

E-Commerce Japanese Style

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Abstract:

Presentation to the Japan Industry and Management of Technology Program (JIMT) on electronic commerce in Japan, how it is different from e-commerce in the US, and the challenges that foreign companies face entering the e-commerce market in Japan.

Keywords: e-commerce; Japan

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E-Commerce Japanese Style

Presented by Masanobu Katoh

Good afternoon. Thank you for giving me the opportunity to speak at this Japan Industry and Management of Technology Program. Tonight, I would like to talk about the internet and electronic commerce in Japan – how they are different from the practices and uses in this country, the challenges that foreign companies face entering the e-commerce market in Japan, and how to meet these challenges successfully.

As you all well know, Japan is still suffering economic difficulties. The US, on the other hand, is experiencing continued economic growth which is due, at least in part, to the high-tech and information technology-related companies. Japan would like to emulate America's economic growth and realize the best benefits of the information age.

The pursuit of economic growth investment in high tech is not limited to just IT companies, which are plentiful here in this city. The information age, with the internet and e-commerce, has the potential to bring great benefits to all members of society. Having said that, I would like to present an overview of the situation in Japan.

OVERVIEW

Slide 1 shows a comparison of Internet related numbers in the US, EU, and Japan. As you can see, these numbers are predictions for 3-4 years out. When we conduct transactions over the Internet, they are broken down into two main categories – business to business (B to B) and business to consumer (B to C). As you can see, B to B transactions are currently much higher

than B to C transactions; however, B to C transactions are growing at a steady rate. Today I would like to discuss primarily business to consumer e-commerce as it relates to Japan.

Again, for clarification, an example of business to business electronic commerce would be when a large bank enters into an e-commerce transaction with Dell or another company in this city, and no individual consumers are involved. These are the primary types of e-commerce transactions conducted today. This scenario holds true in other countries as well. I should make one comment here – the numbers for Japan may be slightly optimistic. I would suggest that the numbers will actually be smaller in the end.

The 2nd slide is a survey of the number of computer and internet users per 1000 people. I have selected those countries considered to be the most internet-advanced countries. Here you see Iceland, Sweden, Canada, etc. The number of computers in Japan, comparatively speaking, is really not that small. In other parts of Europe, the number of computers per 1000 people is much smaller. However, when you look at the number of internet users here, the numbers for Japan are much less than those of other countries.

Slide 3 shows that the online population in Japan does not even begin to reach those levels seen in the US. In addition, what this chart does not show, is that the actual time spent online in Japan is much less than that of other countries, for reasons that will be discussed later. In general, it can be noted that Japanese IT literacy levels lag behind those of the USA.

ACTIONS TO PROMOTE E-COMMERCE UNDERWAY

Some major industry groups have proposed measures to increase IT literacy and the overall use of IT in Japanese society. One of the largest industry confederations in Japan, Keidanren has proposed a series of initiatives called the “Digital New Deal.” The proposal aims

to increase the overall awareness of the internet and information technology in Japanese society.

The three main objectives of the proposal are:

- To increase the number of internet users to 70 million by 2004;
- To increase e-commerce revenues from 10 trillion yen to 72 trillion yen by 2003; and
- To make government services and information available online by 2003.

Keidanren is particularly pushing the third of these objectives. In the US, you have the option of filing your taxes via the internet or other electronic means. In Japan, there is no such function. The government also wants to employ these services soon and that is why they are beginning to implement reforms. Keidanren proposes making more government administrative information available online. The proposal also calls for support for the development of intelligent transportation systems (ITS), an area in which Japan is the leader in innovation. In addition, the proposal calls for the Japanese government to rewrite the telecommunications business laws, much like the US did with the Telecommunications Act of 1996. The 1996 law allowed traditional telephone companies such as AT&T to buy cable companies and vice versa (market convergence). Market convergence was a goal of the law. These are areas Japan would like to consider again – those areas are regulated in some ways in Japan, too. Other objectives include internetworking public hospitals and linking every public school classroom to the internet.

JAPAN ONLINE

Now that we have discussed the actual infrastructure and prospects for reform, let us look at some actual examples of electronic commerce in Japan. Slide 4 shows the number of online

stores in Japan. While the numbers are increasing, they may appear small. Only about 12,000 stores are online and open to the public.

