

Characteristics of the Japanese Market

By Sadahiko Nakamura

The total land area of Japan is only 4% that of the United States. Two-thirds of this is mountainous and all but uninhabitable. Packed into the remaining one-third are the 124 million people and seven million places of business including factories that make up the Japanese market, one of the world's greatest concentrations of consumption, industry and commerce.

For those seeking a place to market their goods or services, Japan offers limitless opportunities. The first point of sales is to know your market; to succeed in the Japanese market requires a knowledge of its characteristics. In this installment, we examine some of the more important characteristics.

1. Enormous market potential

Among the so-called Group of Seven industrialized nations, Japan's GNP is second only to that of the United States. In terms of GNP per capita, Japan is first. Each of the 124 million people and seven million places of business (including factories) making up the Japanese market is a purchaser-of consumer goods, of durable goods, of producers' goods, of capital goods. Few regions can match the Japanese market in terms of scale and purchasing power.

Japan is sometimes referred to as a department store for manufacturers - just about everything you need to set up a production system can be found right here. As a practical matter, however, high costs limit what can be made in Japan. Land is expensive, and in recent years wages have soared to the point where Japanese labor is among the most pricey in the world. An increasing number of products have lost cost competitiveness.

This, along with an increasing diversity in consumers' tastes, means there are now more opportunities than ever to sell foreign-made products in Japan.

2. Sophisticated consumers

Cultivated in the "consumption boom"

of the 1980s, Japanese consumers have acquired a discerning eve. Cold functionality no longer does the trick. Consumers have become very selective in terms of design, price, quality and after-sales service. A company that plans to sell its products in Japan had better do the same.

3. Racial homogeneity

With 99% of its residents Japanese, Japan can be safely considered as a racially homogeneous country. Japanese culture is predominant.

You must keep the cultural characteristics of the market in mind when putting together a sales strategy. If your company does not have any business connections in Japan (trading company, distributor, etc.), it may take quite a bit of time to establish a position in the market. On the other hand, once you do achieve an initial acceptance, you will find that the going gets much easier. Two Japanese personality traits-curiosity, and a desire to keep up with the Tanakas-work in your favor.

4. Many companies and factories

In Japan, 2.1 million companies and 720,000 factories coexist in a manner ranging from friendly rivalry to cutthroat competition. In per capita terms, no other advanced industrialized nation even comes close in number. These companies and factories have a huge and relatively constant demand for a variety of commercial products and services-office furniture, office automation equipment, industrial safety equipment, high-tech production machinery, patent consulting. crisis management consulting, etc.

5. Many retailers and wholesalers

Over two million businesses-1.6 million retailers and 440,000 wholesalershave a hand in distributing goods throughout Japan. Reflecting the purchasing characteristics of Japanese consumers (see "Selling in Japan: Tips on Access and Distribution" by the same author, Aug./Sept. 1992 issue of the Journal), there is one retail outlet for every 80 people-the highest density of any country in the world.

It is this great number of retailers and wholesalers that comprises the Japanese distribution system and accounts for many of its distinctive features.

6. Distinctive distribution system

To keep this vast number of retail outlets in stock with the many and varied products that line their shelves requires the intervention of wholesalers. This is unavoidable-it is normally quite difficult



A local shopping arcade. Japan has a retail outlet for every 80 people-the highest ratio in the world.

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to deliver products from the manufacturers to the retailers nationwide without the services provided by wholesalers: e.g. distribution, warehousing, financing, sales. For this reason, almost all products handled by the Japanese distribution system pass through an intermediary such as a wholesaler or trading company.

When working out a strategy to access the Japanese market, therefore, a foreign company must take into account the features of the Japanese distribution system. In striking a balance between manufacturer (or importer), wholesaler, retailer and consumer, the marketing strategy including sales, pricing and services for clients must necessarily take on some aspects different from a strategy for, let's say, that company's home market. This is natural, inevitable, and what it takes to succeed in the Japanese market.

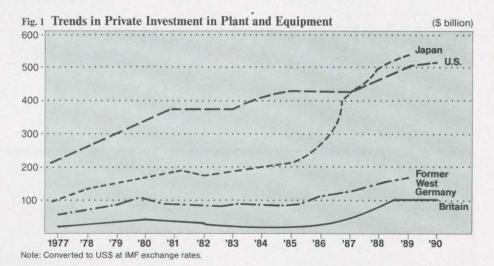
Do not underestimate the usefulness of the Japanese distribution system. By rapidly distributing products throughout the country, the wholesaler allows the manufacturer to produce at high volume and the retailer to sell at low volume. The manufacturer can thereby lower its costs through the economies of scale; the retailer, through reduced inventory.

7. High degree of urban concentration

Much of Japanese industry and commerce is clustered in three great urban areas-metropolitan Tokyo, greater Osaka and greater Nagoya. While ac-

Table 1 Concentration in Metropolitan Tokyo (% of nationwide totals)

(% of nationwide total	
Area	3.6
Population (permanent residents)	25.4
Places of business	27.1
Prefectural income	30.7
National taxes	48.6
Merchandise shipments in value	25.1
Annual retail sales	37.2
Bank deposits	35.6
Telephone subscribers	28.8
Computers in operation (units)	42.4
Computers in operation (value)	50.0
Four- and two-year colleges	27.7
Four- and two-year college students	40.1



counting for only 15% of the land area of Japan, these areas are home to approximately half of its population.

The greatest degree of concentration is found in Tokyo metropolis (Table 1). On 3.6% of Japan's landmass are crowded 25.4% of its people and 27% of its places of business, and they generate nearly one-third of national income. This profusion of economic activity generates an atmosphere of prosperity and vitality. The greater Tokyo area accounts for more than one-fourth of merchandise shipments in value and two-thirds of retail sales.

People, money, information and things-everything is centered on metropolitan Tokyo, A foreign company planning to enter the Japanese market would do well to first concentrate on this region.

8. Highly developed mass media

Newspapers and magazines, TV and radio-Japanese mass media are very highly developed. A company planning to enter the Japanese market should utilize these resources to its advantage. For example, you can often get some free publicity by mailing product introductions to Japanese newspaper and magazine editors. Let people know about your product or service; it may prove quite beneficial to subsequent marketing efforts.

9. High level of facilities investment

An international comparison of private investment in plant and equipment (Fig. 1) reveals that, since 1988, no country has put more into its productive facilities than Japan. The higher a country's

level of facilities investment, the more likely that country is to maintain a high level of economic activity. By this measure, the Japanese market appears to be a pretty good bet.

10. An increasingly international

Japan depends heavily on overseas sources for food, clothing, and other necessities of daily life. A considerable amount of durable consumer goods is also imported. At the low and high ends of the scale, imports of such products from neighboring Asian countries and the industrial West are booming.

Other opportunities are out there too. Many Japanese-more than 10 million a year nowadays-vacation overseas. These trips have been enlightening; people have become aware of some good products not readily available in Japan. Natural cheese. herbal tea, room aromatizers, picture frames, tabletop book binding machines, and other such products are beginning to sell.

Japan is a big market with plenty of future potential. The rewards are great. It is worth the trouble.

Still, the Japanese market does have some characteristics, outlined above, that need to be kept in mind when working out a marketing strategy for a product or service. In the next two installments, I will discuss the Japanese distribution system and how you can utilize it to your advantage.

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