

JAPANESE CONSUMERS` BEHAVIOR: BY AGE AND GENDER

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3. Executive Summary/Abstract

Japan is the third biggest economy in the world after the United States (US) and the People's Republic of China (PRC). The Japanese market is a very promising market for European products and services, but it has some specifics that foreign investors need to consider.

First, the Japanese consumer market is shrinking every year, which is due to Japan's aging society and low birth rate. Second, the competition of Japanese companies must not be underestimated. Unlike other Asian markets there is a strong Japanese player in every industry and product category. These competitors often know the Japanese market as well as their customers for decades, if not centuries, and are often successful multinational players in their field. Finally, Japanese consumer behavior and attitudes must be taken very seriously when attempting to enter the Japanese market. Every European company entering the Japanese market will have to adapt and open up to new ideas and new levels of service and quality expectations. Despite this Japan is still a promising and profitable market for European companies selling unique and high-quality brand products that appeal to the sophisticated taste of Japanese consumers.

This report provides an overview of the current situation on the Japanese consumer market (as of January 2021). I first provide an overview on the Japanese market, then discuss particularities of Japanese consumer attitudes and consumer behavior. After this I present the most relevant Japanese consumer groups.

The report is divided into three parts: It presents current economic data on the purchasing power, size and relevance of the Japanese consumer market. The second part of this report describes particularities of Japanese consumer attitudes and behavior. The final part of the report then presents the special characteristics of the Japanese consumer groups.

The first group discussed is senior consumers, or the *Silver Market*, which play an important economic role in Japan due to its aging society and the enormous size of this target group. After this we will look in the *Millennial Generation* market. Millennials are born between 1980 and 1996 and represent the majority of Japanese consumers at present. The youngest target group discussed are *Generation Z* consumers, who were born around the turn of the millennium and are now coming of age. Generation Z is considered Asia's most relevant consumer group in the coming decade. I will also present some data on the group of "Rich Consumers" in Japan and "Single Consumers".

The report closes with recent consumer trends in Japan and recommendations for European small to medium enterprises (SMEs) planning to invest in the Japanese market.

This report is aimed at European companies interested in investing in the Japanese market and learning more about currently relevant target groups and the Japanese market.

4. Why the Japanese Market?

a. Reasons to Invest in the Japanese Market

Japan is the world's third largest economy. In 2019 its GDP per capita reached approximately \$43,235.718 (Santandertrade 2020). Japan is therefore a market that holds high profit margins, especially for foreign investors in the consumer goods industry. Japan is a market with functional infrastructure, a reliable legal system and a long-established business culture.

Another reason why Japan is an interesting market for European firms is the fact that investing in the Japanese market usually has a strong effect on the investing firm's headquarters and other subsidiaries. This is because the purchasing behavior and attitudes of Japanese consumers present challenges to the firm that need to be overcome. These challenges usually lead to revised and innovated business processes, especially when it comes to marketing, sales and quality management. In many cases European companies also develop new products for Japan and Japanese consumers, making the Japanese market a benchmark for many multinational firms. Stories of reimporting business processes and new products invented for the Japanese into the home country market are common. The Japanese market pushes customer orientation and service of every foreign firm to a new level.

An interviewee in a collaborative research project on market entry for European small and medium-sized enterprises (SMEs) said: "If you can sell here (in Japan), you can sell anywhere in the world. Japanese customers are the most sophisticated in the world and if a company can satisfy their wishes, you can use this knowledge to improve service and quality in other markets (including the home market) very easily."

b. Free Trade Agreement Between Japan and the European Union

The free trade agreement between Japan and the EU, which came into force on February 1, 2019, removes tariffs and other trade barriers as well as the vast majority of the 1 billion euro of duties paid annually by EU companies exporting to Japan. Once the agreement is fully implemented, Japan will have scrapped customs duties on 97% of goods imported from the EU. It will also break down barriers to 127 million people for key EU food and drink exporters. Furthermore, it is expected that annual trade between the EU and Japan could increase by nearly 36 billion euro once the agreement is implemented in full (Maurer 2019; European Commission Press Release 2019).

For some foods, such as beef, hard cheese and confectionery, Japanese import tariffs will be gradually reduced over a period of 15 years. For others, quota regulations apply. Other points of the new trade agreement concern the protection of certain designations of origin, which result in premium positioning in the Japanese sales channels (Maurer 2019). The agreement will also open doors to European corporations in the coming decades.

5. Challenges When Investing in the Japanese Market

a. High Consumer Expectations

Japan is a highly attractive but demanding market. And where Japan is a market that provides little infrastructure and legal challenges, it places demands upon foreign investors to change and challenge their status quo. A particular challenge are the high expectations of consumers. Japanese consumers are savvy; have very high expectations toward service and product quality; are used to customized and attentive after-sales service; and quickly change providers and brand if their expectations are unfulfilled. For a foreign company entering the market, these attitudes play the most important role. Every company entering the Japanese market must change and adapt to the Japanese market. In many cases foreign investors have to set new benchmarks to deal with Japanese customer attitudes and expectations.

b. Strong Competition in Every Industry

Foreign investors meet strong competition in Japan. One can say that in every industry there is at least one well-established Japanese competitor. The retail market in Japan is shrinking due to the ageing population and economic crisis brought by the COVID-19 pandemic. This intensified competition as buyers become more selective for value and services (Nielsen 2020).

The Japanese market is also highly saturated, and it is continuously shrinking because of the Japanese society's fast aging process. This creates many challenges for local companies that traditionally focused on the Japanese consumer market. They react by fighting intensively for their market shares. Yet market share can only be increased by taking it away from Japanese competitors, the major reason why Japanese consumer goods companies are strongly investigating different Japanese consumer groups and react very quickly to their wishes and demands. Another effect of the shrinking Japanese market is an increasing internationalization of Japanese manufacturers to acquire revenues from overseas markets.

For foreign investors entering the Japanese market, reacting to Japanese consumer demands plays a major role for success. They need to take these demands seriously and realize that the Japanese market cannot be compared with other Asian markets. Consumers in Japan are very savvy, easily change brands and always have the option to buy from a reliable Japanese partner.

6. The Japanese Consumer Market

a. Demography of Japanese Consumers

Japan's total population in 2019 was 126.17 million people. This ranked 11th in the world and made-up 1.6% of the world's total population. Overall Japan's population density was 340.8 persons per square kilometer in 2015, ranking 11th among countries or areas with a population of 10 million or more (Statistical Handbook of Japan 2020); and marking Japan, with 91.8% of its population is urban, one of the most densely populated countries. The Japanese population is 51.2% women and 48.8% men (Santandertrade 2020).

