

Socio-Economic Factors of Changes in Consumer Behavior and Strategies of Trade Companies in Japan

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Abstract

The article analyzes the structure and features of the retail trade sector in Japan, the current trends in the consumer behavior of the Japanese, which became noticeable in the late 20th century and especially after the global financial and economic crisis of 2008–2010 and during the COVID-19 pandemic. Based on empirical material, the author identifies the main lines of transformation of strategies of Japanese trade corporations under the conditions of economic instability and the formation of a new consumption model.

Trade as a sphere of entrepreneurial activity is represented in Japan by various types of trading enterprises and companies and corporate groups of very different sizes and organizational and legal status. The market leaders are universal trading companies (*sōgō shōsha*) and large network companies (Seven & I Holdings, Aeon, Fast Retailing, etc.), which finance and organize not only the circulation, but also the production of goods (from the development and purchase of raw materials to production and processing, logistics, sales, and services). The groups include numerous affiliated retail sales companies.

The characteristic features of the Japanese consumer have traditionally been the willingness to pay for quality, convenience, and service, a relatively low level of interest in cheaper goods, preference for the format of “physical” purchases, as well as the desire to buy expensive, exclusive things of luxury brands, which for many have become a sign of financial success and social status.

Among the most important modern factors affecting the scale and structure of consumer demand in Japan are the desire to reduce one's expenses in the face of slowing economic growth and stagnating incomes, increase in the level of environmental awareness, changing lifestyle and leisure patterns. The most important factor determining the image of the modern Japanese consumer has been the entry into the labor and consumption markets of generations Y and Z, who increasingly rely not on owning, but on using things, which acts as a factor in reducing the scale of the consumer market.

Under these conditions, trading companies modernize their strategies, including by entering into partnerships with national and foreign corporations in order to adapt to changing conditions and maintain competitiveness through modernization, diversification, and digitalization of business, reducing transaction costs based on the synergetic effect.

Keywords: Japan, trading business, consumer behavior, consumer market, corporate strategy, e-commerce.

Trade has been and remains a significant sector of Japan's economy. In 2019, the share of wholesale and retail trade made some 12.5 percent of Japan's GDP.¹ This industry employs approximately 12 million people, which exceeds the similar indicator in the processing industry – 8.9 million.² The organization and structure of trade business in Japan has its own traditional features determined by the characteristic traits of Japanese consumers and specifics of the entrepreneurial structure as a whole. Trade, and, first of all, retail trade, is oriented at consumers like no other business; it readily senses changes in consumers' behavior, which started to transform greatly in Japan in the last decades of the 20th century, and even more so especially after the 2008–2010 global

¹ Statistical Handbook of Japan 2021, p. 30. *Statistics Bureau of Japan*. <https://www.stat.go.jp/english/data/handbook/pdf/2021all.pdf#page=1>

² Data from the last census of 2016. See.: Statistical Handbook of Japan 2021, p. 32.

financial and economic crisis and during the COVID-19 pandemic. The trade companies' strategies started to modernize accordingly.³

Trade Sector: Size and Movements

Japan's retail market is the third largest in the world.⁴ In 2019, the volume of wholesale and retail sales in Japan amounted to JPY 460 trillion, 68 percent of which fell on wholesale trade and 32 percent – on retail. The largest segment of the latter is foodstuffs and drinks – JPY 45 trillion, or 31 percent of the total retail turnover (Table 1).

Table 1

Wholesale and Retail Trade Sales Volume (JPY billion)

	Wholesale Trade Total	Goods of mixed assortment*	Textiles	Clothes and accessories	Agricultural products	Foodstuffs and drinks	Building materials
2005	407 595	51 722	4 245	12 776	39 206	40 803	22 226
2010	325 163						
2015							
2019							
		Chemicals	Minerals and Metals	Machines and Equipment	Furniture and Homeware	Medicines and Hygienic Goods	Other**
2005		21 816	50 607	98 343	6 141	22 293	37 417
2010		18 402	50 349	74 718	3 173	23 802	29 467
2015		16 134	45 114	66 464	2 619	25 558	31 293
2019		15 676	43 616	68 415	2 172	25 626	28 537

³ The author of this article will focus on internal retail trade only because wholesale and foreign trade operations have their specific features and must be studied separately.

⁴ JETRO. Attractive Sectors. Retail. <https://www.jetro.go.jp/en/invest/attract/retail/retail2009.pdf>

	Retail Trade Total	Goods of mixed assortment	Textiles, clothes, and accessories	Foodstuffs and drinks	Automobiles	Machines and equipment	Other**
2005	134 828	16 147	11 110	40 644	15 704	8 226	42 996

Compiled based on <https://www.stat.go.jp/english/data/nenkan/71nenkan/1431-14.html> (date of access: 02.02.2022). *Note:* since 2015 includes non-store retailing.

*general merchandise – goods of mixed assortment, various consumer goods (a very wide range of consumer goods – from ball pens to furniture, etc.), https://economy_en_ru.academic.ru/27958/general_merchandise

** fuel, medicines, toiletry, etc.

Trade as a sphere of business activity is represented in Japan by various types of trade enterprises as well as companies and corporate groups different in size and type. Japan has a very dense trade network: according to data of the 2016 census (the last one to date⁵), the country has 1,355 thousand trade entities, including 365 thousand wholesale and 990 thousand retail ones. Large wholesale enterprises employing over 100 people made up 1 percent of the total number of wholesale businesses, while micro businesses with the number of employees from 1 to 4 constitute only 5 percent in wholesale trade, while their share among retailers was 59 percent.⁶

Retail trade of food and non-food products in Japan is carried on by department stores, supermarkets of general merchandise, specialized supermarkets, so-called “convenience” stores (*konbini*), pharmacies, specialized and semi-specialized stores.