Bank transfers are the most popular forms of payment for items purchased online by Japanese consumers. Because local banks (or branch offices) have very simple means of initiating bank transfers, people find them easy and convenient to use. In order to initiate a bank transfer, a person fills in a few simple forms and makes the transactions at a local ATM. There is no need to wait in lines or visit a teller.

These are the elements people should consider when they examine the Japanese way of conducting electronic commerce. Another thing you may find interesting is that a few consumers pay for online purchases in cash at convenience stores. When you are in Japan, you see many small shops, like 7-Elevens, which are open 24 hours a day. These stores carry a variety of products; and in addition to having a diversified inventory, customers can pay for items they purchased online. Credit cards, which are the most popular form of payment for electronic commerce in the US, are not as popular in Japan – especially for purchase greater than about \$800. Credit card payments account for only 10% of these purchases.

These are the elements, or factors, that you need to take into consideration when considering the differences in shopping patterns and behaviors between the US and Japan.

WHO IS USING E-COMMERCE IN JAPAN

The next slide (5) is an age comparison survey. The chart shows that the younger generations are using the internet and electronic commerce much more than the older generations. Since I, unfortunately, now fall into the over 40 group, I am only one of 21% of people my age who use the internet in Japan. In terms of gender, men use the internet more than

women; however, that is changing. Women's use of the internet and electronic commerce is rapidly expanding.

WHAT WILL (NOT) SELL WELL ON THE INTERNET IN JAPAN

In addition to examining who is online, it is also instructive to see what products are selling over the internet in Japan. @Nifty, the largest internet service provider (ISP) in Japan with over 3.5 million subscribers, conducted a survey of the purchasing behavior of Japanese internet shoppers. The survey found that those items that will sell well over the internet include:

- Products that consumers are familiar with such as tickets, books, and CD's;
- Products not readily available in the local market – either hard to find or from other places;
- Products that are hard to transport, or that people are reluctant to buy in person;
- Gift items.

Many of these trends have proven similar in the US market. With regard to the first category, I saw an article in the newspaper that stated the online sales of cars is finally becoming popular in Japan. When I discussed the article with an executive of a Japanese car manufacturer, he said that the car sales industry in Japan will soon be forced to change the dealership structure to account for the popularity of online sales. He predicted that the dealership's primary function will be to let consumers test drive autos and to close deals over the internet.

The sale of items from remote areas will likely succeed in Japan. For example, we have thousands of small *sake* distilleries in every part of Japan. *Sake*, a rice wine, varies widely from region to region, with each having a special traditional flavor. In this case, internet shopping allows consumers to purchase *sake* from anywhere in Japan (which is my favorite thing about electronic commerce)! Books that are hard to find will also be popular on the internet. We can

go to Amazon.com and use it as a search engine to search by author, title, or category to find any book we are looking for. Amazon.com claims to have over 300 million books in their online inventory. A similar case is <Premier.co.jp>. I have not yet tried these sites, but I understand that there are many other Japanese bookstores providing similar services.

Products that people are reluctant to buy in person are also likely to do well online in Japan, such as flowers, perfume, etc. I hear that Victoria's Secret sells quite well online and there must be many other shops that fit into this category. Items that are heavy or bulky are also likely to be purchased online. This is due simply to the manner in which Japanese shopping occurs. Housewives walk to the neighborhood stores and they are limited in what they can carry – maybe 10 pounds or slightly more. If something is heavy, they will ask for delivery – something that can also easily be done on the internet.

The shopping trip is also part of the social life of the neighborhood. It is a chance for women to see their neighbors, exchange small talk, and visit with friends. Thus, products easily available in the local market are not likely to sell well over the internet. Fresh grocery items and fragile items are not likely to do well because of the associated risks. Items that are not discounted are also unlikely to succeed. The Japanese consumer is likely to view going online to purchase something as an inconvenience. If there is no immediate reward, they are more likely to buy in the traditional marketplace. Items that carry large shipping and handling charges, and fashion items that need to be tried on are also not going to sell well.

I was recently talking to a reporter from a major Japanese newspaper and I asked him how much they were planning on migrating toward the digital environment in the future. His answer was simply "No." He said that his company would stick with the newsprint because in Japan the various newspapers can keep prices consistent under the current system. Opening the

market to include the internet would jeopardize their fixed price scheme. Of course, this is not a good position to take in promoting electronic commerce.