In addition, the population density in Tokyo Metropolis was the highest among Japan's prefectures, at 6,168.7 persons per square kilometer. This was almost 18.1 times larger than the national average (340.8 persons per square kilometer) (Statistical Handbook of Japan 2020). In 2015, Tokyo Metropolis had the largest population of 13.52 million among Japan's 47 prefectures, followed in decreasing order by the prefectures of Kanagawa, Osaka, Aichi, and Saitama. These five prefectures each had a population of 7 million or more, and together accounted for 36.4% of the total population (Statistical Handbook of Japan 2020) and they also have the highest income level (Maurer 2019).

b. Population Decline and Aging Population

Japan's population has the highest life expectancy in the world. The overall life expectancy is 87 years for women and 80 for men (Mc Curry 2017). Currently, about 126.17 million people live in Japan and the median age is 47.5 years (Euromonitor 2019). However, the number of Japanese is consistently shrinking. Because of the low birth rate the population decreases by approximately 379,000 people per year (Nippon.com). According to the National Institute of Population and Social Security Research, the population could drop below the 100 million mark by 2049 (Ingber 2018). The total number of households in Japan are estimated to decrease from 53.33 million in 2015 to 50.76 million in 2040 (Abe 2019). Japan is expected to enter a long period of population decline (Ingber 2018).

In 2019, there were 75.1 million people between the ages of 15 and 64 in what is defined as the working-age population. This age bracket accounted for 59.5% of the population, the lowest percentage documented since population records began in 1950. The number of those 65 and older rose year on year by 307,000, for a total of 35.9 million. In 2019, they accounted for a record high and made 28.4% of the total population. Those 75 or older increased

year on year by 515,000 people (18.5 million in 2019) (Nippon.com 2020). The following figure shows the changes in age distribution in Japan over the past three decades. The trend is expected to continue.

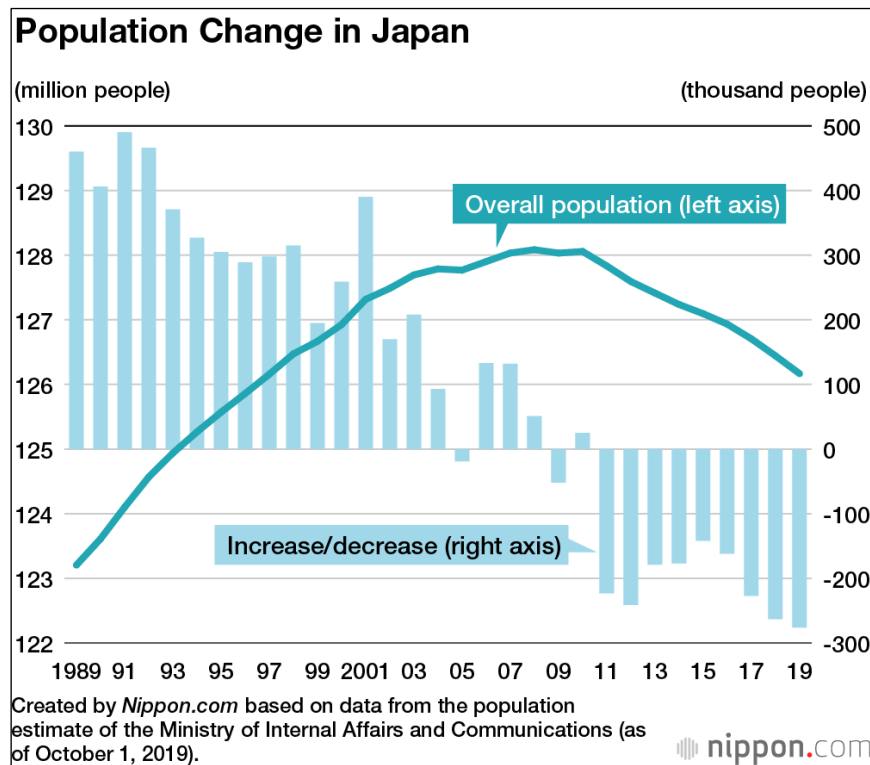


Figure 1 Population Change in Japan (Nippon.com 2020)

The large number of elderly citizens in Japan has had a huge effect on employment, consumption, as well as national policy. As a majority are now in their 70s, there are rising concerns in both the Japanese government and the public about the country’s growing social welfare costs (Nippon.com 2019). By 2036, one in three people will be part of the elderly age group (65 years and over) (Ingber 2018). The number of Japanese aged 100 or older exceeded 70,000 in 2019. The life expectancy of women is disproportionately higher for those over 100 years old, with 88% of Japan’s estimated 71,000 centenarians being women (Francis 2020). The number of 100 years or older men in Japan is 8,463 in 2019 (Japan Times 2019). Incidentally, until 2016 the government had gifted centenarians with silver cups in the prime minister’s name but has now begun presenting them with silver-plated cups instead to reduce costs (Japan Times 2019b).

At the other end of the spectrum, in 2019 the child population (0-14 years old) in Japan amounted to 15.21 million, accounting for 12.1% of the total population, which is the lowest level on record. In terms of their proportion of the total population, the elderly (65 years +) have surpassed the child population since 1997 (Statistics Bureau of Japan 2020).

These two factors—population decline and an overaged society—are the biggest challenges facing the Japanese nation, its economy and Japanese businesses. Both factors have already led to a massive labor shortage in recent years—a trend that will not stop anytime soon. Following low birth rates and other factors such as the lack of women’s participation in the workforce, Japan’s working age population is expected to decrease by 40% by 2050 (Kudakia 2016). Population decline and an aging society also decrease the number of Japanese consumers very rapidly—one reason why the battle for market share has intensified. Japanese companies all operate in a fully saturated and shrinking market which has strengthened the power of Japanese consumers and the attention local marketers must show them. The unrivalled quality and adaptability of Japanese customer service, as well as the detailed attention with which every new consumer group is scrutinised, are the results of these developments.

The following figures show the dramatic population decline in Japan, a development which is not observed in other Asian markets. Japan will continue to be a market with a shrinking consumer base.