If we consider Japan’s trade business from the viewpoint of corporate organization, universal trade companies (further – UTC or *sōgō shōsha*)⁷ should be pointed out – these are huge conglomerates

⁵ 2016 Economic Census for Business Activity.

⁶ Statistical Handbook of Japan 2021, p. 105.

⁷ Seven largest *sōgō shōsha* are notable at present: Itochu, Sumitomo, Sojitz, Toyota Tsusho, Marubeni, Mitsui, Mitsubishi; their activities are traced

with widely diversified activities: internal and foreign trade, investment, informational and consulting services.

These corporate groups finance and organize circulation and manufacture of products (from development and procurement of raw materials to production and processing, logistics, sales, and services) in a large number of industries – as the authors of the *Shosha Annual Handbook* figuratively described, “from mineral water to communication satellites”.⁸ *Sōgō shōsha* have long turned into international companies investing in business and setting up numerous chains of value generation in countries and regions across the world. [Nozdryova 2018]

Although the focus of *sōgō shōsha* business interests has shifted to investments in recent decades, trade business per se, retailing included, remains an important sphere of activity to them. Using their affiliated companies, *sōgō shōsha* make business operations with various groups of goods, final end user products among those; they create and manage the entire added value chain – “from primary goods to the counter,” including development and manufacture of products as well as delivery and procurement of raw materials, logistical and marketing services.⁹

As for the retail sector, *sōgō shōsha* often turn to the practice of investing in existing trade facilities and networks. For example, in 1998, the Itochu group acquired a package of FamilyMart shares (the second *konbini* network after 7 Eleven in Japan) and afterwards, in 2020, became the owner of the company’s controlling stock. In the Family Mart network, Itochu implements its initiatives in various sectors, including logistical operations and development of products. One of the projects is delivery of fresh eggs backed by the consumers’ growing interest in

by Japan’s Foreign Trade Council: <https://www.jftc.or.jp/english/whatisjftc.htm>

⁸ Shosha Handbook 2020, p. 4. *Japan Foreign Trade Council, Inc. (JFTC)*. <https://www.jftc.or.jp/english/research/handbook/pdf/202007.pdf> (date of access: 02.02.2022).

⁹ Shosha Handbook 2020, p. 6, 11.

safe foodstuffs. Within the framework of this project, Itochu undertakes the entire organization of the process – from import of corn, which is a major ingredient for poultry feedstuff, to manufacture of fodder, raising chickens, production and delivery of eggs to stores by refrigerated trucks. Itochu also deals in sales of clothes and other goods associated with fashion such as bags, footwear, and accessories, through different channels including department stores, boutiques, retail stores, wholesale traders and mail order sales.¹⁰

The Sojitz conglomerate, apart from retail stores, is involved in management of shopping centers, using, among other things, digital technologies. In the tideway of contemporary trends of social responsibility, the company's management maintains that "increasing the value of shopping centers, it strives to help revitalize local communities with the help of these shopping centers."¹¹

The Mitsubishi group owns 50.1 percent stock in the Lawson supermarket chain.¹² Moreover, Mitsubishi founded Mitsubishi Corporation Fashion Co., Ltd. (with 100 percent interest) in 2010 as its own operational company for disposal of goods associated with "lifestyle" (clothes, accessories, furniture, and footwear). Mitsubishi Corporation Fashion Co., Ltd. activities cover the entire chain of creation and promotion of goods – from development of materials to planning production, sales, and distribution, "focusing on rapid identification of market and consumer needs."¹³

This and the other above examples indicate that it would be virtually impossible in our days to identify the trade business as such in relation to large corporations; in fact, they deal in organization and funding of the entire value-added chain.

¹⁰ <https://www.itochu.co.jp/en/business/textile/field/o2.html>

¹¹ https://www.sojitz.com/en/business/retail_consumer.php

¹² <https://www.mitsubishicorp.com/jp/en/bg/consumer-industry-group/#projectCase>

¹³ <https://www.mitsubishicorp.com/jp/en/bg/consumer-industry-group/project/mitsubishi-corporation-fashion/>

Alongside the *sōgō shōsha* giants, Japan has several large retail network companies that are directly engaged in sales of goods, mainly through their affiliated operator companies. The 7 largest of them are presented in the rating of the U.S. National Retail Federation (NFR), a non-government organization (Table 2).

Table 2

Japan's Trade Companies in the NFR Rating
of Top 50 Global Retailers

Place in the Rating 2021	Name of the company	Main Business	Income Received Abroad (USD B)	Aggregate Income (USD B)	Number of countries where direct investments were made
13	Seven & I Holdings	"Convenience Stores" (<i>konbini</i>)	25.1	61.0	3
20	Aeon	Supermarkets, hypermarkets	7.1	78.9	11
36	FamilyMart UNY	"Convenience Stores" (<i>konbini</i>)	6.5	27.2	9
37	Rakuten	E-commerce	0.6	11.6	1
42	Fast Retailing	Fashion goods	8.2	18.4	21
48	Z Holdings (Yahoo Jp)	E-commerce	0.5	9.7	1
50	Lawson	"Convenience Stores" (<i>konbini</i>)	0.5	6.7	5

Compiled based on: <https://nrf.com/resources/top-retailers/top-50-global-retailers/top-50-global-retailers-2021>

Note: This approach makes use of the system where scores are given to retail companies based on:

- international revenues;
- participation in franchising and alliances outside the local region (as to operations in franchising, the company is to have a global license on franchising the store name in most countries where the franchise is in effect);
- ability to sell through online markets.