A comparison of general market consumers versus current internet consumers would also show that those using the internet tend to buy computers and computer-related equipment online. In fact, Dell is doing very well online in Japan.

E-COMMERCE SHOPPING IN JAPAN

I would like to mention one unique success story in Japan in the context of electronic commerce on the internet. This concerns the prevalence of local convenience stores which can be found on every street corner in downtown Tokyo. There are over 30,000 convenience stores in Japan. They offer a wide variety of products and services, and since they are convenient, they have become very popular.

I have a son who started college last year. He spent the summer interning in Japan. When he came home, he said, "Gee, Dad, I like Japan because you can buy everything and all you have to do is go downstairs!" I was told that some young college students who live in small downtown apartment complexes do not even own small refrigerators anymore. Do you know why? If you go downstairs, there is a good chance that there is a convenience store on the ground level. If you want a cold beer or soda, it is just as easy to walk downstairs and buy it as it is to open the refrigerator and get it. The convenience stores also sell fresh *bento* boxes – Japanese style meals – so there is no need to have a refrigerator to store food in. Since the stores are open 24 hours a day, there is never an unmet demand.

The networking system that these stores have established is also quite remarkable. They are one of the most connected industries in the world. In each store there are all kinds of

electronic devices. The customers can pay their bills, order concert tickets or airline tickets, book cruises, etc. Each service has a dedicated terminal or booth, which means the average consumer does not need a computer to participate in electronic commerce – a trip to the local convenience store allows them the same opportunity.

At some kiosks in convenience stores, it is possible to order products that are not available in those stores, which can be very small. This includes books and CD's, which can then be delivered to the store for consumer pick-up. It is even possible to order an application form for a Japanese university at some of these kiosks.

A CASH SOCIETY

As mentioned earlier, Japan is a cash-based society. Hence, ready access to cash is essential for purchasing good bought online and picked up at a local store. Temporary ATM's provide easy access to cash. What is unique about these structures is that they are extremely mobile. They can be constructed in 1-2 weeks and moved easily, fitting into a compact car parking space. Recently, I have also seen these popping up in suburban Washington, DC. In Japan, there is a strange rule that if a facility is less than 10 sq. m., or about 100 sq. ft., there is no need for a building permit, which may take as many as three months to obtain.

There are also ATM's on wheels. These vehicles are connected to a network via the satellite dish mounted on top of the roof. Obviously, since it is mobile, it cannot be physically wired to the network. These ATM's have the flexibility to move from location to location with ease. Bringing the money to the people is one more example of the convenience that Japanese consumers enjoy. This particular technology is not overly popular in Japan at this time. The costs of building and operating these vehicles can exceed \$1 million.

POTENTIAL USES OF E-COMMERCE IN JAPAN

One potential example of a unique application of e-commerce in Japan is the smart refrigerator. The refrigerator has a screen on the door that monitors inventory, etc., and allows the consumer to place orders directly to the local grocery store. And, of course, there are web sites that attempt to be online shopping malls. Rakuten-ichiba, one of the largest, currently hosts about 1,000 shops offering more than 75,000 products. *Rakuten* means “optimistic.”

CHALLENGES FACING E-COMMERCE IN JAPAN

There are two major challenges facing the successful development of electronic commerce businesses in Japan. These involve cultural issues and the social-cultural behavior of the people. Japan has not been a keyboard society. In the old days, good handwriting was considered an important skill. People learned calligraphy instead of typewriting. However, the growing Nintendo generation may be gradually changing that in Japan. PC's in Japan now have many buttons that give instant access to e-mail or word-processing, etc., without the user needing in-depth knowledge of computer operations.

English is another major obstacle to full development of e-commerce in Japan. The internet is English-centric. Europeans have greater internet usage because this is less of a language barrier. The meaning of words can be deciphered or recognized as similar to their own as they use the same alphabet and many of the same roots. However, in Japan this is not the case and the issue of language still deters many Japanese from using English-based web sites. Technology-based solutions such as auto translators are creating solutions, but the technology is not yet fully developed or widely used.

