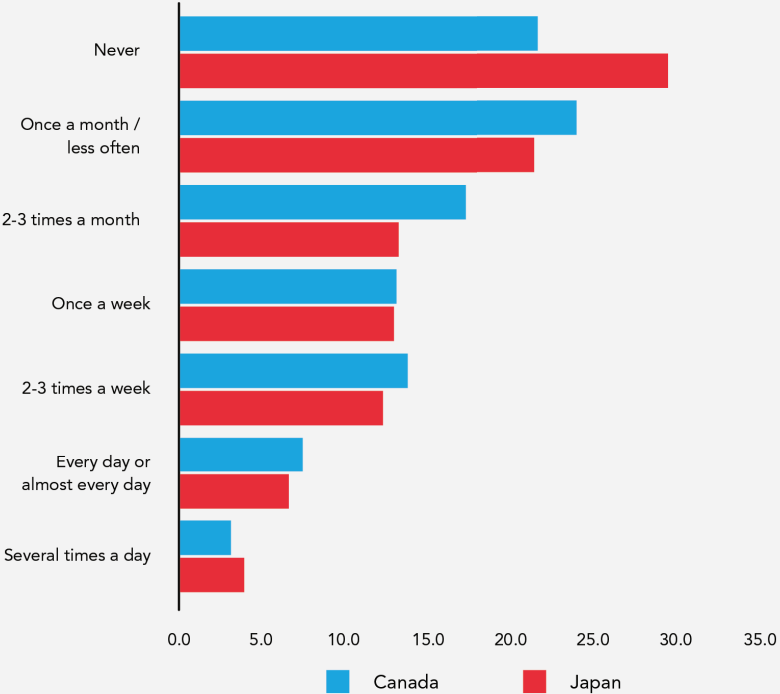
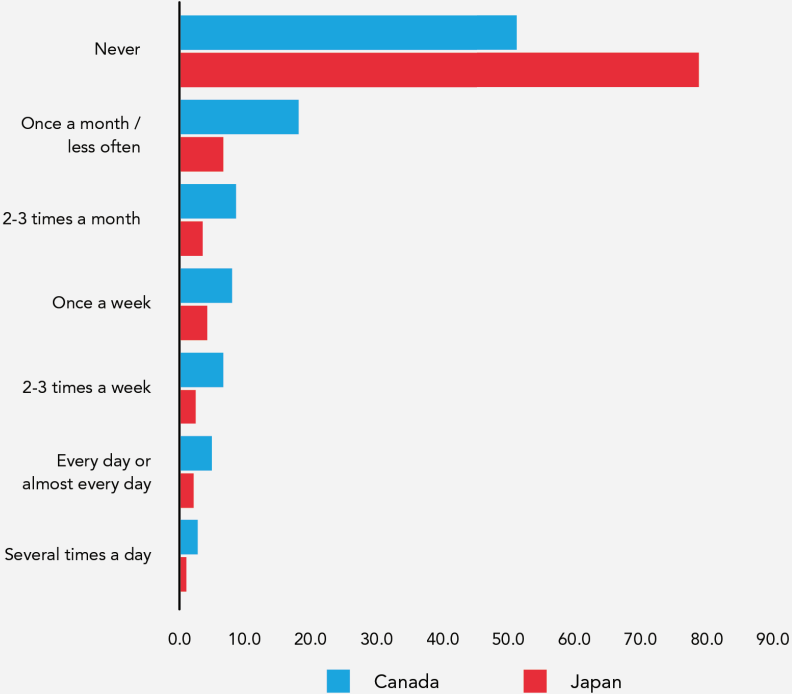
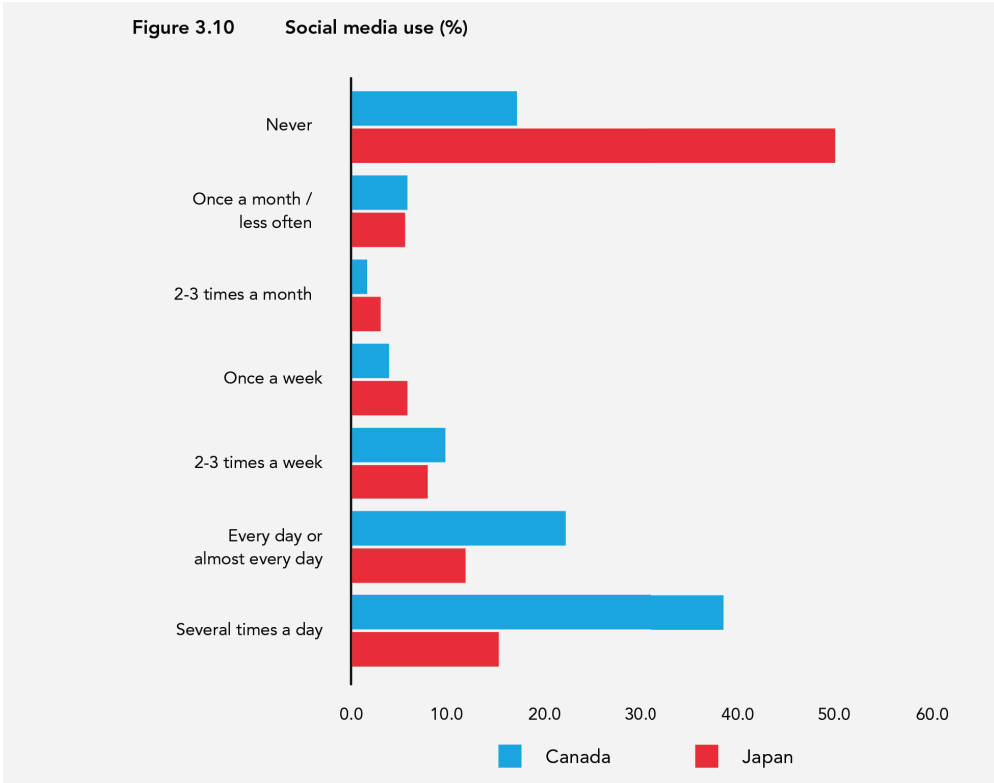