To be in the rating, the retail operators are to have direct investments in three countries with at least one of them not related to the local region. The places are distributed on the basis of all indicators for the period from October until December 2020.

The corporate structure of Japan's retail market is very complex: companies interact with each other, get into various partnerships and acquire stock. For example, Aeon Retail Co., Ltd., one of the leading supermarket chains in Japan, is a subsidiary of Aeon Co., Ltd. Holding (Table 2), which owns United Super Markets Holdings Inc. as well. The latter has a partner company, Aeon Market Investment Inc., 28 percent of shares of which belongs to the Marubeni *sōgō shōsha*.¹⁴

Large Japanese retailers are organized as diversified corporate groups, within which multiple companies act in various segments of retail trade. For example, Pan Pacific International Holdings Corp. has five companies that own and manage chains of “customary” department stores and discounters. Several companies of the holding own supermarket chains in different countries; there are also companies in the sphere of distribution, real estate, advertisement and promotion, financial operations, and digital technologies.¹⁵

Three large chains – Seven-Eleven, FamilyMart, and Lawson – dominate the segment of 24-hour *konbini* shops, owning from 20 to 30 percent of the internal market and occupying 90 percent of it as a whole. *Konbini* shops are very popular in Japan, which in many respects is

¹⁴ http://www.usmh.co.jp/ir/shareholders_webreports

¹⁵ <https://ppih.co.jp/en/search/>
<https://ppih.co.jp/en/corp/group/donki/>
<https://ppih.co.jp/en/corp/group/>

accounted for by the specific features of lifestyle (intensive work and long working hours) and consumer behavior of the Japanese, who are used to a well-tuned industry of services and round-the-clock convenience.

The leading position here is occupied by Seven-Eleven, which manages roughly a third of the stores of this category located in Japan. This business of Seven-Eleven is operated by 15 consolidated and affiliated companies in the territory of Japan and by 85 abroad. However, the Seven-Eleven activities are not limited to *konbini*. There are 19 companies within the holding that deal in supermarkets in the country and abroad, seven companies managing department stores (Sogo-Seibu), a large number of companies operating non-food shops (Loft, Tower Records, and others), as well as a bank and several companies providing financial services.¹⁶ Yet, according to financial indicators, *konbini* under all circumstances remain a major segment of the holding's business: in 2020 it brought Seven-Eleven over 90 percent of the operating income – 63.9 percent from stores inside the country and 26.8 percent from foreign ones.¹⁷

Traditional Characteristics of Japanese Consumers

The consumer market in Japan is the world's third largest. In 2020, it was estimated by the World Bank¹⁸ at USD 2825.4 billion (USD 14,553

¹⁶ https://www.7andi.com/en/group/group_list.html
https://www.7andi.com/library/dbps_data/_template/_res/en/company/pdf/companyprofile2021_e.pdf

https://www.7andi.com/en/ir/file/library/mr/pdf/202103_all_a.pdf
¹⁷ https://www.7andi.com/en/ir/file/library/co/pdf/2021_all.pdf

¹⁸ indicator “Households and NPISHs final consumption expenditure, percent of GDP”. NPISH – Non-profit institutions serving households. [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Non-profit_institutions_serving_households_\(NPISH\)](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Glossary:Non-profit_institutions_serving_households_(NPISH))

billion in the USA and USD 5.579.4 billion in China).¹⁹ As to annual consumer expenses per capita a year, Japan is ahead of China, following immediately the USA (USA – USD 44,368, Japan – USD 22,370, China – USD 3,991), ahead of any European country except Switzerland.²⁰

The per capita indicator is very important for detecting the characteristic features of the Japanese consumers that were traditionally regarded as readiness to pay for quality, convenience, and service, low level of need for cheaper goods, and adherence to “physical” purchases.

A separate note should be made of the Japanese’ special love for luxury brands. The wish and emerging opportunity to acquire and possess luxuries became notable in Japan in the 1970s and, quite conspicuously, in the 1980s – the period of “bubble economy.” Quite a large part of the country’s population (the country with a high per capita income!) gradually developed an emotional and social loyalty to luxury brands: possession thereof became a symbol of economic success and public recognition [Salsberg 2009]. In the 1980s, Japan’s market of luxuries became one of the largest in the world; experts considered it the only remaining mass market of luxuries in the world and that is how it was until the 1990s.

Changes in Consumer Behaviors and Market Structure

The 1990s – the “lost decade” that followed the “bubble economy” bust – became the turning point for Japan’s economy and public life. That period also witnessed changes in consumer behaviors, not very dramatic

¹⁹ Calculated by:

<http://wdi.worldbank.org/table/4.2>

<http://wdi.worldbank.org/table/4.8>

<http://wdi.worldbank.org/table/WV.1>

²⁰ https://ec.europa.eu/eurostat/statisticsexplained/images/b/be/Consumption_expenditure_of_households%2C_2005%2C_2010%2C_2015_and_2020_NA2021.png

at that time, but later they grew more significant and evident during and after the 2008–2010 financial and economic crisis, accelerating in the period of the COVID-19 pandemic (further – pandemic), starting from 2020.