The social/cultural behavior we have discussed in detail already. Shopping in the local neighborhood is as much a part of the social lives of the Japanese as it is a necessity. It is also extremely important to recognize that Japan is a cash-based society, not a credit card society. The consumer may purchase over the internet, but generally prefers to pick up and pay for the items at the local convenience store. How will Japanese consumers connect? Will they follow the traditional Japanese way or will they move towards newer ways?

REGULATORY & LEGAL CHALLENGES

There are a series of regulatory challenges that may impede the full realization of electronic commerce in Japan; however, I still believe that the social and cultural issues are more serious ones. Currently in Japan, some 8,800 different business areas require licenses by the government. More deregulation would help spur e-commerce growth. More competition is also necessary. The main telephone company, Nippon Telephone & Telegraph (NTT) charges nine cents for every three minutes. The connection charges represent one of the most serious challenges to e-commerce. Europe has experienced the same problems – the US was lucky to have instituted flat-rate pricing.

In addition to regulatory obstacles, there are several legal issues such as security encryption, intellectual property rights, taxation, customs duties, consumer protection, and jurisdiction, that need to be resolved. Many industry groups, such as the Global Information Infrastructure Commission (GIIC), the Global Internet Project (GIP), the Internet Law & Policy Forum (ILPF), and the Global Business Dialog on Electronic Commerce (GBDE), are working on these issues.

PROMOTING E-COMMERCE IN JAPAN

According to consumers, there are several elements of electronic commerce that need to be enhanced in order to foster consumer confidence in the internet. For current internet users, the most important factor was communication costs. Next they cited the lack of reliable payment mechanisms and lack of privacy protection as their major concerns. General consumers (not including internet users) indicated that a lack of computer literacy, communication costs, and trustworthiness of retailers as their primary concerns. Other issues include the prices of personal computers and online goods, return and exchange policies for goods, and after-sales service.