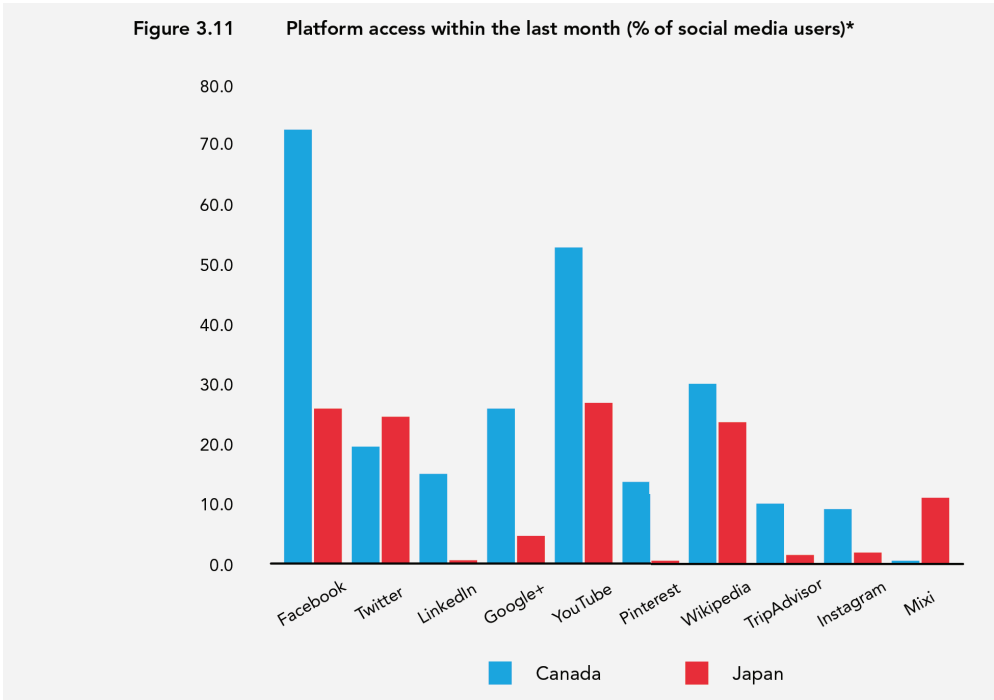
Figure 3.9 Digital magazine use (%)



Canadians reported using social media sites much more frequently than the Japanese in the sample, with over 60.9% of individuals in Canada using these services at least once a day or almost every day versus 27.4% in Japan (see Figure 3.10). Moreover, 50.0% of Japanese individuals in the sample reported never using social media, compared to only 17.3% of Canadians.