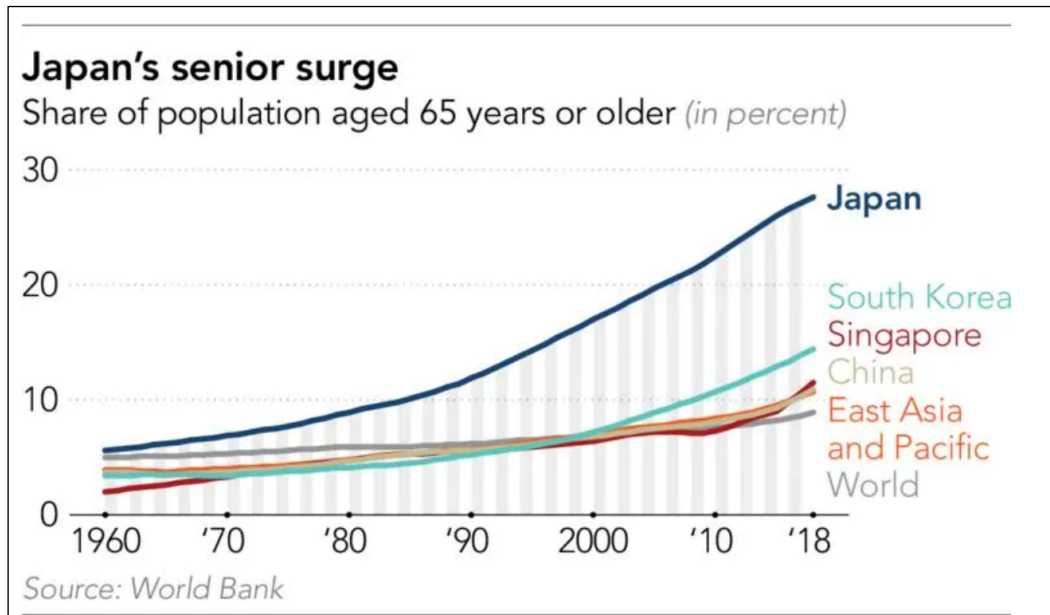


Figure 2 Age Distribution in Japan and Other Asian Economies (Obe 2020)

c. Household Size and Disposable Income

Japan is a high-income society. Compared to the average annual income of OECD countries in 2019 Japan ranked 19th, with \$40,573 (approximately ¥4,479,259 JPY). This is lower than the average of all OECD countries, which was \$46,686 (approximately ¥5,154,134 JPY). In Japan, the average household net-adjusted, disposable income per capita is \$29,798 a year, lower than the OECD average of \$33,604 a year (Santandertrade 2020). There is a considerable gap between the richest and poorest—the top 20% of the population earn more than six times as much as the bottom 20% (Societe General 2020).

The Japanese GDP per capita reached \$39,286.74 as of 2018 (World Bank 2020). Japan’s consumers can therefore mostly be regarded as middle-class consumers. The yearly average of monthly income per household in 2019 was ¥586,149 JPY, up 1.1% in nominal terms and up 0.5% in real terms from 2018. The disposable income, i.e. income minus non-consumption expenditures, was ¥476,645 JPY, up 1% in nominal terms and up 0.4% in real terms from 2018. The consumption expenditures were ¥323,853 JPY, up 1.8% in nominal terms and up 1.2% in real terms from the previous year (Statistics Bureau of Japan 2019a).

Year	Disposable Income in Thousand Japanese Yen
2019	476.6
2018	455.1
2017	434.4
2016	428.7
2015	427.3
2014	423.5
2013	426.1
2012	425

Figure 3 Monthly Disposable Incomes in Japan (Statista.com 2020b)

Disposable incomes of Japanese households have continuously risen over the past decade (Figure 3). The majority of working households' monthly income in Japan is used to cover consumption expenditures like food and housing expenses. In 2019 these expenses amounted to a 68% share of the monthly disposable income (Figure 3) (Statista.com 2020b).

When talking about disposable income, wealth, and purchasing power, a few aspects need to be considered. First, rising taxes for social security and other programs have limited disposable income (Takeuchi 2019). Second, most figures published on disposable income in Japan do not clearly state whether real estate assets are included in them. This is a rather important factor since Japan has an idiosyncratic real estate market. Unlike other markets, selling a house older than 20 or 30 years for a profit can be difficult. Many older houses in Japan cannot be demolished and rebuilt in the same size, which also creates a negative effect on the resale price. On top of that, most Japanese finance their houses with home mortgages, which often run for about 35 years. So even if older Japanese individuals retire at the age of 65, they often have many more years of mortgage payment ahead of them. Thus, if real estate assets were to be included in the published statistics, then the whole family income would in fact not be disposable.

Japanese society considers itself a very equal middle-class society. Several factors have contributed to the high income and status equality in the country, the most relevant factor being the egalitarian ethic in Japanese corporate culture and the high percentage of Japanese with a higher education. This is reflected in the income structure; Japanese CEOs earn remarkably less than their counterparts in the United Kingdom (UK) or the US, usually working in no more than one company until retirement. In comparison to the average income of business leaders worldwide by country, Japan is not to be found among the top ten countries (Statista Research Department 2020b).

d. Japanese Consumption

Disposable income is income minus non-consumption expenditures such as taxes and social insurance contributions. Households traditionally spend a large proportion of their income on food (Sauermost 2020). A typical household with two or more wage earners paid 25.7% of work income as social security and other taxes in 2017, up from 23.7% in 2012 (Takeuchi 2019).

Of the average disposable income (about ¥476,645 JPY) ¥323,853 JPY are used for living expenses (consumption expenditures), such as food and housing expenses, while the remainder is applied to savings, life insurance premiums and repaying debt such as housing loans (Statistical Handbook of Japan 2020).