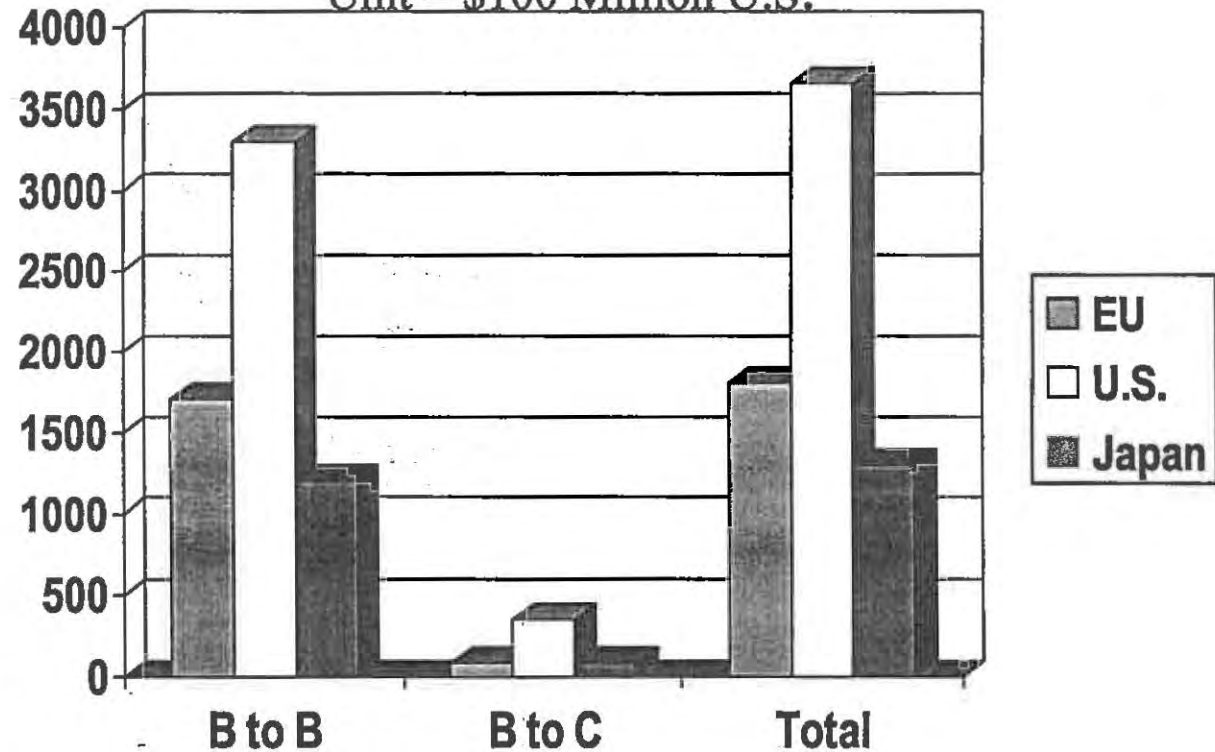
SUGGESTIONS

There are a few suggestions I would like to make for conducting business online in Japan. Accept the local cultural habits and adapt business to accommodate them. At the same time, some change in the culture is necessary, and public education and awareness can help smooth the transition from the traditional market to the digital market. Teaching computer literacy, not only in the schools, but on lifelong learning systems is essential to the promotion of electronic commerce in Japan. The importance of technology to resolve many problems should be recognized. Technology can help resolve issues such as the language barrier, intellectual property protection, and encryption. This can help foster trust in the protection of personal privacy. Finally, one key to being successful in the Japanese market is to find unique markets.

E-Commerce Transactions in the EU, US, and Japan

Projected Market Size in 3-5 Years

Unit = \$100 Million U.S.



Source: Electronic Commerce Promotion Council of Japan 2/99

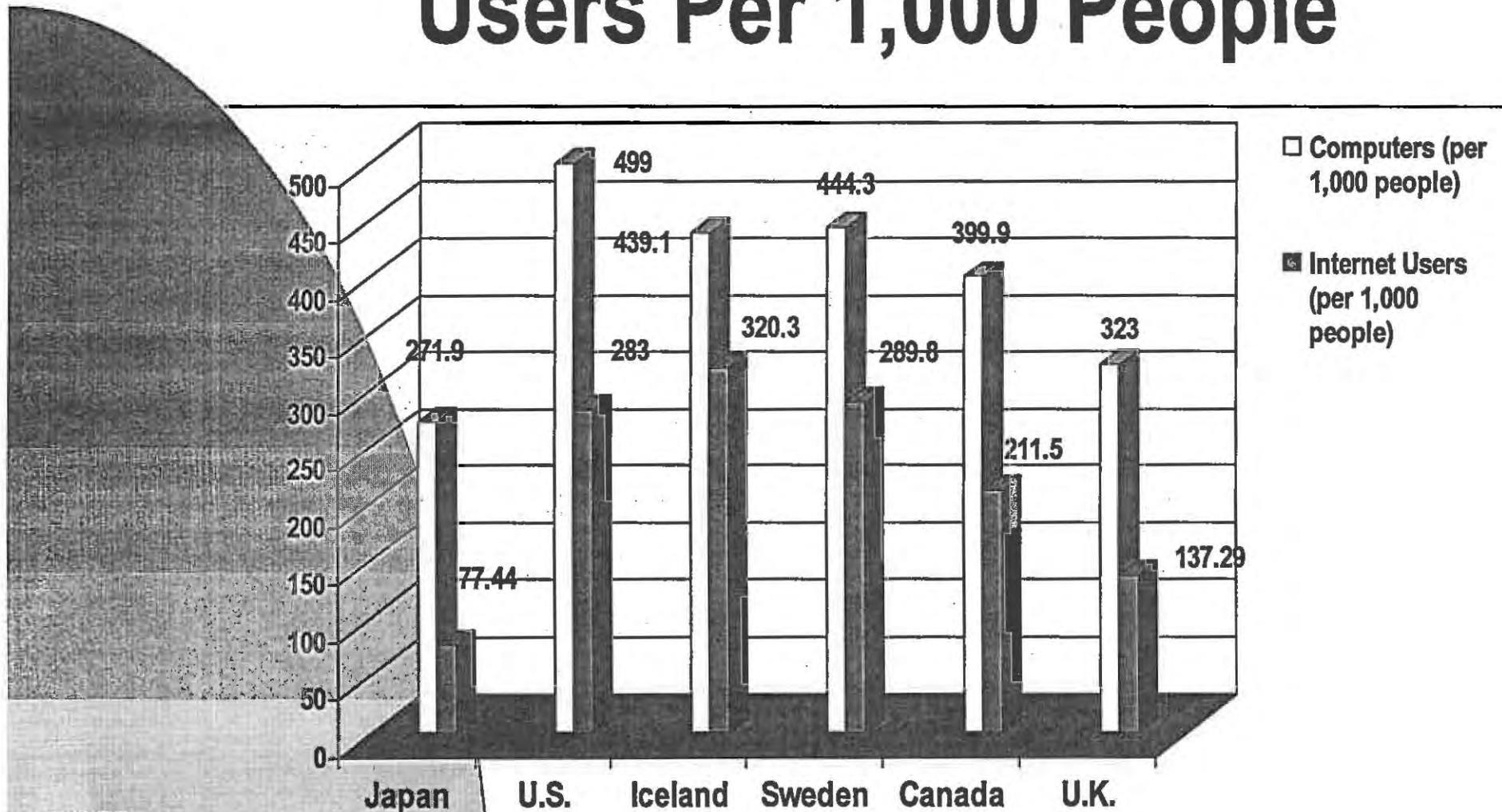
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SLIDE 1