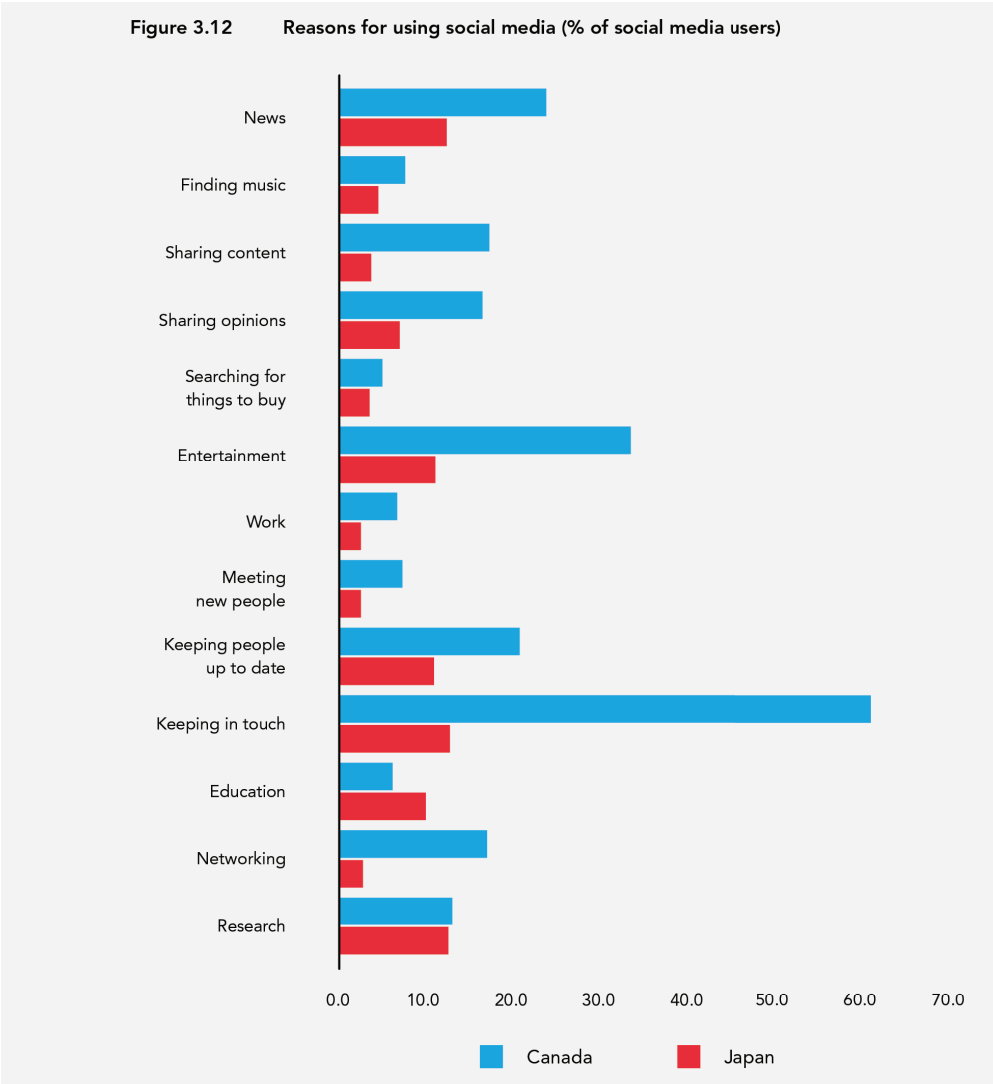
Some platforms were popular with individuals in both countries, such as Facebook and YouTube, but others were specific to Japanese individuals, such Mixi (see Figure 3.11). Twitter was more popular with Japanese social media users (24.7%) than Canadians (19.5%).



* Reporting only when use was above 9% in at least one country

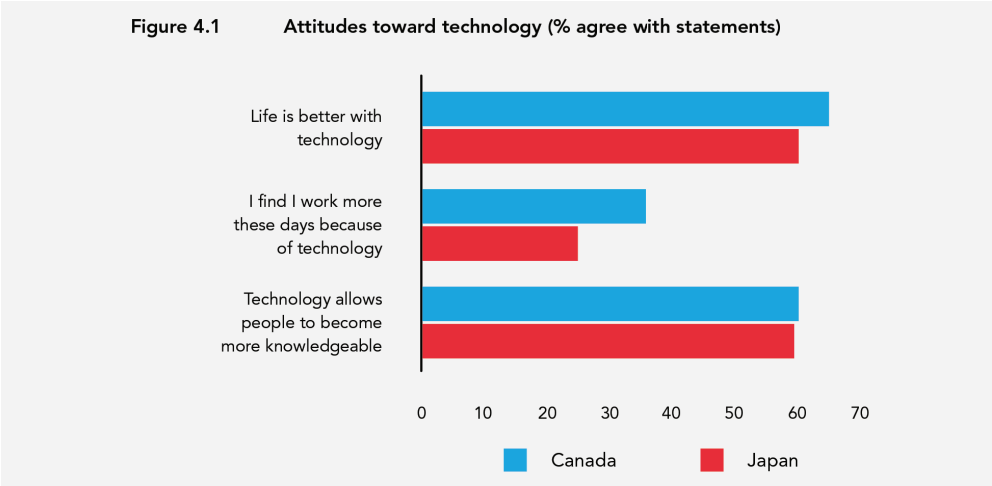
Social media users in the Japanese sample reported a wide range of reasons for using social media sites with no one reason being reported for more than 15% of the sample (see Figure 3.12). However, individuals in the Canadian sample reported using social media for keeping in touch (61.3%), entertainment (33.6%), and news (23.9%).