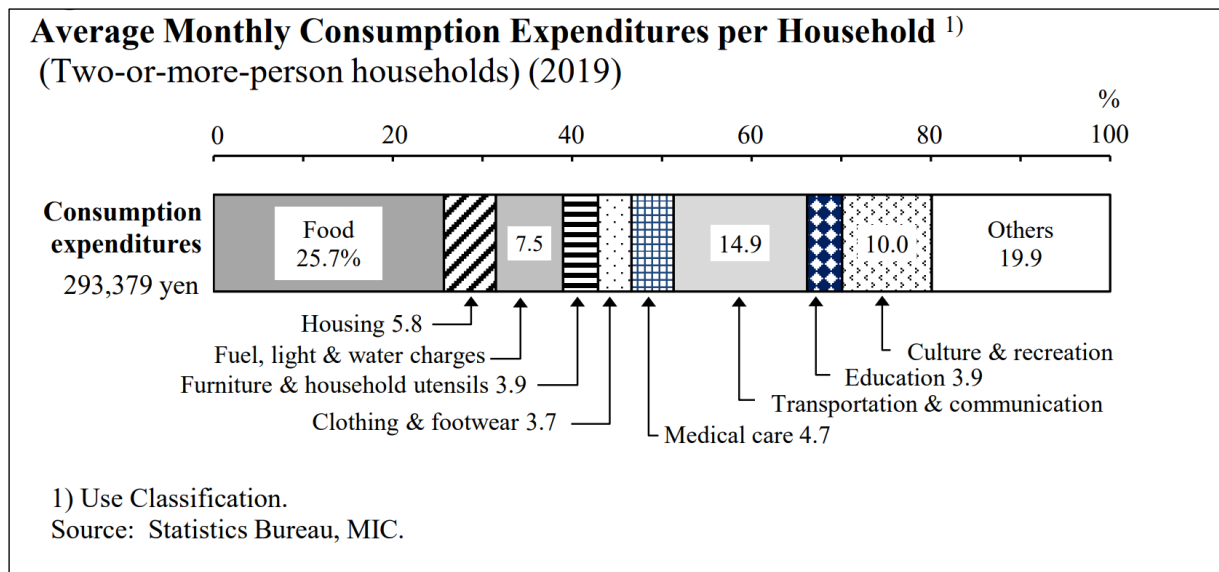


Figure 4 Monthly Consumption Expenditures per Household in Japan 2019 (Statistical Handbook of Japan 2020)

e. Savings

Spending and saving behavior have dramatically changed in past decades. In the post-war period Japanese consumers were the most avid savers in the world. One reason is that a large amount of Japanese salaried (of full-time) workers were, and still are, paid a biannual bonus, allowing families to save a high amount of the large sums they received. Another reason is the fact that consumer loans were not common in Japan until only a few years ago. This meant that when buying consumer products, consumers had to first save money before making the purchase. Loans were mainly for houses and cars.

After a decline in savings rates in Japan since the year 2000, the recent COVID-19 pandemic has directed more attention to savings in 2020. Bank account deposits are on the rise due to the corona virus. According to a survey by the Nissei Kiso Research Institute, "savings" (26.1%) is the second largest use of special fixed-amount benefits. Japanese consumers do not only save due to economic instability, they are also spending less time outside their homes, thus spending less money which can then be saved (Kuga 2020b).

7. Japanese Consumer Attitudes

“Consumer attitudes” describes the preferences and overall consumer expectations towards product and producers, what consumers think about a product and how they make purchasing decisions. “Consumer behavior”, on the other hand, describes what consumers actually do, i.e. what they buy, when they buy, where they buy and how they pay. Positive consumer attitudes may lead to preferred consumer behavior, but do not have to. Consumers may like products without actually buying them.

The next sections will then discuss how Japanese consumer attitudes when purchasing products and services.

a. Product Quality Perceptions and Expectations

Quality standards and service expectations (sales process, delivery, packaging, after-sales service, etc.) are high in Japan (Santandertrade 2020). Japanese consumers also have very high expectations towards manufacturers of products and far less towards retailers (Nakano 2007).

Quality in Japan refers to quality permeating every aspect of a product and continuous attention to improvement. If Japanese customers are satisfied with the product quality a company is offering, they might buy the same product or

a different product from that company again. However, if customers are dissatisfied with the quality, they will most likely never buy that product from said company anymore, and possibly never again buy any of that company's other products (Haghirian 2011a).

Quality perception is not limited to usability of products but also to their aesthetics. Pollock writes: "in Japan, good design is everywhere -- in streets and parks, in shops and offices and, most of all, in homes. From storage cabinets to vacuum cleaners to scissors, people in Japan are surrounded by beautifully designed daily use goods. Functional yet aesthetically pleasing, machine-made yet exquisitely crafted, many of these objects are among the most admired in the world" (Pollock 2020).

b. Service Quality Perceptions and Expectations

Japanese consumers are used to, and expect the best service procedures in the world. The concept of service in Japan differs greatly from the West. In Japan good service means that customers' wishes are taken care of in any possible way. When entering a Japanese shop, every customer will be greeted by at least one or two shop clerks, probing whether the customer would like to get some information on the product or whether they are considering making a purchase. Waiting times, unless there are really big crowds, can hardly be found. Every interaction with customers will be extensively trained and plays a great importance. Japanese consumers react to "bad service" very quickly (Haghirian 2011a).

c. Brands and Brand Loyalty

As in many other Asian economies, brand makes a great impact on the purchase decision. Consumers believe they can avoid making wrong decisions or buying an inferior product, since purchasing a new brand from an unknown company might result in dissatisfaction (Schneidewind 1998). In Japan there is particularly strong customer loyalty towards manufacturers and *keiretsu* companies, which produce many brands. The prevailing idea is that it is more important to buy products from a particularly well-known and reliable manufacturer. Many Japanese consumers are emotionally involved and show greater interest in manufacturers' brands than other nations (Nakano 2007). Traditionally, Japanese consumers prefer mostly large, well-known companies when purchasing products. Japanese corporations have decades-long experience in brand development and communication (Schneidewind 1998). There is a great interest in buying international brands for everyday consumer goods and consumers are generally attracted by products imported from countries perceived as special products, such as Swiss watches or French wines (Santandertrade 2020).

Despite the love for brands, Japanese consumers are not loyal to one brand. In fact, they prefer to change brands. A good example is luxury cars. In Europe, buyers of a special car brand often stay loyal customers to the brand for decades. Whereas in Japan, car buyers prefer to buy a luxury car in the same class but often change brands with every new car purchase.

d. Price Elasticity

Since the economic crisis of 2008, which also affected the Japanese economy, Japanese consumers have changed their attitudes towards prices in many aspects. They seem to show more price sensitivity and have shifted their interest from purchasing luxury products toward cheaper priced, fashionable products. The discussion of Japanese consumer behavior has been fuelled in recent months by the continuing economic crisis. In particular, the sensitivity Japanese consumers seem to have has changed significantly. Japanese consumers have long tended to prefer quality consumption over mass consumption. In recent years, thanks to the growing range of discount stores, and not least the popularity of online trading, price sensitivity has increased (Sauermost 2020), while the recent economic slowdown has led some consumers to seek out lower prices and lower quality products (Santandertrade 2020). Especially with high-priced products, Japanese consumers are avid collectors of information on how to buy something as cheaply as possible, even if only a few yen cheaper (Nakano 2007). On the other hand, consumers are generally willing to pay more for products with added value, such as well-known and appreciated brands or designs, in order to differentiate themselves from others and show their own style and taste (Euromonitor 2020).

e. Interest in New Products and Special Editions

The interest in new and exciting products means Japanese consumers are also willing to pay a lot of money for them (Haghirian 2010), and Japanese companies have developed a great expertise in dealing with these expectations: they react by constantly launching new products. New products are labelled *shinhatsubai*, which means “new sale” or “new release”. And Japanese consumers show preference in buying these newly-released products (Schneidewind 1998). Lexically, *shinhatsubai* is a term that corresponds to the English “New and Improved” or “On Sale Now”. In this word, we find the character for “new” (*shin*) followed by a character with a dynamic meaning: “discharge, start, leave” (*hatsu*); while the last character means “sell” (*bai*). Not all *shinhatsubai* products, however, are real and radical innovations that provide customers with a completely new value. Often these “new” products are simply new flavours or packages.