The most evident and plain-to-see factor that influenced the Japanese as consumers was the slowdown of the per capita income growth rate. Changes in this indicator became unstable in the mid-1990s; there were even periods of absolute reduction. Thus, in 1996, the per capita income was USD 43,130, whereas it went down to USD 33,760 in 1999 (the lowest point for the period); it was followed by a rise and a sharp drop in 2005–2009; a growth and a sharp fall again in 2012–2020 (from USD 49,470 to 40,360).²¹ Strictly speaking, changes of this macroeconomic indicator prove that crises of different years did not cause any long aggravation of the Japanese financial position, but they increased the feeling of uncertainty in society, which could not but affect consumer behaviors. It is complemented by the trends for erosion of the life-long employment system and increased numbers of part-time and temporary workers. During the 2008–2010 crisis, consumer expenses went down as well as disposable incomes, which is quite logical. Yet, in 2011–2020, when salaries and disposable incomes of households increased, consumer expenses did not rise or rose unevenly compared to the growth of deposits and insurance contributions.²²

These changes raised consumer anxiety. In 2009, the JWT Anxiety Index²³ showed that 90 percent of Japanese consumers were anxious or

²¹ https://data.worldbank.org/indicator/NY.GNP.PCAP.CD?end=2020&locations=JP&name_desc=false&start=1977&view=chart

²² Statistical Handbook of Japan, 2009, 2012, 2016, 2021. <https://www.stat.go.jp/english/data/handbook/index.html>

²³ The index was developed by the global advertising agency JWT (the fourth top network of advertising agencies in the world and the largest advertising group in the USA). JWT was one of the first agencies that began studying consumers on the basis of panel research (in 1939); it also conducted the first study of consumers' way of life (in 1988).

nervous, which was the highest indicator among all the countries of the world. The Japanese began economizing and curtailing their expenses. The 2009 Internet survey data indicated that 37 percent of the participants declared cutting total expenses, 53 percent stated that they would rather “spend time to save money” and not “spend money to save time.” The Japanese began spending more time at home during that period, while traditionally they are used to spending time outside home because of long working hours and small-size dwellings. During that survey, 50 percent of the representative sample of consumers from different age groups and geographical regions stated they spent somewhat more or much more time at home than before, “surfing” the Internet, watching TV, reading newspapers, and listening to music [Salsberg 2010].

This alteration of everyday habits started affecting the traffic of potential customers in commercial enterprises, including department stores. Apart from the above factor of “home entertainment”, the survey participants explained their “flight” from department stores by high prices for offered goods, “annoying personnel,” and “impossibility to make purchases at one’s own pace.” At the same time, the Japanese began to give more preference to shopping centers, which could offer food and entertainment in addition to purchases, and to standalone specialized shops.

The above tendencies towards economizing and “staying at home” are closely interrelated and mutually defined by an increasing number of online stores in Japan, although Japan had for a long time lagged behind the USA and many European countries in respect of consumers’ readiness to make purchases online. During and after the 2008–2010 crisis, the situation began to change rapidly: while the online market of tangible goods in Japan (excluding tickets and downloading of content – music, movies, and software) was estimated at USD 1,3 billion in 1999, in 2005 it reached USD 18 billion, and in 2009 – USD 30 billion.²⁴

<https://adindustry.ru/personnels/1201;>

<https://www.wundermanthompson.com/>

²⁴ We will discuss the situation with the expansion of E-commerce during the pandemic in more detail below.

New Consumers: Generations Y and Z

The most long-term factor determining the collective image of the Japanese consumer was the entry to the labor and consumption markets of the Y and Z generation consumers, whose mentality and values as well as consumer behaviors cannot but differ from the generation of the postwar baby-boom and, even more so, older generations. The needs of the young generations are becoming more and more diverse. [Timonina 2020].

The Generation Z of the Japanese grew in a more uncertain economic climate of Japan than the older generations. Many of them avoid lifetime employment, voluntarily or out of necessity; they are more likely to remain unemployed than older generations (although the unemployment rate in Japan remained low even during the pandemic – 2.7 percent in December 2021). [Timonina 2020] Young people are ready, at the very least, to partially limit their consumption of material goods, sharing the ideas of “sustainable way of life” and ethical consumption.

Transition to “sustainable consumption” and people’s increasing environmental awareness (this, of course, is not limited to Generation Z) reflects the readiness of consumers (a 2018 survey indicated their number to be from 75 to 90 percent, depending on the group of goods,²⁵ compared to 16 percent among the participants of a survey conducted in 2009 by McKinsey) to pay more for ecologically pure and environmentally “friendly” consumer goods.

The Millennials and Generation Z as consumers increasingly prefer using things rather than owning them; they are ready to stop being unreflecting “conspicuous” consumers and brand captives, which stimulates and is stimulated by the development of sharing economy and acts as a factor of economizing consumers’ funds and, respectively, reducing the consumer market size.

²⁵ Annual Report on the Environment in Japan 2018, p. 17. *Ministry of the Environment*. https://www.env.go.jp/en/wpaper/2018/pdf/2018_all.pdf

The structure of demand is also changing. Young consumers, as a rule, spend money more willingly on services rather than on goods, and on technological goods and gadgets rather than on other products. These goods (for example, Apple products) gradually pass into the list of luxury goods, altering the structure of the market and luxury brands.