Figure 3.12 Reasons for using social media (% of social media users)



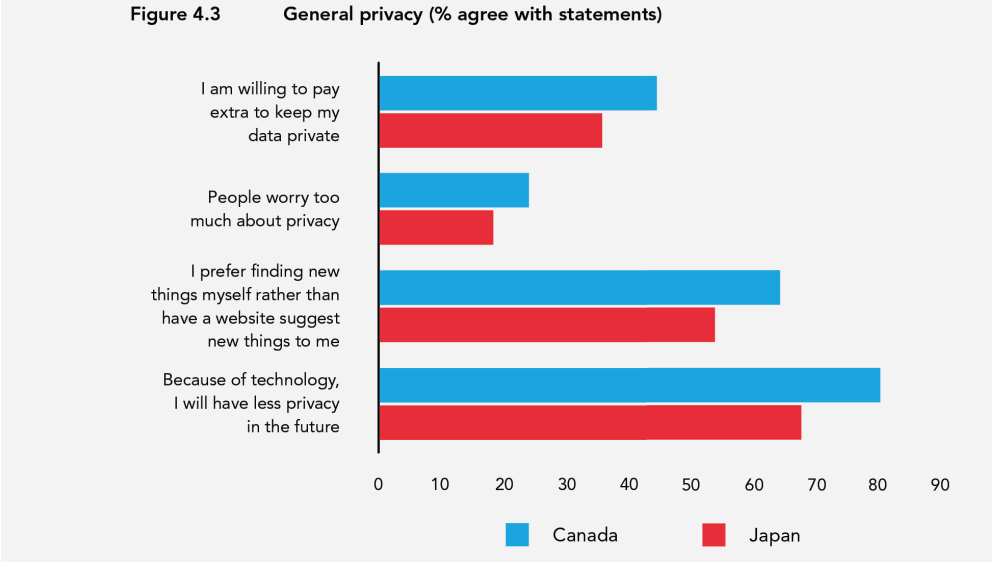
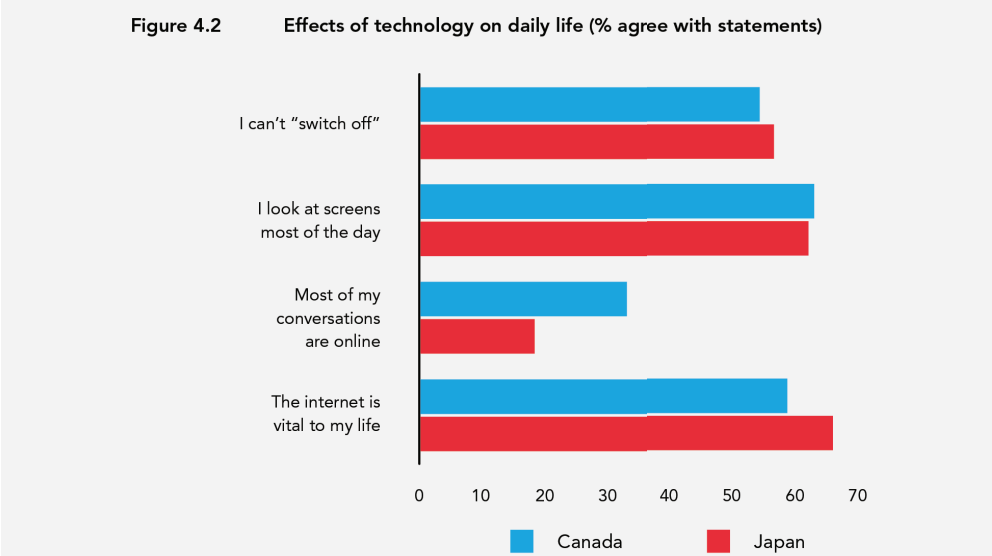
4.0 DIGITAL ATTITUDES & BEHAVIOUR

Digital technology has changed the way individuals live their lives in both Japan and Canada. First, this report examines attitudes toward technology, including attitudes toward privacy in general, surveillance programs, and personal information collection and control. Then, the report digs deeper into the topic and asks how individuals feel about their privacy when there is a measurable benefit to the provision of their personal information: personalization. Finally, the report explores how these attitudes are seen via reported behaviour regarding online and mobile protection measures.



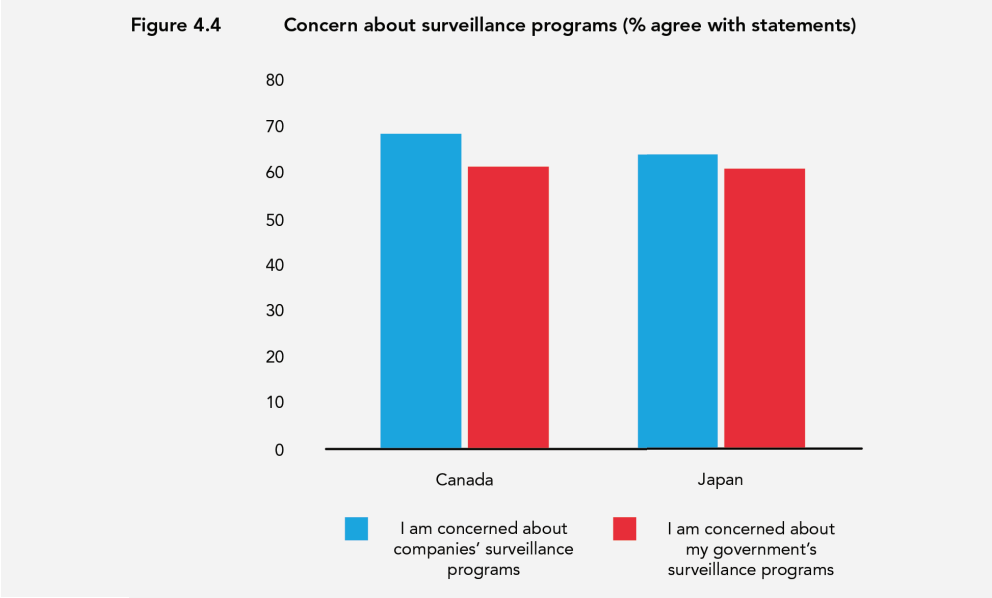
Surveyed individuals in Japan and Canada were generally positive about technology in their lives (see Figure 4.1). Specifically, 60.3% of Japanese individuals felt that life was better with technology, compared to 65.0% of Canadians surveyed. Furthermore, 25.0% of Japanese and 35.6% of Canadians studied felt that they work more today because of technology. Finally, the majority of participants in both countries, Japan (59.5%) and Canada (60.3%), agreed that technology facilitates the exchange of information and that they felt more knowledgeable with technology.