Another particular feature of Japanese marketing and the Japanese consumer market are *gentei* (special editions), which are product adaptations that are only sold for a limited period of time. Many *gentei* are only on sale for a month and usually resonate with the season. Most *gentei* sales are food products, and every year customers can be treated with various and entertaining flavours of famous brands. Even non-Japanese brands have adopted this trend. Most famous for its *gentei* is the famous chocolate Kitkat, which has been available in almost every flavour imaginable, such as apple, passionfruit, pumpkin or even mango pudding. The more exotic versions of the chocolate bar include green tea, apple vinegar or vegetable. Other Western brands have followed suit. For example, Coca Cola presents a cool summer edition every year, such as *Blue Hawaii* and Pepsi a *Shiso-flavored drink*. *Shiso* is an herb used to flavour raw fish (Haghirian 2010 and 2011a).

f. Attitude Towards Technology

Japanese consumers are also very technology-oriented in an electronic gadget-oriented society (Haghirian 2011a). Not surprisingly, Japanese consumers prefer to buy products that are technologically state-of-the-art. Moreover, due to competitive pressures in Japan, new product launches in many categories far outnumber those in other developed markets (Schuette and Carliante 1998). Not only are service and product quality expected to be high-end, but technology must be cutting-edge as well.

g. Ethnocentrism

Japanese consumers generally assume that the quality of Japanese products is higher than Western products; and are willing to pay higher prices for them too. A high level of after-sale services—a common thing for Japanese companies but something often not expected or received by foreign producers. In Japan, quality therefore permeates every aspect of a product and involves continuous attention to improvement (Melville 2000).

It should be noted that in Japan many of the areas where foreign firms typically succeed are areas in which Japan has typically not been competitive; certain agricultural products – like wine or cheese from Europe—and high fashion brands spring to mind. In these areas, Japanese consumers are unlikely to perceive a threat, and are therefore more likely to accept imports. Many otherwise ethnocentric consumers are also often conscious of imported items as status symbols and, therefore, more likely to buy them (Haghirian 2011a).

Over the past years increasing ethnocentrism can also be observed. Particularly, trust in food products has decreased following several food scandals. And even if most Japanese food products are still imported to Japan, *kokusan* (locally produced) food products are creating increasing interest among Japanese consumers. This attitude however is mainly reserved for agricultural products and does not affect other product groups.

Despite the preference for local product, products with a high perceived need are not affected by ethnocentric tendencies. This is intuitive; when a consumer needs to buy a product, they will not likely engage in an internal debate over whether or not importing the product will harm the country. In other words, necessity trumps ethnocentrism.

However, when a product is perceived as unnecessary, the consumer's preference is more likely to be affected by ethnocentric tendencies (Shimp et al. 1995).

h. Individual versus Group-oriented Consumption

In the past Japanese consumers showed more collectivistic consumer behaviour, where the majority of consumers was interested in similar products. But this has changed since the recession in the 1990 and the stronger focus on individuality can be observed in most Asian markets. In Japan, consumers also face such an enormous variety of products and customized services that motivate them to develop their own style and show greater interest in buying individual products. This trend is also reflected in the rising importance of the second-hand market, where we can find millions of flea market app users searching for unique products representing their personal style (Euromonitor 2020). Collectivistic attitudes of consumers are also evident in the high diffusion rate of new products in the Japanese market. Once a brand has gained acceptance among early adopters, the rate of diffusion proceeds rapidly in societies with homogenous cultural and socio-economic backgrounds such as Japan's (Haghirian 2011a).

i. Information Seeking

Japanese consumers are avid researchers of product information, including functionality, brand history and prices. The tools of doing this have changed over time. In recent years social media networks have become the number one source of information seeking. Twitter and Instagram are the fastest growing social networks in Japan: Twitter boasts over 48 million (Japanese) users, while Instagram's 33 million active (Japanese) users in 2019 marked a 30.7% increase since 2015. Japanese users rated Instagram as the 2nd most enjoyable social network in 2020, only falling behind LINE (Gough 2020). The Japanese mainly watch videos and follow influencers for opinions on products. Also, nearly three quarters of consumers inquire with social networks before buying certain products, especially cosmetics and fashion (Santandertrade 2020). For example, after visiting a shop or a showroom and talking to sales experts there, Japanese consumers often check whether products are being sold on a flea market app, such as *Mercari*. Even when buying new products, consumers consider the product's second-hand value if it were to be sold on a flea market app (Euromonitor 2020).

8. Consumer Behavior

a. Shopping as Leisure Activity

In the second half of the 1980s private consumption became a motor of economic development (Kokumin Seikatsu Sentaa 1997). The so called "bubble" consumption boomed: salaries continued to improve while much work became available and a large-scale market for expensive imported products developed. Foreign travel became even more fashionable; the number of Japanese travelling overseas rose to 10 million per year (Jansen 2000). During these booming times, European brand manufacturers started their successful entry into the Japanese market. Japanese consumption became more conspicuous in the late 1980s and moved away from conformist-orientated consumption towards status-seeking consumption (Schütte and Ciarliante 1998). A new category of lifestyle-oriented consumers with a strong desire to assert their independence from the surrounding society emerged (Lasserre and Schuette 1999). By the beginning of the 1990s Japan had become a post-industrial consumer society.

b. Purchasing Channels—Where Do Japanese Consumers Buy?

Japan's total retail sales amounted to almost ¥145 trillion JPY in 2018 (Diep 2020b). Even if online shopping is on the rise in Japan, traditional retail outlets are still rather popular. The most relevant retail outlets are convenience stores, department stores and supermarkets. Yet online shopping has become more attractive since the COVID-19 crisis.

i. Convenience Stores

In 2018 there were over 56,000 convenience stores (*konbini*) operating in Japan, which constitutes an integral part of the country's retail sector. Domestic convenience stores generated revenues of approximately ¥12 trillion JPY in 2018 (Diep 2020b). Not only do convenience stores offer a large selection of food products and convenience products

as well as many services, they also offer payment and ATM services, courier and postal services or ticket sales that range from concert to airline tickets.