New generation consumers strive more for individuality and creation of their own style; they boldly mix expensive things with cheap ones, readily use cutting-edge digital purchase chains and methods of goods selection. They often look for items shaping their own brand that they later promote on social media,²⁶ which gained momentum with blogging becoming a professional activity.

The above-mentioned factors changing the structure of consumption, preferences, and consumer behaviors of the Japanese “redoubled” during the pandemic. Forced “staying at home,” the need to economize, the feeling of fear and uncertainty, the “turn” from physical purchases to online ones (we will discuss it later, as the pandemic became a heyday of E-commerce) became a new reality for the Japanese, including their capacity as consumers.

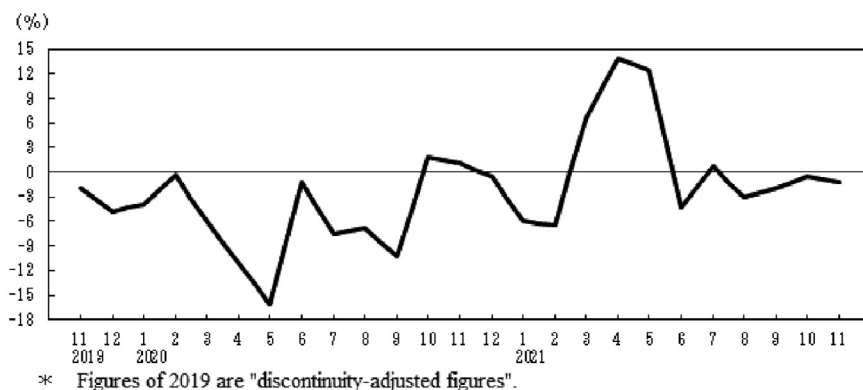
People’s incomes during the pandemic did not increase, this being the factor of consumers’ choice in favor of saving. According to the data from Japan’s Ministry of Healthcare, Labor and Well-Being, the real pay index was minus 1.2 percent in 2020 compared to 2019, although it would be fair to say that it was also negative in 2019 – minus 1 percent, and the monthly statistics from January to November 2021 (indices compared with the corresponding month of the prior year) show reduction in some months from minus 0.1 to minus 0.8 percentage points, although some months (6 out of 11) show the growth of the indicator – from 0.1 to 2 percent.²⁷ Nevertheless, the

²⁶ Changing preferences: “Following” economy. <https://nrf.com/blog/2017-top-250-global-powers-retailing>

²⁷ TBL-T-5 Real Wage Indices. <https://www.mhlw.go.jp/english/database/db-l/r03/2111re/2111re.html>

situation with movements of consumer expenditures does not look dramatic:²⁸

Change of Consumption Expenditures Over the Year (In Real Prices)
(Two-or-more person Households)



A noticeable reduction in retail sales in Japan was observed in 2020 when they dropped more than 10 percent in some months. However, the latest available data indicate that retail sales in Japan grew 1.9 percent year-on-year, rising for the second consecutive month.²⁹

The authors of the study “How irreversible is the “new norm” in consumer behavior changes associated with the effects of COVID-19?,” conducted by the Japanese department of PwC Consulting, investigated consumer behavior changes (irreversible, in their opinion) caused by the pandemic and highlight consumers’ preference for non-contact purchases (“not to buy what another person has touched”), a focus on the origin of the goods (“to make sure that the goods have not been supplied from contaminated regions”), the level of hygiene in the store and security for personnel as well as an interest in pre-ordering online [Muto et al. 2020].

²⁸ <https://www.stat.go.jp/english/data/kakei/156.html>

²⁹ <https://tradingeconomics.com/japan/retail-sales-annual>

So, how do Japanese retailers respond to the longtime and “pandemic” trends in consumer behavior change?

Strategic Decisions of Trade Companies

Japan’s trade business began modernizing its strategies as early as at the turn of the 20th and 21st centuries.

Fate of department stores. Japan’s luxurious department stores faced sales drop back in the 1990s; this tendency continued in the 2000s and 2010s.³⁰

In an attempt to compensate for the loss of revenues, department stores began to rent their premises to companies aiming at the mid-range price segment and offering everyday clothes and other quite cheap goods (Uniqlo, Forever 21, and others). This approach, apart from bringing rental income, was to revive traffic of customers and attract various categories of consumers including young and less wealthy ones.

It resulted in a certain “mixture of genres,” when companies operating department stores and other multi-brand shops with a focus on luxury brands expanded into sectors and sales channels that were non-traditional for them before, satisfying wishes of potential clients who are bold enough to combine items of different price categories in their image and use various ways of purchase. Currently, clients of Louis Vuitton boutiques in Japan may also shop in round-the-clock *konbini* or Uniqlo, which, by the way, has already started opening shops in luxury department stores.

This mixture is also observed from the geographical viewpoint. The most ‘fashionable’ streets of Tokyo, such as Ginza or Omotesando, feature Sweden’s IKEA stores, Spain’s Zara, or Italy’s Diesel next to traditional luxury shops and exclusive department stores with goods priced 10–20 times higher than Uniqlo. Uniqlo, for example, opened a new shop in the

³⁰ Corporate Outline FY2021 Seven & I Holdings Co., Ltd., p. 11.
https://www.7andi.com/en/ir/file/library/co/pdf/2021_all.pdf

fashionable district of Harajuku in May 2020; June of the same year saw the opening of a flagship store in Ginza.