Surveyed individuals in both countries felt that technology was part of their daily lives (see Figure 4.2). The majority of individuals in both countries felt the inability to just relax or “switch off” due to digital technologies’ impact on their life. Japanese individuals reported fewer interactions with technology than Canadians in terms of their conversations being online (Japan: 18.5% and Canada: 33.1%) and looking at screens (Japan: 62.3% and Canada: 63.3%). Furthermore, 66.2% of Japanese individuals claimed that the internet is vital to their daily lives, compared to 59.1% of Canadian individuals.



Turning now to attitudes specifically toward privacy, the survey reports that attitudes are similar between the two countries (see Figure 4.3). There was general agreement in both Japan (67.9%) and Canada (80.2%) that in the future advances in digital technology would result in less privacy. Moreover, 18.6% of Japanese individuals thought that people worried too much about their personal privacy, compared to 24.0% of surveyed Canadians. Accordingly, a little more than a third of Japanese individuals (35.9%) would pay more for enhanced security features, while 45.0% of Canadians would do the same. The majority of surveyed individuals in Japan (54.0%) and Canada (64.3%) felt that they would rather discover new things themselves than have a website suggest new things based on their personal information.

On the other side of the personal information privacy debate is the government and corporate surveillance programs that obtain or acquire personal information from individuals. Figure 4.4 reports the stated concern for these programs. In Canada, many individuals felt concern for both kinds of surveillance, but corporate surveillance programs showed slightly more concern (68.4%) compared to government surveillance programs (61.6%). Japanese individuals felt about the same level of concern for corporate (64.1%) and government (61.0%) surveillance programs.



Surveyed individuals in both countries reported similar agreement regarding the extent to which they are aware of their privacy rights under the law or perform certain privacy protection behaviours (see Figure 4.5). There was similar sentiment in both Japanese (59.8%) and Canadian (66.8%) surveyed individuals that they felt poorly equipped and prepared to deal with information disclosure requests from companies. However, a majority of people in both Japan (63.9%) and Canada (70.2%) reported not performing simple information privacy protection behaviours, such as reading the terms and conditions on websites. Moreover, the vast majority of Japanese (68.8%) and Canadian (78.2%) individuals felt that there needs to be an independent regulator that manages personal information privacy and governs the actions of companies seeking to collect this personal information from consumers.