In 2019, the market leader among domestic convenience store chains was Seven-Eleven, operating almost 36% of convenience stores. Besides Seven-Eleven, FamilyMart and Lawson each own between a 20 and 30% share, altogether sharing almost 90% of the domestic market between them (Diep 2020b).

ii. Department Stores

Sales in department stores fell by approximately 3% annually from 2000 to 2006. From 2007 to 2009, their share of fashion apparel and accessory sales plunged by more than 15% (Salsberg 2009). In 2018, the number of department stores operating in Japan decreased to 225, reaching a record low within the survey period. That year, department stores in the country generated over six trillion Japanese yen in sales revenue. Clothing sales are the largest revenue source (Diep 2020c). Most Japanese department stores are high-end retail outlet: many operate under a shop-in-shop system, whereby every famous luxury brand has its own shop within the store. This allows luxury shoppers to visit many famous brand shops in one store. The attraction of department stores is particularly strong in luxury goods, even if e-commerce is growing rapidly across a range of consumer goods areas. When buying luxurious products Japanese consumers like to experience the products before making a purchase directly at the store (Euromonitor Country Report Japan 2020). Most department stores also have a delicatessen food store area in the basement and restaurants on the top floor. When it comes to European products, goods like fine tableware are also sold in luxury department stores. COVID-19 also affected Japanese department stores. J. Front Retailing, which runs two of the most prominent department stores in Tokyo—Ginza Six and Parco—reported ¥165 billion JPY (around \$1.5 billion) and ¥3.3 billion JPY (\$30.9 million) declines in sales and profit respectively due to COVID-19 in 2020 (Suen 2020).

iii. Supermarkets

When shopping for groceries Japanese consumer prefer to shop for fresh products every day. Due to the large number of senior and one-person households, the demand for very small filling quantities or packaging is great (Sauermost 2020).

iv. Online and Mobile Shopping

In 2019 Japan's e-commerce penetration lagged far behind China at just 8.7%, the UK and South Korea at 35.3%, 22.3% and 22.2% respectively (Suen 2020). Average expenditure per household on goods and services ordered over the internet was ¥33,461 JPY a month in 2019. It increased in 2019 by 4.4% in nominal terms from the previous year (Statistic Bureau of Japan 2019b).

Regarding online purchases made in the last year, 58.6% of Japanese paid by credit card, 34% by cash-on-delivery (COD), and 25% paid for it at a convenience store (Tamko 2019b). All Japanese convenience stores offer payment solutions and a storage service where consumers can have their online purchases sent and collected whilst paying in cash without the need for credit cards or online payment systems (Diep 2020b).

Online trade is dominated by a few large providers, but there are also numerous small Japanese providers on the Internet who specifically offer foreign products (Sauermost 2020). The majority of Japanese consumers use shopping sites like Yahoo! Shopping, Rakuten or Amazon, when purchasing products online (Tamko 2019a). Amazon and Rakuten are virtually tied as the two most popular e-commerce services in Japan. However, the preference gap widens a little in the 18–24-year-old demographic, with more favoring Amazon to Rakuten (Tamko 2019b). Japan too has online providers that use a points system to reward customer loyalty. For example, Rakuten has introduced the Rakuten Super Points, which can then be redeemed on later purchases (Sauermost 2020).

Cost considerations play the biggest role when shopping online. Due to the generous opening times of the retail trade, especially in the metropolitan areas, the time factor is perhaps less important than elsewhere. Lower-income households tend to achieve higher growth rates. In addition to the cost aspect, households appreciate the convenience of online shopping. However, this attitude is weaker in the growing proportion of single-person households. Foreign products that are not widely available in retail stores are particularly sought after online (Sauermost 2020).

c. Payment Preferences—How Do Japanese Consumers Pay?

i. Cash Payments

Eighty percent of the purchases are still made by cash in Japan. A survey showed that for payments exceeding ¥10,000 JPY up to ¥50,000 JPY, 48.5% of households said they pay by cash and 3.4% by electronic money. Although the digital market in Japan generates promising figures, it is still outperformed by other strong economies and there is still potential for growth (Yang 2021). This attitude makes Japanese consumers rather special among their Asian neighbours. For example, South Korea is going cashless in 2020, beginning by phasing out the production of coins (Crawford 2018).

In Japan a low crime rate, years of ultra-low interest rates and a nationwide network of ATMs have long made cash appealing, giving people few reasons to shift to cashless payments (Reuters 2019). On top of this, many Japanese consumers display mistrust toward cashless payment systems, an attitude that may not change so easily considering scandals involving companies such as 7pay, whose cashless payment system had been hacked and defrauded within hours of going live in July 2019 (Lewis and Inagaki 2019).

The Japanese government is trying to make more Japanese switch to cashless payments, allow stores to automate sales estimates and have banks cut back on costly ATMs (Reuters 2019). Nomura Research Institute estimates that it costs the country about \$15 billion every year to handle the cash it uses (Lewis and Inagaki 2019). Accordingly, the Japanese government has set a target of increasing the share of cashless payments to some 40% by 2025 (Japan Times 2019a). Hygiene concerns among Japanese consumers also helped boost cashless payments by 26.8% as many started to use other payment options such as credit cards and IC cards (www.an-yal.com 2020).

ii. Credit Card Payments

Payments by credit cards made up 24% of the total household spending, up 2.1 points in 2019 from the year before (Japan Times 2019). Credit and debit cards are increasingly being used, doubling in a 10-year period. Debit cards are more widely used and accepted than credit cards, primarily used in large hotels and big-city stores (Santandertrade 2020).

Another factor decreasing the use of cash was the program to give reward points to people using cashless payment methods, introduced by the government in October 2019 to mitigate the impact of the consumption tax increase from 8% to 10% (Japan Times 2019).

Despite the Japanese preference to use cash, there are some popular cashless payment systems being widely used. For example, prepaid smart internal chip cards (e.g., PASMO and Suica IC cards) are accepted and used as payment in many Tokyo retail stores and transportation systems but are not linked to the owner's bank accounts. Users can stay anonymous; they can charge them with a desired amount of cash and they cannot be overdrawn (Crawford 2018).

iii. Mobile/Cashless Payments

Shoppers have recently been encouraged to switch from cash to e-money. The government introduced a rebate program to ease the pain of a sales and consumption tax hike in October 2019 (Reuters 2019). Cashless payment methods accounted for 26.8% of overall household consumption spending in Japan in 2019, up 2.7 points year on year (Japan Times 2019). Average expenditure per household using electronic money was ¥20,567 JPY a month in 2019, which increased by 12.7% in nominal terms from the previous year. The proportion of households with members who used over 10,000 yen in electronic money was 31.2% in 2019, an increase of 3.2 points from the previous year (Statistics Bureau of Japan 2019b).

