

Japanese Consumers

By Itoh Motoshige

Highly Demanding Japanese Consumers

Japanese consumers are said to be “the strictest in the world.” This means they have high expectations in regard to the quality of the products they buy. In Japan’s domestic consumer market, large numbers of companies compete intensely against each other, with the result that consumers have become extremely demanding when it comes to product quality, and tend to demand high-value service from makers and retailers.

Many companies that have tried to enter the Japanese market have experienced the idiosyncrasies of the Japanese consumer. Products that have not met their high expectations have been faded out of the market. Companies that have properly understood the needs of the Japanese consumer have been able to make high returns. Products not able to offer a certain level of quality are very hard to sell.

Japanese consumers love luxury brands from places such as France and Italy. They hunt out European “super-brand items” not just in Japan, but also in the tourist spots of Europe and all over the world. It may be no exagger-

ation to say that no-one places higher value on luxury European brand products than the Japanese. This trend is partly created by luxury brand companies’ strategies, but the fact that Japanese consumers love brand-name items truly reflects their characteristic love of high-quality products.

Large numbers of American brand products and services have also succeeded in Japan. Two well-known success stories in Japan are Coca-Cola and McDonalds. However, a point to note is that their success is the result of efforts to adapt to the Japanese market. While Coca-Cola has severely cut back its product range in its U.S. home market, it has sought to meet the market demands by introducing more products like coffee and green tea beverages designed for Japanese tastes. To be sure, it would have been difficult to secure sales in the Japanese market without continually developing new products. To establish high brand value in Japan, McDonalds opened its first store in Tokyo’s Ginza district, a location whose high land values could not conventionally be justified by the limited profits expected of a hamburger store. However, this culturally perceptive

store opening strategy led to later success.

Companies that have not succeeded in Japan often claim that Japanese consumers are difficult. Certainly, it is not easy to meet the needs of Japanese consumers. However, looking at the large numbers of overseas products that have succeeded by adjusting to the needs of local consumers, it is also true to say that success in the Japanese market can result in high returns.

The Changing Japanese Consumer Market

During the last 20 years, the characteristics of the Japanese consumer market have changed significantly. At one time, it was generally regarded as closed and every product was highly expensive. However, as a result of a flood of inexpensive overseas goods in the wake of the rapid appreciation of the yen, it has become one of the most open markets to overseas products in the world. With the bursting of a share price and property bubble in the early 1990s, Japan’s economy entered a difficult adjustment process that lasted more than a decade. During the period, the attitudes of



Japanese consumers name changed a lot.

So how have they changed? The first obvious change is that consumers have become very price sensitive. While prices in such areas as housing and service, are certainly still high in Japan, a phenomenon known as “price destruction” is emerging in such areas as clothing and eating out. The apparel retail brand UNIQLO (owned by Fast Retailing Co.) and the Japanese-style fast food chain Yoshinoya D&C Co. (offering *gyudon* [beef bowls]) have achieved explosive growth by offering products at amazingly cheap prices even by international standards. Amid the Japanese economic malaise, the number of consumers who are happy to choose cheap products has grown.

In the latter half of the 1990s, the Japanese economy as a whole experienced extremely serious deflation, and this hastened the tendency toward lower prices. The cost of broadband services in Japan is one of the lowest in the world, but it was the result of fierce competition between companies. The tendency for consumers, under pressure from rising unemployment and falling incomes, to curb their spending to protect their lifestyles became pronounced, and this spurred on competition between companies for lower prices.

But Japanese consumers are not merely inclining toward the cheap price ten-

dency. The spending activities of consumers were governed by certain budgetary restrictions, but if consumers could save money on general consumption items because of lower product prices, they could put their excess income to use in purchasing products and services they had a particular hankering for.

In Japan, this trend is known as “the polarization of consumption.” That is, while a general tendency toward low prices continues, certain high-quality, high-priced products and services that evoke a special demand still sell. For example, in the area of apparel, extremely low-priced products such as those developed by UNIQLO enjoy good sales, but then in department stores, high-priced, luxury apparel also sells. And it is the same in the housing market. While downward pressure on apartment prices continues, high-quality apartments in the ¥100 million plus bracket are selling well.

There is a strong image that the distribution of income is extremely narrow in Japan and the middle-income group is dominant. Even today, of course, Japan still has one of the most equal wage distribution patterns in the world. Accordingly, in product patterns, demand from this middle-income bracket, to which the bulk of wage earners belong, determines overall trends in

demand. However, while numbers of low-income earners such as *freeters* (casual part-time workers) have been increasing in recent years, high-income earners are also becoming noticeable. The tendency for such diffusion of income distribution is another reason for the polarization of consumption.