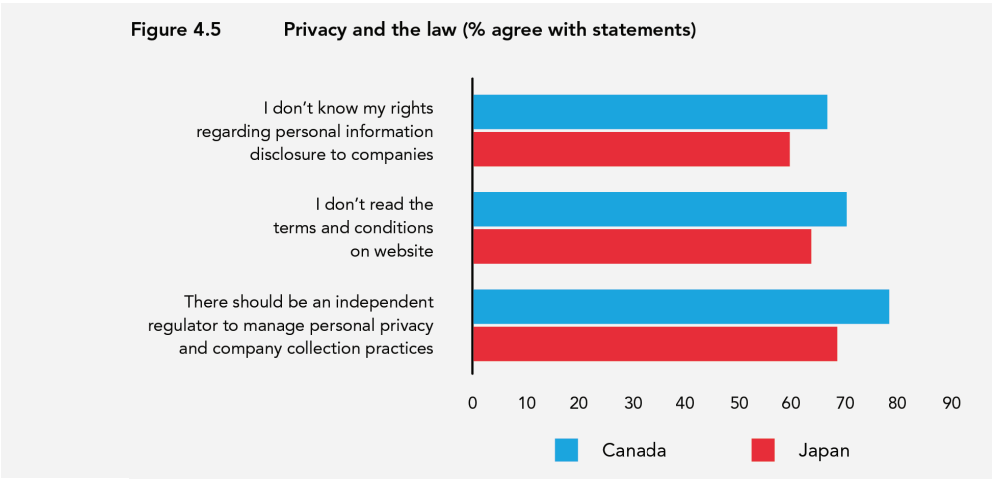
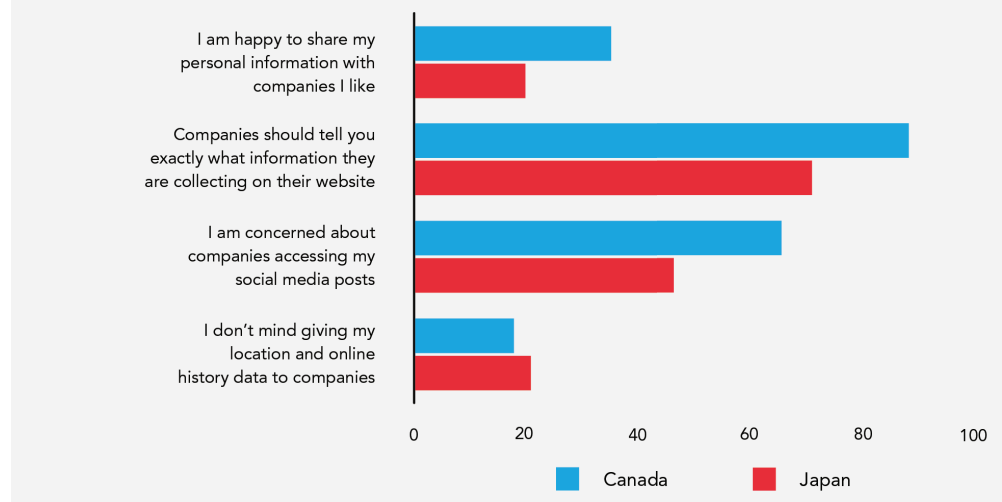
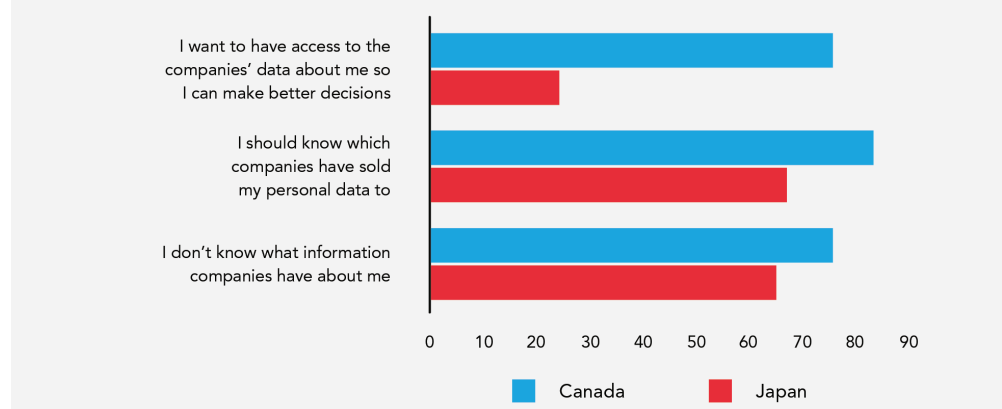


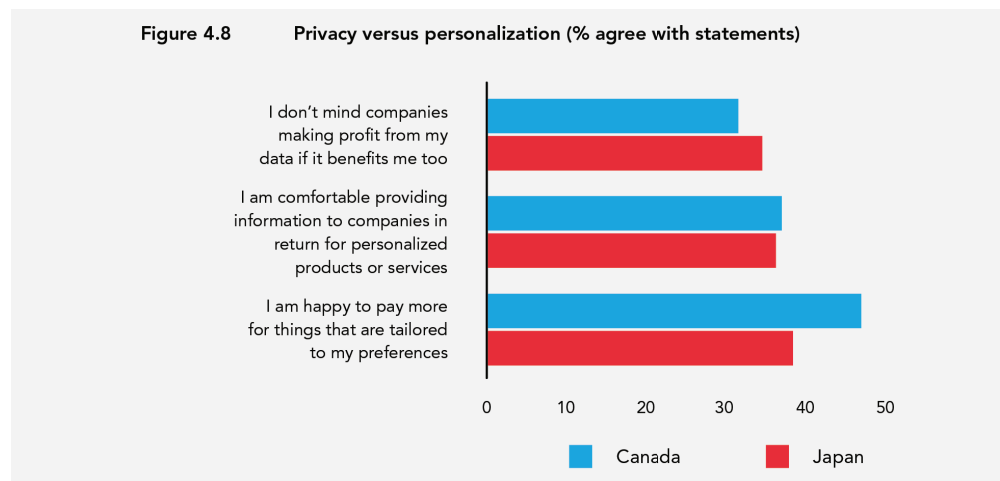
Figure 4.6 Online collection of personal data (% agree with statements)

Looking closer at the personal information collection practices of corporations, individuals in both countries are concerned about and seek transparency with these practices (see Figure 4.6). While 20.0% of Japanese individuals reported being happy to share personal information with companies they like, 35.4% of Canadian individuals agreed. On transparency of personal information collection practices, the vast majority of individuals in Japan (71.1%) and Canada (88.4%) thought that companies should be more transparent about the exact information being collected by corporate websites. Similarly, about two-thirds of surveyed individuals in Canada (65.9%) and 46.7% of individuals in Japan were concerned that corporations would access their social media posts.