The segment of foodstuffs also witnesses mixing goods from different price categories, specifically due to the increased sales of goods with what is called private label (PLG), normally cheaper ones. Japan started this transition just recently: the rate of PLG penetration was only 4 percent at the turn of the 2010s as compared with the average global indicator of 20 percent. Japan's largest retailers put high hopes on PLG today.

Corporate Partnerships

In an attempt to survive and keep the competitiveness up, Japanese trade companies owning and managing department stores, supermarkets, and other trade establishments conclude more partnerships of various kinds.

An example in the segment of supermarkets is the case of Isetan и Mitsukoshi, who merged in 2008 to found Isetan Mitsukoshi Holdings Ltd. Its structure includes regional subsidiaries operating under such brands as Mitsukoshi, Isetan, Iwataya, and Marui Imai. The holding reconstructed, renewed and opened several new department stores in Japan (in airports, specifically) and abroad, expanded online trade (in the luxury segment, among other things), and began launching small specialized shops (for example, Isetan MiRROR Make & Cosmetics) in order to become closer to individual customers.³¹ Like many other companies operating department stores, Isetan Mitsukoshi Holdings diversify the list of their leaseholders through companies in the mid-range price segment.

Department store business is a major one for the holding (80 percent of all sales), but not the only one. The companies of the group also deal in

³¹ Isetan Mitsukoshi Holdings Integrated Report 2021, p. 4.

https://s3-ap-northeast-1.amazonaws.com/sustainability-cms-imhds-s3/pdf/en/imhds_report2021_en_A4.pdf

financial and real estate operations, tourism, and distribution. It should be noted that among external factors defining the holding's strategy are "quicker polarization of income and consumption," "irreversible acceleration of online sales," "raising of environmental awareness," and "changes in the structure of customers" ("heyday" of the millennial generation),³² i.e., the common long-term factors we have mentioned in the first part of the article. In a situation like this, the company counts on its appeal to customer sentiments, creation of sensuous images for attraction of clients ("High sensitivity, high quality"), transition from mass marketing to the individual one, strengthening the intra-group coordination and the use of digital technologies. Apparently, the holding's strategies proved to be workable and successful; the taken measures enabled it to become a leader in the segment of department stores and take up 15.4 percent of the market in 2020 (in sales).³³

The Japanese operators of the Sogo and Seibu department stores, who lost clients and recorded reduced sales, chose the strategy of merging and then "joining" a more successful group in the similar business – Seven & I Holdings – as its subsidiary Sogo & Seibu Co., Ltd.³⁴ Yet, despite the efforts made by the company's management and that of the entire holding, Sogo and Seibu performance within the holding was not very successful. Revenues and operating income of Sogo & Seibu Co. Ltd have been gradually decreasing since 2012, and the first six months of 2021 ended at a loss (which can be accounted for by the pandemic).³⁵

Japanese trade companies' positions are affected by growing competition from foreign corporations. Foreign chain giants started

³² Isetan Mitsukoshi Holdings Integrated Report 2021, p. 5, 15.

³³ Corporate Outline FY2021 Seven & I Holdings Co., Ltd. p. 8, 13.
https://www.imhds.co.jp/en/company/history_imhds.html; <https://www.imhds.co.jp/en/business/group/index.html>

³⁴ <https://www.7andi.com/en/company/history.html>
https://www.7andi.com/library/dbps_data/_template/_res/en/csr/csrreport/pdf/2007_07.pdf

³⁵ Corporate Outline FY2021. Seven & I Holdings Co., Ltd., p. 53.

conquering Japan's market back in the 1990s, with many of them achieving success: IKEA became the number two retail furniture seller in Japan; Costco and Carrefour hypermarket chains are quite successful. Some foreign corporations, which are probably trying to facilitate their adaption to Japan's market conditions, prefer working jointly with a Japanese partner.

Following its strategy of entering Japan's market, in 2003, the U.S. giant Walmart signed a partnership agreement (buying 27 percent of the stock) with Seiyu, one of Japan's largest operators of supermarkets, shopping centers, and department stores (whose corporate debt amounted to JPY 610 billion as of February 2002) [Tarasova 2003]. Walmart intended to pass on to Seiyu its experience in optimizing global supply chains with the use of IT technologies that allow curtailing operating costs. In 2008, Walmart bought Seiyu out completely, and the Japanese company became part of the multilateral international holding after Walmart had sold part of its Seiyu stock to the US global investment company KKR (65 percent of Seiyu's stock) and Rakuten DX Solution, Rakuten, Inc. subsidiary (20 percent) in 2021.³⁶ Walmart retained 15 percent of Seiyu's stock. It may be assumed that the participants in the deal count on reaching a synergetic effect as Seiyu will have an opportunity of enjoying the advantages of using combined experience and innovations of KKR, Rakuten, and Walmart in the field of retail trade as well as speeding up digital transformation. As a result, Seiyu receives a chance of turning into Japan's leading omni-channel retailer integrating different channels into a single system for continuous communication with customers.

Step-by-step transformation and partnerships concluded in the prior period enabled Seiyu to feel more confident in the pandemic period and, moreover, display excellent financial results. In 2020, the company reached the highest level of sales (they grew by 180 points more than the market on the average) and returns for the last decade; it also increased its share of the market. In addition, the online foodstuffs delivery service

³⁶ One of the largest E-commerce companies.

