

# Japanese Consumer Dynamics

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### Japanese as Consumers

Consumption has long played an important role in Japanese life. Even before the Meiji Restoration, the Japanese consumer had a notably wide range of products and services to choose from. The distinctive profile of contemporary consumerism, however, developed between the wars, when urban areas were reconstructed to incorporate department stores and amusement parks, and so became increasingly attractive not only for established urban shoppers but also for the increasing number of Japanese who were moving from the countryside to Tokyo and other major urban centers.

The years immediately after World War II were marked by extreme poverty; but this situation changed with the United States' entry into the Korean War, which gave an initial boost to the Japanese economy. Japan went on to experience a succession of economic booms, and the rapid rate of growth - up to 10% - not only created increasing demand for new goods within the Japanese market but also transformed and refined Japanese shopping habits.

When the bubble burst, however, Japanese consumer attitudes changed dramatically. With rising unemployment and the collapse of numerous Japanese corporations, the national sense of security was threatened and consumers started to make more risk-averse and price-oriented buying decisions. The major influences on the retail market were the economic recession and the deregulation process, which was based on a traditional and highly complex distribution system that had been in existence since before Japan opened up to the West. Hundred-yen stores became a frequent sight in Japanese cities; outlet malls offered leftover products and discounted merchandise at 30–70% below the regular price. These new styles of consumption proved to be more in tune with the pessimistic consumer attitudes of the time. They also forced traditional corporations, such as the Sogo department store, out of business.

At the beginning of the new century, Japanese society had undergone a tremendous change since the bubble had burst ten years earlier. The economic situation was more stressful for many Japanese, and the myths of the Japanese economic miracle - such as lifetime employment or the unbeatable stability of Japanese corporations - had been called into question. The number of women entering the workforce increased, part-time work became more common, and Japanese baby-boomers started to retire. The younger generation faced an insecure future.

### Japanese Consumers in New Millennium

Japanese consumers are not only one of the most influential consumer groups worldwide; they have also have astonishingly particular consumer attitudes and an almost professional - and highly demanding - interest in new products and world-class services. In many industries Japan is seen as a trendsetting market and Japanese consumer groups as the consumers of the future. At the beginning of the new millennium, Japan possessed the most affluent and interesting consumer market in the world. Strong segmentation has led to the development of influential new consumer groups.

## Baby-boomers

The most widely discussed group among Japanese consumers is the baby-boomers, or the “silver market.” Among the industrialized nations, Japan has the highest percentage of older citizens and the fastest-aging population. In 2009, the population of elderly citizens (65 years and over) was 29.01 million, constituting 22.7% of the total population and marking record highs in both absolute and relative terms. The proportion of people who are older than 60 years is projected to rise to more than 31.8 % by 2030, and 39.6% by 2050 (Ministry of Internal Affairs and Communications 2010). The term “baby-boomer” refers to Japanese who were born between 1947 and 1949. They are the “classic” Japanese *sarariman* (salaried workers), the backbone of the Japanese economic miracle. In the year 2007 they started to retire, which presented not only a managerial problem for Japanese firms - because of the tacit corporate knowledge they took with them - but also a financial one. Many baby-boomers are entitled to retirement money of up to 38 months of salary, having worked in their companies for a lifetime. These payments amount to up to 28 million yen (equivalent to: 246,000 € as of October 2010) per person. The pension allowances of the baby-boomers are estimated at between 50 to 80 trillion yen (Ikeda 2006), their net savings after deducting all liabilities at 11.3 million yen per person between 50 and 60 years, and the cost of retirees for the next 60 years is estimated to be 21.5 million yen per person. It is believed that Japanese older than 50 years of age hold more than 80% of a total of 1,439 quadrillion yen of financial assets.

## Women

Female consumers are the next most frequently discussed target group in the Japanese media. In the Japanese family, women usually make the purchasing decisions and manage the finances. In their roles as consumers and family managers they are thus taken very seriously by Japanese marketing managers and have long been the object of promotional activities by Japanese companies. In Japan the wife often also has fiscal responsibility within the family; she receives her husband's pay check and maintains the family budget, pays the bills and manages savings. Indeed, the wife assumes a large role in the management of routine household spending and it is said that over 60% of housewives control the family budget.

In recent years, Japanese women have also been assigned more importance as independent consumers. As the marriage age in Japan increases and the number of single households rises, the number of women controlling their own income is rising as well. Due to the changing role of women in Japanese society, their financial power is now more considerable than ever, since they have traditionally been in charge of the family's finances and are in control of most of the financial decision-making, and now contribute an increasing share to that budget themselves.

## “New Rich”

The changes in Japanese society have led to an increase in class differences, and produced a growing number of very wealthy



Japanese. Both the groups discussed above - the baby-boomers and single women with income - fall into the category of the “new rich:” the *nyū richi* or *fuyūsō*. These are consumers who have assets of 100 million yen or more. The *nyū richi* and their interest in high-quality and luxury products have also led to an increase in market entries by Western luxury brands.