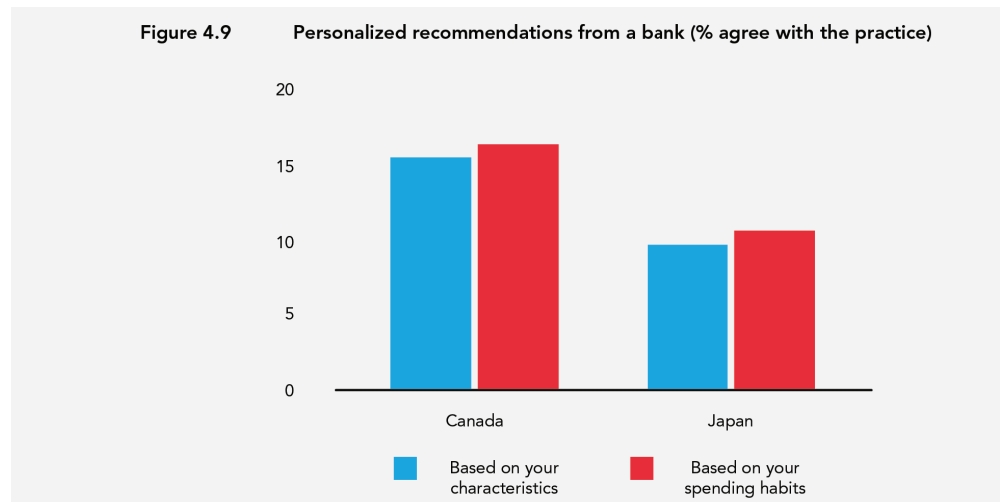
In terms of controlling personal information after collection, both countries have similar reactions to the questions (see Figure 4.7). Japanese (65.0%) and Canadian (75.5%) individuals both reported that they are unsure of the information that companies have about them. Most surveyed individuals in Japan (67.0%) and Canada (83.3%) felt that they should know the names of the third-party organizations that have bought their personal information. However, while only 24.1% of Japanese would like access to the data that companies hold on them so they can make better decisions, 75.5% of Canadian individuals wanted this.

Figure 4.7 Controlling personal information online (% agree with statements)

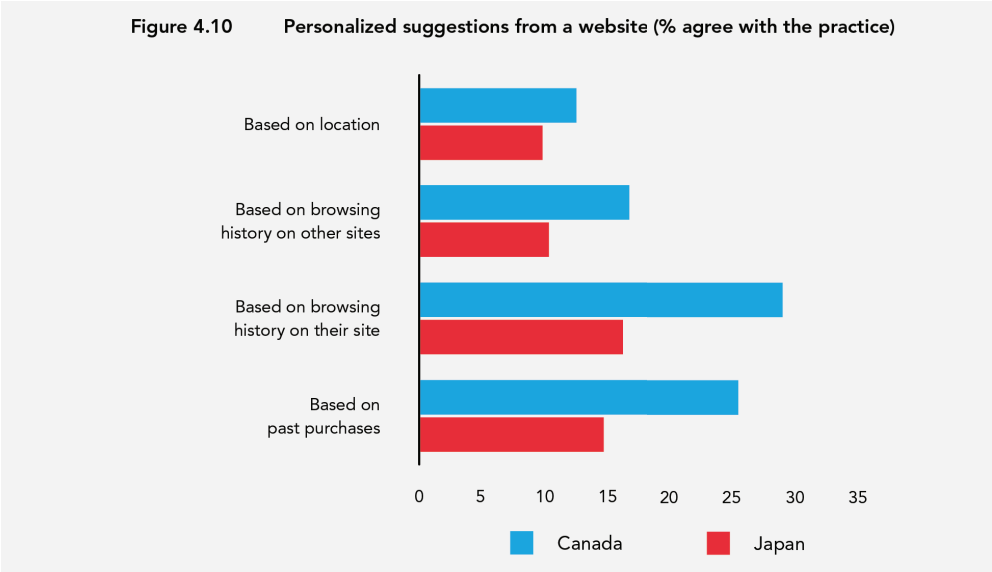
In light of these potential benefits, these next set of questions relate to how much personalization is wanted and at what privacy cost (see Figure 4.8). Overall, Japanese and Canadian individuals in the study saw similar benefits to personalization. For instance, 36.2% of Japanese individuals reported being happy to share personal information in return for personalized services, compared to 37.0% of Canadians. Moreover, 34.6% of these Japanese individuals did not have a problem with companies making profits using their personal information as long as they benefited in some way, versus 31.7% of surveyed Canadians. Also, 38.6% of Japanese individuals and 47.0% of Canadians would be willing to pay extra for products and services that are tailored to their preferences.