Computer and Internet Users Per 1,000 People



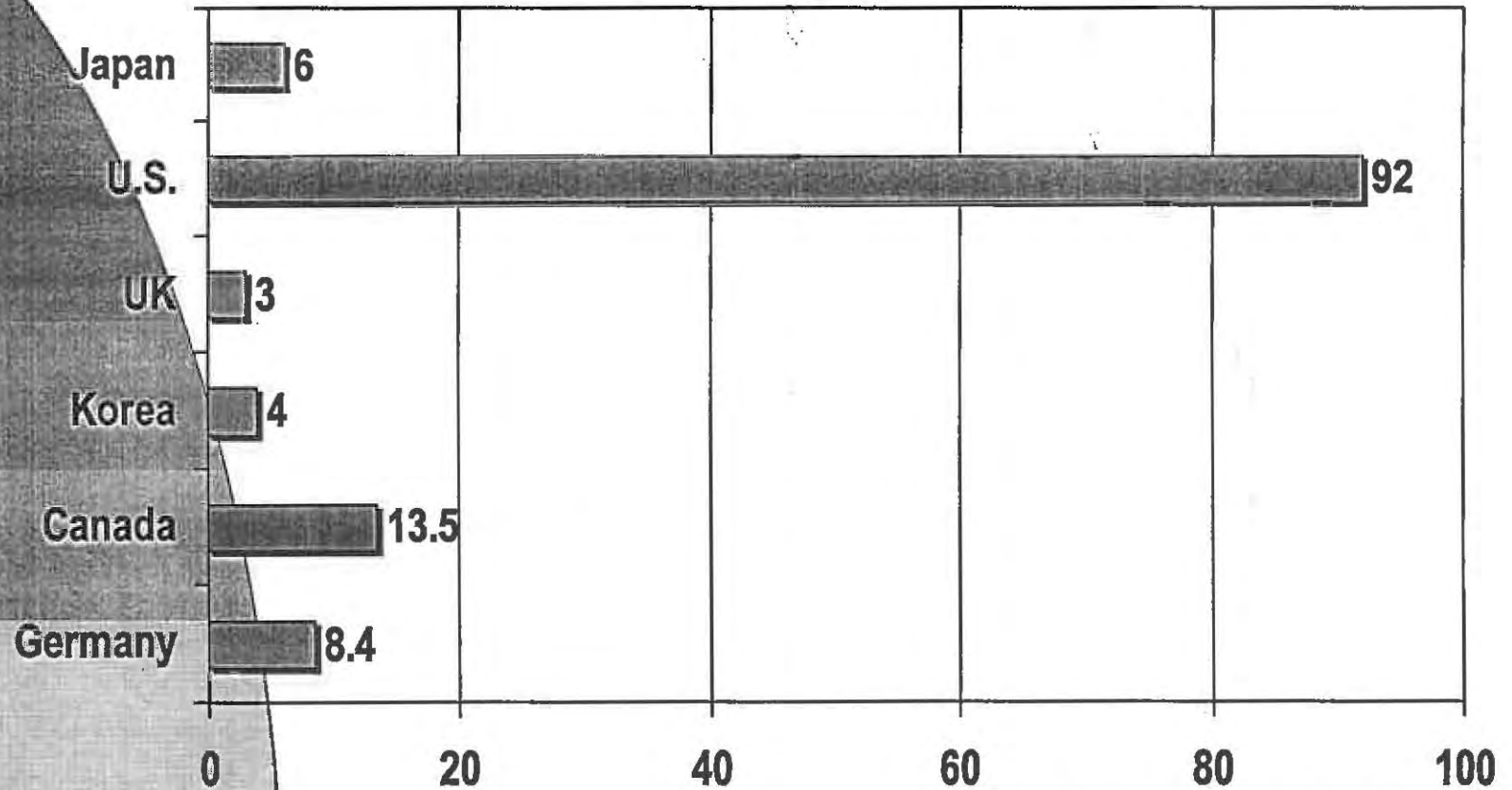
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Source: Yahoo! Internet Life 9/99