From Products to Services

An important change that has emerged with the polarization of consumption is a shift from items to services. This represents a change in consumption structure. It can be described more accurately in terms of four rough divisions of consumption spending: non-durable consumption items (such as foodstuffs), semi-durable items (such as clothing), durable items (such as housing and cars) and services. A rather conspicuous tendency in Japanese consumption patterns is the gradual demand shift from non-durable and semi-durable to durable consumption items and services.

Up until now, studies of Japanese retail sales trends have generally focused on department store and general merchandising store (GMS) sales. However, just because sales in such stores have been lackluster does not necessarily mean that overall Japanese consumption is weak. Spending on durable consumer items and services not available at such



traditional retail outlets may well be rapidly expanding.

Areas of consumption that have substantially expanded in the last 10 years include mobile phone services, broadband Internet services, overseas travel, education and spending on entertainment. Although the Japanese economy is often thought to be stagnant, the number of overseas travelers and visitors to such amusement facilities as Tokyo Disney Resort are steadily increasing. While young women have cut back spending on items like clothing and CDs, they are now making more frequent use of mobile phone services and network communications.

In ordinary products, too, items added with elements of service are selling well. Products that put stress on health or safety, for example, are in demand. The reason for the favorable sales of health-style tea beverages and organic vegetables is that consumers value health and safety.

Another conspicuous trend driving changes in consumption is the growth in demand for consumer durables. Even though sales of automobiles are flat, luxury cars sell well in Tokyo and other large markets. For Mercedes-Benz, BMW and other top-end automakers, Japan is a major market. Sales of such new products as flat TV's and DVD recorders are also growing rapidly. The housing market, too, is experiencing the phenomenon of market polarization; while the price of ordinary housing is being driven down, sales of expensive properties remain steady.

The Importance of Generational Differences

Many companies that want to expand their product sales in the Japanese market may have realized the big differences in consumer behavior between the generations. Taking alcoholic beverages as an example, while middle-aged and older people drink a lot of whiskey, this is not much in favor among the young. The preference of the young is overwhelmingly toward drinks like *Chu-Hi*

(*shochu*-based beverage).

There are also big the differences in how leisure time is spent. In the travel market, as society ages, number of elderly people with time to spare is increasing and creating a big demand. High-priced cruises and other tours are fully booked.

In postwar Japan, when the consumer market was ballooning along with the rapid economic growth, the generational differences in consumer patterns appear not to have been keenly considered by companies. Segmentation marketing that clearly identified differences based on generation, region and gender may have been totally accepted among current marketing experts though relatively few marketers had a strong awareness of these differences in Japan. As a result, most products that came onto the market tended to be designed for what was perceived to be a homogenous market.

With the market weight of middle-aged and older consumers growing along with the aging of society and the falling birthrate, such perceptions of markets are undergoing radical changes. Companies now have no choice but to recognize generational differences in consumer behavior, and their response is having the effect of making generation-based differences in consumer behavior even more pronounced.

A major characteristic of the Japanese income distribution structure is that the middle-aged and elderly tend to have a lot of income and assets. Around 70% of individual financial assets are held by those aged 60 and over. This is a major difference from markets like China and South Korea where large numbers of a comparatively young generation are high-income earners. Japan, in addition, is an economy with small overall differences in income distribution. Rather than having rich magnates, it has a large bracket of middle-aged and older people who are comparatively financially well off.

A major issue for companies today is what kinds of products and services will successfully appeal to this age group. As the aging of society advances, markets that meet the needs of these people will

become even more important. The fact that overall consumption trends are shifting from products to services is not unrelated to this.

Japanese Consumer Markets Expand to Asia

This report has focused on changes in Japanese consumers. Finally, however, I would like to point out that the changes seen in Japan are not confining themselves to Japan, but are tending to ripple out across the East Asia.

Nowadays, it is not uncommon to come across large numbers of Chinese and Korean-speaking shoppers in the department stores and shopping districts of the business quarters in Tokyo. They are very knowledgeable about Japanese fashion trends and electronic and other new products. They come to Japan primarily for tourism, but take the opportunity to do shopping eagerly as well.

If you walk around cities like Seoul or Shanghai, you can see many similarities with Japanese fashions. Young Asians read Japanese magazines and comics avidly and appear to be very influenced by them.

In Europe and the United States, this phenomenon would be not unusual. Central and South Americans travel to New York's Fifth Avenue to shop, and the fashions of Paris and Milan influence the whole of Europe. But in Asia, up until now we have not seen such a linking up of consumption trends within the region. In the wake of the economic development of the countries and regions of East Asia, a bracket of middle and high income-earners with the means to enjoy high-quality consumption has spread across the region. And with mutual dependence within the region deepening as trade and investment by Asian economies expands, we now see Japan clearly influencing its close neighbors in consumption trends as well. **JS**

Itoh Motoshige is a professor at the Faculty of Economics at the University of Tokyo. He specializes in international economics.