Rakuten Seiyu Netsuper,³⁷ set up in 2018 and jointly managed by Seiyu and Rakuten, recorded a gross sales rise by nearly 40 percent on an annualized basis in the 4th quarter of 2020. Due to a significant increase in demand for online supermarkets, a specialized order fulfilment center was launched in Yokohama in January 2021; a similar center was to be opened in Ibaraki within a year.³⁸

Thus, based on the above examples (and they are not at all singular), we can confirm that partnerships with national and foreign companies, holdings and groups serve as one of the Japanese retailers' up-to-date organizational strategies, which are most relevant in today's business environment. This allows, albeit not always (the Sogo & Seibu case), to modernize and diversify business, adapt to changing conditions, reduce operating costs, and maintain competitiveness.

E-Commerce

A modern trend in Japan's retail market and, simultaneously, a strategy of companies working in the market of food and non-food goods is an active introduction of business digital technologies, including E-commerce.

Japanese consumers have traditionally given preference to "physical" purchases, as we have mentioned before, which is accounted for by high density of chain stores in the country (as a result, internet stores had been losing their advantages until a certain point of time) as well as a relatively low circulation of credit cards.

However, the 2000s and especially the 2008–2010 period were marked by the beginning of change in the situation, which was caused not only by socio-economic conditions, but also by some shifts in the consumer psychology. Of great interest is the opinion, thought

³⁷ https://global.rakuten.com/corp/news/press/2018/1025_01.html

³⁸ <https://www.businesswire.com/news/home/20210228005079/en/KKR-and-Rakuten-Complete-Seiyu-Share-Purchase-from-Walmart>

disputable, of Brian Salsberg, Director of McKinsey office in Tokyo, who mentioned the following interrelationship between online purchases and changes in Japanese mentality: in the consensus-based society, where an individual choice and self-expression were historically denounced, an opportunity of looking through goods, comparing prices and making purchases nearly anonymously creates new relations and expands consumer capabilities [Salsberg 2010].

The 21st century saw a dynamic rise of the online market in the “business to consumer” segment (B2C) in Japan: online sales of material goods amounted to USD 1,3 billion in 1999 and USD 30 billion in 2005; this growth continued in the consecutive period.

At present, Japan holds a high place in international ratings that assess E-commerce potential and level of development: 10th place out of 176 countries by ITU³⁹ (ICT Development Index), 15th out of 134 countries by WEF⁴⁰ (WEF Networked Readiness Index), and 20th out of 152 countries by E-commerce B2C⁴¹ (UNCTAD B2C E-commerce Index).⁴²

According to UNCTAD data, Japan held the world’s second place by total sales through chains in 2019 and the fourth place in retail e-sales, with a relatively small share of these in the GDP (3.5 percent, which is below the average indicator for the 20 top-sales countries)⁴³:

³⁹ International Telecommunication Union

⁴⁰ World Economic Forum.

⁴¹ This index is determined by four indicators: account ownership at a financial institution or with a mobile-money-service provider (percentage of population aged 15+), individuals using the Internet (percent of population), Postal Reliability Index, and secure Internet servers (per 1 million people) [Pul’s mirovogo rynka elektronnoi kommertsii... 2020].

⁴² <https://etradeforall.org/country-profiles/>

⁴³ The country also holds the world’s second place in the ratio of online sales to GDP – 67 percent (after the Republic of Korea – 79 percent). A special feature of Japan’s E-commerce market is a higher share of B2B deals – 95 percent in the total volume of E-sales. See: Estimates of Global E-Commerce 2019 and Preliminary Assessment of Covid-19 Impact on Online Retail 2020, p. 4, 5.

Rank	Economy	Total e-commerce sales (\$ billions)	Share of total e-commerce sales in GDP (%)	B2B e-commerce sales (\$ billions)	Share of B2B e-commerce sales in total e-commerce (%)	B2C e-commerce sales (\$ billions)
1	United States	9,580	45	8,319	87	1,261
2	Japan	3,416	67	3,238	95	178
3	China	2,604	18	1,065	41	1,539
4	Korea (Rep.)	1,302	79	1,187	91	115
5	United Kingdom	885	31	633	72	251
6	France	785	29	669	85	116
7	Germany	524	14	413	79	111
8	Italy	431	22	396	92	35
9	Australia	347	25	325	94	21
10	Spain	344	25	280	81	64
	10 above	20,218	36	16,526	82	3,691
	World	26,673	30	21,803		4,870

It is surprising at first sight that no explosive growth and, moreover, no growth of E-commerce at all was observed in the 2020 “pandemic” year against 2019: the B2C internal market volume in 2020 was estimated at JPY 19.3 trillion against JPY 19.4 trillion in 2019. This “phenomenon” can be explained by the structure of online sales. Appeals to stay at home and make “electronic” purchases to do away with the pandemic made the sector of material goods expand significantly in 2020 (22 percent increase), but this growth did not make up for the losses in the sector of services (36 percent reduction), mainly those in the sphere of tourism.⁴⁴

Changing the structure of sales channels in favor of E-commerce was one of the major strategies used by Japanese retailers during the pandemic (which we have mentioned above when considering examples of particular companies) and, as the survey results show, after it as well. As a Japan Times reporter states, the “novel coronavirus has forced the nation’s notoriously fussy food shoppers to abandon doubts about online grocery stores, sending retailers such as Aeon Co.⁴⁵ scrambling

https://unctad.org/system/files/official-document/tn_unctad_ict4d18_en.pdf

⁴⁴ https://www.meti.go.jp/english/press/2021/0730_002.html

⁴⁵ Japan’s transnational holding company that manages supermarkets and other retail stores, shopping centers AEON (previously JUSCO) in Japan

to meet a surge in delivery demand... the shift is remarkable for a country that had been expected to take years to embrace online food shopping because of a zeal for fresh and perfectly presented produce” [Ando 2020].