Despite the Japanese people's reluctance towards cashless payments, there are indeed many choices available for e-payment services in Japan. LINE Pay, Rakuten Pay, WeChat Pay and AliPay were the most common digital payments

companies before the entrance of PayPay. Each of these applications has a unique target customer base. For example, WeChat Pay, a product of one of the China’s biggest companies, Tencent, has such a massive user base that makes the Chinese market the world leader in e-payment business. To take advantage of the existing user base and Chinese people’s enthusiastic purchasing power when traveling abroad, WeChat Pay primarily targets Chinese tourists in Japan. By targeting Chinese tourists, WeChat Pay can seek collaboration with restaurants and stores that Chinese tourists often visit, such as big shopping malls that allow tax refunds, classy Japanese-style restaurants and major convenience store branches (Yang 2021).

Approximately 40% of Japanese consumers started to use cashless payments more frequently after the government’s introduction of a point reward program for such payments, with roughly a million outlets joining the program (Japan Times 2020). This development is likely to increase because these non-cash payment methods, such as QR-codes, are considered as an option to pay without using cash and so prevent becoming infected with COVID-19 (Suen 2020). The preferences of different age groups concerning payment methods can be seen in the next figure. It shows that younger Japanese seem to use cash to pay more so than older consumers. Credit cards are most popular among the oldest consumer group as well.

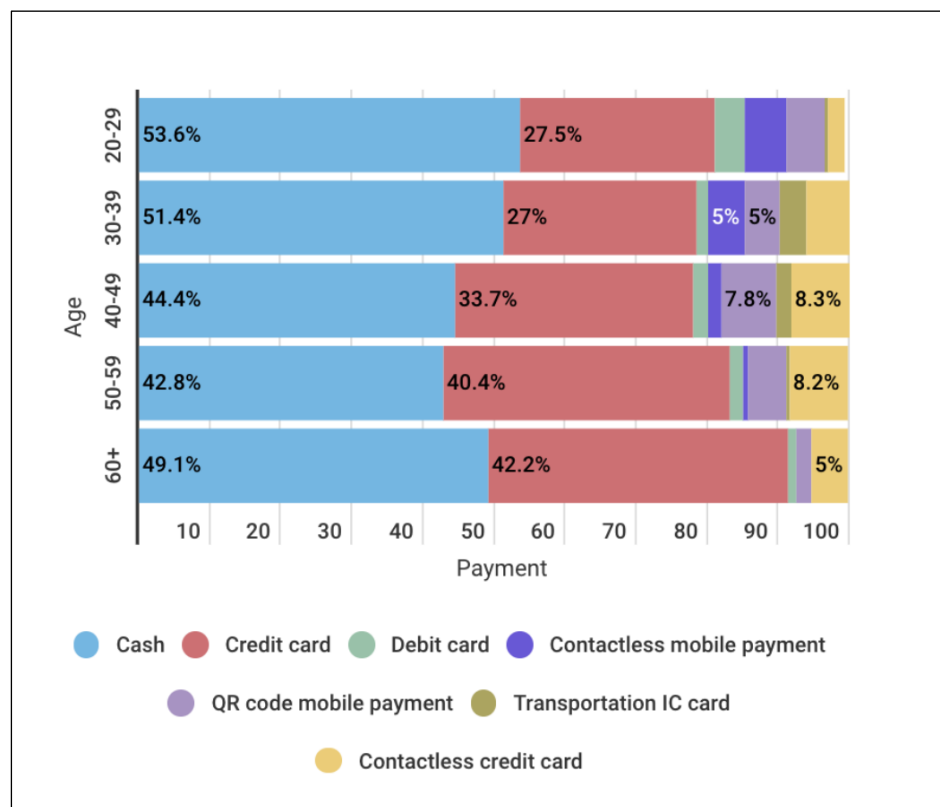


Figure 5 Preferred Payment Methods (Ishida 2020)

As many strong e-payment players compete in the market, the market is expected to grow continuously in the future years. Meanwhile, the 4.1% annual growth rate of the market can be considered somewhat admirable, given Japan’s low inflation rate and the stagnating economy. It is plausible to assume that electric payment service business might develop into one of the few booming industries of Japan in the near future (Yang 2021).

9. The Japanese Luxury Market

Japanese consumers have shown a very particular consumer behavior since the 1960s. Particularly well known in the west is the Japanese predilection for brand products and European luxury goods. Another interesting aspect is the

attitude towards product prices, which has changed from preferring high prices to accepting cheaper products in recent years (Haghirian 2011a).

Japan's passion for luxury goods began in the 1970s, when Japanese consumers became more affluent. At this time Japanese producers realized that their home market and its consumers purchasing power was becoming a very attractive alternative to overseas export. During the 1970s Japanese consumer behavior changed dramatically. Overseas travel became more popular, and there was a growing belief that some European brand products were of higher quality and more durable than local ones. This led into an emotional and social attachment to luxury brands. Owning expensive European-made products became a badge of economic success and social acceptance (Salsberg 2009). Japan so became one of the most relevant markets for the luxury product industry.

“In Japan, unlike many markets, luxury goods have typically signified a middle- rather than upper-class lifestyle. The most influential Japanese fashion magazines and department stores, which dictated the fashion sense of most members of Japan's large middle class, touted luxury brands. Middle-class consumers skimmed on other expenses, forgoing travel or expensive meals so they could buy designer handbags and apparel” (Salsberg 2009).

Between 2007 and 2012 the Japanese luxury market experienced a major downturn, dropping 6% per annum. With the context of the global economic crisis, followed by the Fukushima catastrophe, Japanese spending on luxury products shrank by over ¥1 trillion JPY (€9 billion euros) and reached a floor level in 2012 (Coumau et al. 2017), leading to a significant, long-lasting shifts in attitudes and behavior among Japanese luxury consumers (Salzberg 2009).

In the years before COVID-19, on the other hand, business with luxury brands was doing well again. The retail sector is benefiting from the growing number of international tourists. In particular, the affluent middle class from the PRC is driving sales of high-quality textiles, accessories, cosmetics and electrical appliances (Sauermost 2020). Since 2019, ¥3.6 trillion JPY (about €28 billion euros) is spent on luxury goods in Japan each year (Coumau et al. 2017).

The rise in inbound tourist numbers played an important part in driving growth in luxury goods in Japan in 2019. The Chinese Government's decision to lower the tax on goods brought into China from abroad in 2018 and then again in 2019 boosted sales amongst Chinese tourists, the key consumer group amongst inbound travellers (Euromonitor country Report Japan 2020). At the beginning of 2020, revenues in the Japanese Luxury Goods market were projected to reach \$27,386 million, and thus make Japan the largest luxury (mass) market in the world. Luxury brands Bulgari, Salvatore Ferragamo and Gucci earn 27% of their global revenue whilst Louis Vuitton earns half of its global profits from its 60 stores in Japan (Santandertrade 2020).