Online Population Comparison

(in millions)



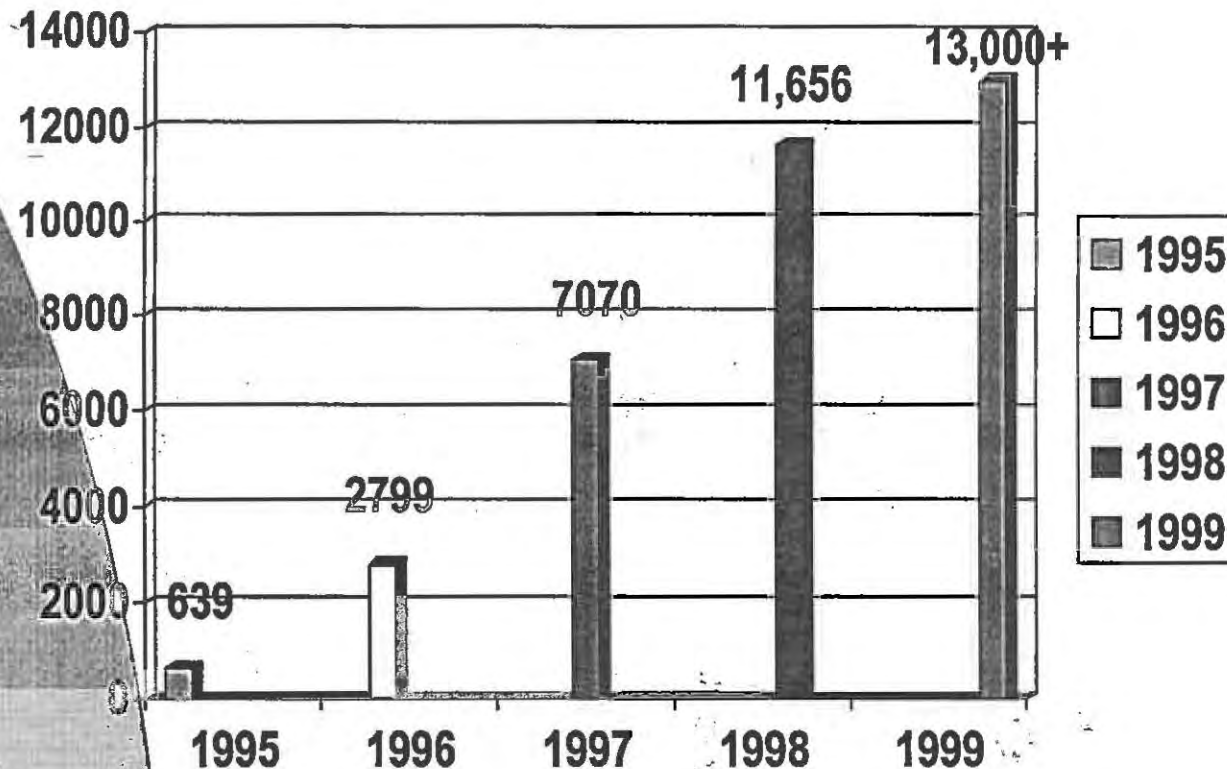
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(Source: Headcount.com 8/18/99)

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SLIDE 3

Number of Stores Online in Japan



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Source: Nomura Research
Nikkei BizTech

SLIDE 4

E-Commerce Shoppers by Age

(percentage)