On the whole, as analysts estimate, online retail sales of foodstuffs in Japan are now at about 5 percent of the total sales volume, compared with 2.5 percent before the pandemic. Although it is still lower than some pre-crisis estimates of 15 percent in China and even 7 percent in Great Britain, which lies behind in broadband communication, “it challenges the long-standing idea that Japan’s customers will always make purchases daily and check goods personally firsthand” [Ando 2020]. As to non-food companies, Uniqlo, for example, announced that the share of its online sales amounted to 15 percent of the total sales in 2020.⁴⁶

Generally, the rationale of all moves made by large retailers proves that the E-commerce format is one of the major trends today. There is even a very “exotic” example of e-sales being complemented by new services. Seven Eleven, under the slogan of “New Impressions of Purchase Thanks to Integration with Digital Technologies,” launched a new service where employees with special knowledge, for example, pregnancy and childbirth consultants (!), will serve clients online.⁴⁷

It is important to note that elderly Japanese people also change their attitude to E-commerce. The results of a survey on consumer behavior during the pandemic published by Sumitomo Mitsui Card indicate that the number of elderly people stating they make daily e-purchases is increasing faster than that of young people (aged 20–30). As the authors of the article presenting this information believe, the elderly who have already had experience of online purchases will continue using digital technologies because of convenience. It is COVID-19 that probably

and other countries. Retailer Number one in Asia. <https://www.aeon.info/en/company/>

⁴⁶ <https://www.fastretailing.com/eng/group/strategy/uniqlobusiness.html>

⁴⁷ Seven & I Management Report (as of February 3, 2021), p. 12.
https://www.7andi.com/en/ir/file/library/mr/pdf/202103_all_a.pdf

provoked the “digital shift” in elderly buyers. Therefore, companies should create E-commerce sites in the future that the elderly would be able to use intuitively and make purchases with comfort [Muto et al. 2020].

The Japan Times author also notes that large Japanese supermarkets, despite long-standing discussions about online services, started investing in the E-commerce infrastructure only recently. Many of them are facing various difficulties in the period of rapidly growing demand – for example, lack of automated warehouses.

Thus, the Aeon corporation hired specialists from the Ocado Group, a British pioneer of E-commerce, to set up cutting-edge robotic warehouses trying to counter such competitors as Amazon, Ito-Yokado from Seven & I Holdings, Seiyu, and Rakuten Inc. Yet Aeon’s first warehouse of this kind will start functioning only in 2023. Aeon has stated that it hires more employees to help pack online orders for foodstuffs, although finds it difficult to recruit more delivery workers. Despite all difficulties, Aeon managers expected that sales of online goods would increase 50 percent and amount to 10 percent of the sales by the end of the 2020/2021 financial year.

The company’s managers are sure that reorientation towards E-commerce will have a long-term character. In the opinion of L. Jensen, Managing Director of the Ocado Group, “the pandemic brought about a crucial moment in the E-commerce development. When people begin to use the Internet extensively, they tend to stay with it and do not return to their old habits... We expect that the E-commerce growth will speed up in Japan.”

Investments in high-tech warehouses, introduction of sophisticated digital technologies for processing large volumes of orders and goods as well as personalized marketing can be ensured only by large companies and groups. Analysts, however, believe that small retailers (and there is plenty of these in Japan) can also introduce digital technologies into existing ordinary stores, automate more jobs and use such functions as “click and collect” when customers can buy online while visiting the store [Ando 2020].

Conclusion

Three decades ago, Japan started transforming the traditional model of consumer behavior that had developed in the period of high economic growth and finally took shape during the “consumer society” revival in the 1980s. Changes in consumer behavior regarding price segments, channels and ways of purchase, standards of service were mostly of a revolutionary character, as were the socio-economic upheavals determining them and the changes in the Japanese’ mentality.

Some new features of the Japanese consumers we have mentioned in the article are not, in fact, new. Prudence, a wish to save and curtail consumer expenditure, especially in the period of economic instability, had been characteristic of the Japanese consumer prior to the “economic boom” period. Focus on the quality of goods and service has always been a distinguishing feature of Japanese consumers; in our days, this feature has transformed into the demand for environmental safety and ethical nature of the product and its origins.

The shift towards contactless purchases on the basis of cutting-edge digital technologies seems to be a truly new trend. Yet, the evaluation of modern strategies applied by large Japanese trade companies, each and all of whom digitize their processes including those of end sales, allows to draw the following conclusion. Having realized during the pandemic what new opportunities are offered by E-commerce, including optimization of costs, the companies accelerated digital transformation rapidly, simultaneously working with potential consumers, thus “habituating,” or, one might say, “helping them to adapt” to the digital format of interaction. This is how trade companies create (alone or in partnership with specialized E-commerce companies) platforms for their access to a virtually unlimited number of potential customers in their country and abroad.

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This article was originally published in Russian. The reference for
primary publication is: *Japanese Studies in Russia* 2022, 2, pp. 48–66

DOI: 10.55105/2500-2872-2022-2-48-66