Japanese consumers are famous for their wealth and interest in luxury and brand products. The fact that there are so many wealthy consumers has resulted in them becoming a focus of attention for Japanese corporations, and the rich are widely discussed in the Japanese media. A household would be considered part of the *fuyūsō* if its financial assets exceeded 100 million yen. If they exceed 500 million yen, then a member of this household would be considered a High Net Worth Individual (HNWI). Households with financial assets falling in the bracket of 500 million to 100 million yen are considered affluent; 100 million to 50 million yen, mass-affluent. Households in the bracket of 50 million to 30 million yen are considered the upper-mass retail layer, and below 30 million yen is the mass retail layer. In the year 2006, approximately 813 thousand households were counted as *fuyūsō*, and approximately 52 thousand were considered HNWIs.

## Japanese Consumer Behavior

At the end of the first decade of the 21st century, the Japanese consumer market is still one of the most important in the world. Not only do the Japanese still have high purchasing power, they have also assumed a role as worldwide trend-setters and drivers of product development. At the same time, the Japanese consumer market shows all the features of a post-industrial and super-mature consumer society: Japanese consumers have highly specific preferences, their buying decisions are sophisticated and particular, and they have divided into distinctive consumer groups which, it can reasonably be supposed, will develop in other industrialized markets in the near future.

The collectivistic attitudes of Japanese consumers are meant to be one reason for Japanese companies to focus on new product development. Once a product has gained acceptance among early adopters, diffusion proceeds extremely rapidly in Japan. The

interest in new and exciting products makes Japanese consumers also willing to pay a lot of money for them and Japanese companies have developed great expertise in dealing with this expectation. They react by constantly launching new products. New products are labeled *shinhatsubai*, which means 'new sale' or 'new release.' And Japanese consumers prefer to buy these newly released products.

## Economic Crisis

But the economic crisis of 2008 has also left its marks on Japan. Overall spending in Japan has decreased by 8% in comparison to the year 2000. Some observers have even coined the term "consumer hatred" to explain the Japanese tendency to consume less. After decades of difference from consumers in industrialized countries, eschewing low prices and preferring to shop at the high end, Japanese consumers now seem more similar to their Western counterparts, looking for value and attempting to entertain themselves at reasonable cost - 37% of Japanese consumers in 2010 claim to have cut overall spending.

The reasons for this dramatic change lie in the shrinkage of the Japanese middle class. The number of households holding a 8–9 million yen annual budget shrank by 18%, households holding 15 million yen shrank by 30%, and the 10-15 million yen class by 19%. At the same time, wages did not increase by as much as they used to. All these changes impact strongly on spending behavior. Younger consumers are reluctant to spend money on cars or loans while they are unsure about their future income. Older consumers are reluctant because they worry about outliving their money after retirement. This has bred a deep pessimism about the future and a fear of taking risks that make people instinctively reluctant to spend or invest, driving down demand - and prices - even further. The overall confidence of Japanese consumers in the future is decreasing.

Outlooks on the future of Japanese consumption are still pessimistic. Although government fiscal expenditures may increase families' disposable income, the marginal propensity to consume - the proportion of additional disposable income that actually goes to consumption - is expected to remain low. At the same time, however, very wealthy consumers have neither changed their consumer behavior nor lost their lust for luxury. Even where they also report income cuts due to the post-2008 economic crisis, they are still spending on expensive luxury and brand products. The Japanese consumer market shows signs of becoming more Western or showing a strong distinction between luxury consumers and consumers who purchase goods more price consciously.

## Aftermath of Fukushima

The tsunami that hit Japan on March 11, 2011 also had consequences for Japanese consumer behavior. After the earthquake, Japanese consumption decreased by 8%. Overall

consumption in Japan however, showed only a 4.3% minus in June 2011. This had a strong effect on the growth number. Japanese consumption grew 1.5% in 2011, but only 0.3% in the year 2011. Consumer confidence was shaken by the events too. From 41.1% in January 2011 it sank to 34.4% in May. By December 2011, however, it recovered slightly (37.5%).

But there are signs that the economy as well as the Japanese market will recover faster from the events than expected. The overall economic recovery may influence consumer behavior as well. At the time of writing (December 2011) the forecasts for 2012 predicted increasing economic growth. This may give an impetus to consumer behavior and dynamics.

## Outlook

The particularity of the Japanese consumer market makes it very difficult to predict its future development. At the moment it is not clear how Japanese consumers will react to a recovery of the economic situation and the disaster of Fukushima and whether they will retain their position as one of the world's most influential and trend-setting consumer groups. At this point we can only speculate on how the Japanese consumer market will develop in the near future.

But even before the economic crisis in 2008, Japanese consumers had changed in many aspects. They seemed to show more price sensitivity and shifted their interest from purchasing luxury products to cheaper-priced fashion products. The discussion of Japanese consumer behavior has been fueled in recent months by the continuing economic crisis. In particular, the sensitivity of Japanese consumers seems to have changed significantly. Buying cheap products is suddenly acceptable socially, and approved purchases will be given preference. Japanese consumers, after years of otherness, are suddenly behaving like consumers in other industrialized countries. And they are interested in contemporary shopping styles; internet and mobile shopping have increased more than 10% since 2009. At the same time the new rich still show a lust for luxury and keep spending a large amount on expensive brand products.

We can assume that the Japanese market will become more similar to Western consumer markets in which class differences are clearly visible and consumption more dependent on price perceptions and purchasing power. As the number of middle-class consumers decreases, the Japanese consumer market may also come to show a clear distinction between wealthy consumers and consumers of lower income. For Western marketing researchers and marketers it will continue to provide a window into the future and offer new and profitable insights.

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