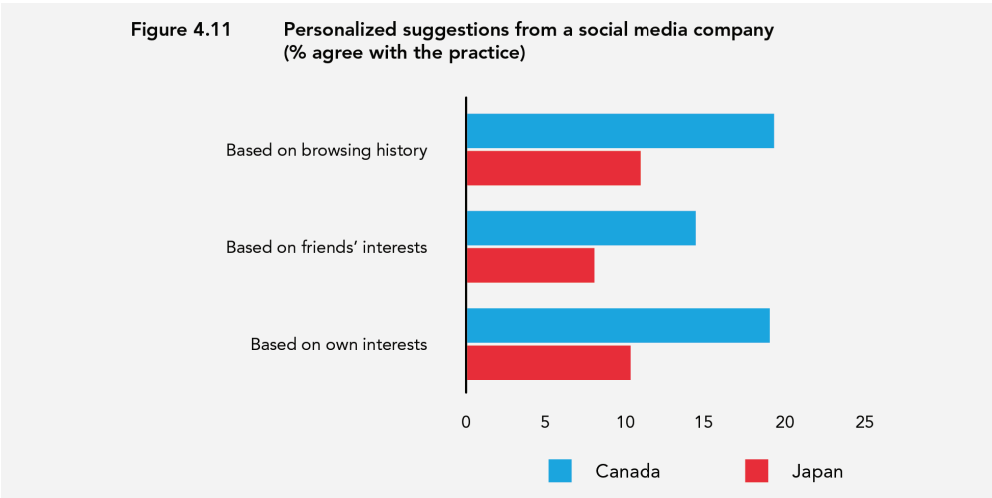
Digging further into what kind of companies the respondents would like to receive personalized services and products from, we first look at banks, then websites in general, and then social media companies (see Figure 4.9). With banks, Japanese individuals are less willing to receive personalized banking services based on their characteristics (10.8%) or their spending habits (9.7%) than Canadians (based on characteristics 15.5% and 16.4% on spending habits).

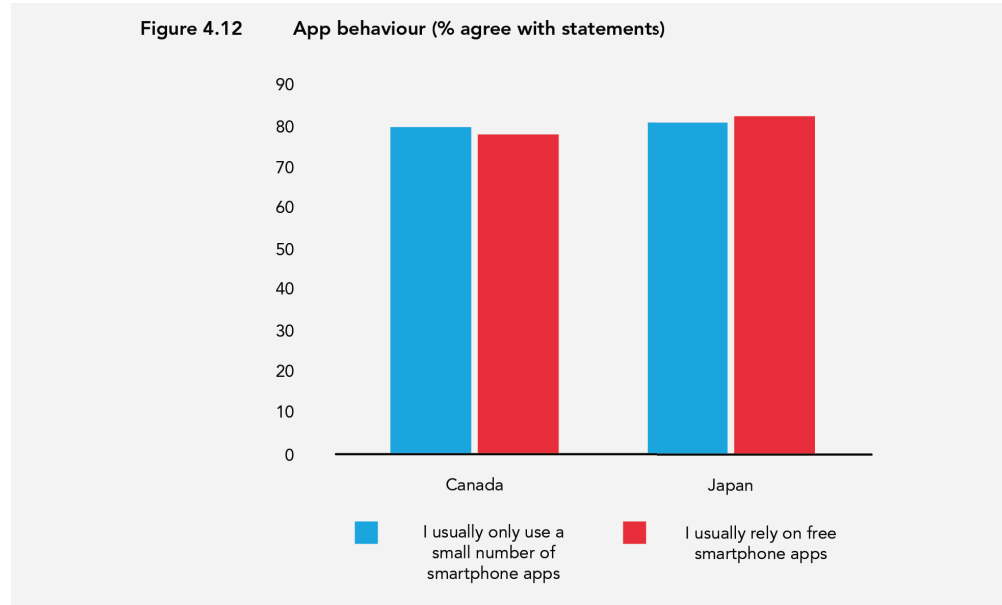


In terms of websites in general, again Japanese individuals were less comfortable receiving personalized suggestions based on location (9.7%) versus 12.5% of Canadians; browsing history of other sites (10.3%) versus 16.6% of Canadians; and browsing history of that site (16.1%) versus 28.9% of Canadians (see Figure 4.10). Moreover, 14.7% of Japanese individuals – compared to 25.5% of Canadians – did not mind personalized suggestions where consumers had past purchases on the website.



For social media companies, Japanese respondents seemed to be more sensitive to personalized suggestions compared to both Canadian respondents and to personalized suggestions from websites (see Figure 4.11). Only 11.0% of Japanese individuals, versus 19.4% of Canadians, were comfortable having personalized suggestions based on their personal browsing history. Similarly, only 10.4% of Japanese individuals, versus 19.1% of Canadians, were comfortable receiving personalized suggestions from a social media company based on their own personal interests. When asked if these personalized suggestions were based on friends' interests, 8.1% of Japanese individuals and 14.5% of Canadians agreed with the statement.





Finally, regarding app behaviour, surveyed individuals in both countries reported similar behaviours (see Figure 4.12). Both countries reported relying on a small number of apps (Japan: 80.8%; Canada: 79.4%), which were generally free (Japan: 81.9%; Canada: 78%) and tend to have user agreements that require the disclosure of personal information or being allowed to track personal information such as location.