The market was expected to grow annually by 5.7% in 2020 (Statista 2020a) and the 2020 Tokyo Summer Olympics were likely to further boost the market (Chitrakorn 2019). However, this view ended in 2020 since Chinese tourists have been unable to enter Japan for long periods.

Another interesting factor is that Japanese consumers still prefer retail shopping when buying luxury goods. This tendency proved to be a major problem during the pandemic. In all other industries, consumers were reported to have shopped more online than before; but the luxury goods market did not undergo a great change in purchasing outlets, therefore troubling international fashion brands who did not manage to leverage e-commerce to the extent that they need.

Even if all luxury brands offer online shopping opportunities the majority of Japanese buyers still prefers to buy in luxury stores (Section 6.d.ii). Luxury brands in Japan are far more dependent on physical retail than they are in their other markets (Suen 2020).

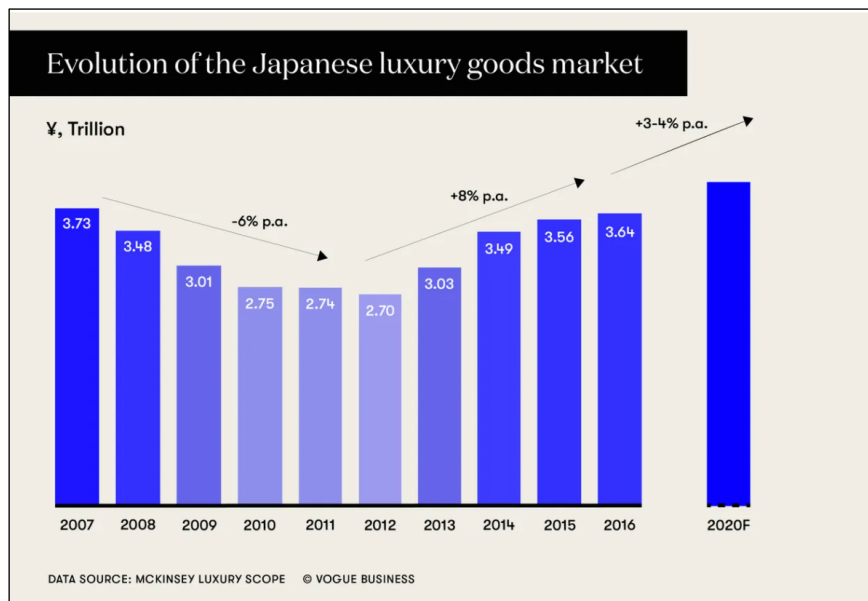


Figure 6 The Japanese Luxury Market (Chittrakorn 2019)

Hopes of luxury product marketers are placed on millennials and Generation Z consumers. It is thought that Asian millennials will make up 10 to 15% of the global personal luxury market by 2025, a target group desperately needed to recoup sales lost during the pandemic (Biondi and Maguire 2020).

10. Japanese Consumer Behavior After COVID-19

The virus helped shrink Japan's economy at an annual pace of 3.4% in the first three months of 2020, and led to a further decrease in economic activity as the country endured a two-month long 'state of emergency' from early April 2020 (www.an-yal.com 2020). It will take time for economic activity to return to its original level, as social distancing reduces spending on activities such as dining out, travel and entertainment. Moreover, bankruptcies and a sharp increase in unemployment have damaged the economic recovery (Saito 2020). In the first seven months of 2020, eight hundred and seventy thousand jobs were lost in Japan, mainly in the hotel, food service and retail sectors (Ishibashi and Nakafuji 2020).

Due to the rapid deterioration of the economy, the unemployment rate is expected to rise from the current high of 2% to approximately 4%. In 2020, employee compensation is expected to decrease for the first time in eight years (Saito 2020). The entire number of employees in Japan in July was 26.6 million people, 3.2% less than at the end of 2019 (Ishibashi and Nakafuji 2020). Consumer spending did increase sharply after the state of emergency was lifted throughout Japan, and e-commerce boomed as store closures and shortened business hours led to declining sales (www.an-yal.com 2020).

Another notable change is related to the increase of telework in Japan. Although economic activity has resumed and consumers have begun to move outwards, work from home has become more commonplace. The shift to telework has affected consumer behavior and consumption patterns. This is because working from home has been promoted as a flexible working environment through the so called "work style reform" and is expected to become prominent after the COVID-19 crisis (Kuga 2020a). The choice of shopping outlets also changed during and after the COVID-19 crisis: online sales, delivery and take-out channels are growing.

Office clothes and cosmetic products experienced the lowest sales in summer 2020. In the post-COVID-19 period, when vaccines will allow consumers to return to daily practices, resumption of former Japanese work ways is expected to recover to some extent, but the business clothing industry may face a difficult situation.

a. Changing Consumer Attitudes

In early summer 2020, consumer confidence levels hit a low all over the world. Japan recorded a highly concerning drop in consumer confidence in Q2 2020 at 43 percent down from 75 percent in the first quarter. The same trend could be observed all over Asia Pacific (Nielsen 2020). The unemployment rate is on the rise due to the decrease in non-regular employees, already in the low 2% range in before Corona but reaching the 3% range in August and September (Kuga 2020a).

In a survey of 3000 respondents by Nomura Research Institute (NRI) in March 2020, 47% of respondents said that at the end of 2019 they believed economic conditions would get worse. The number of pessimists grew substantially to 82% in the March 2020 survey (Mori et al. 2020). Since March 2020, the number of regular employees has not changed (although it has increased slightly), but the number of non-regular employees has decreased by more than one million at the change of the financial year (April to March). Most of the decrease in non-regular employees is due to the decrease in part-time workers as well as part-time workers in the restaurant industry, which is struggling with the pandemic. The ratio of is relatively high (Kuga 2020a).

It is hardly a surprise that consumer attitudes became rather volatile after the COVID-19 crisis started in March 2020. Consumer pessimism showed a high of 50% in April but decreased to 31% in November 2020 (Das et al. 2020). Private consumption fell sharply due to the spread of the new coronavirus but improved sharply in June following the resumption of economic activity and rose in the third quarter of 2020 (Kuga 2020a). The average monthly consumption expenditures per household for October 2020 was ¥283,508 JPY, up 1.4% in nominal terms and up 1.9% in real terms from the previous year (Statistic Bureau of Japan 2020). Durable and non-durable goods expenditures were recovering in the third quarter again (Figure 7).

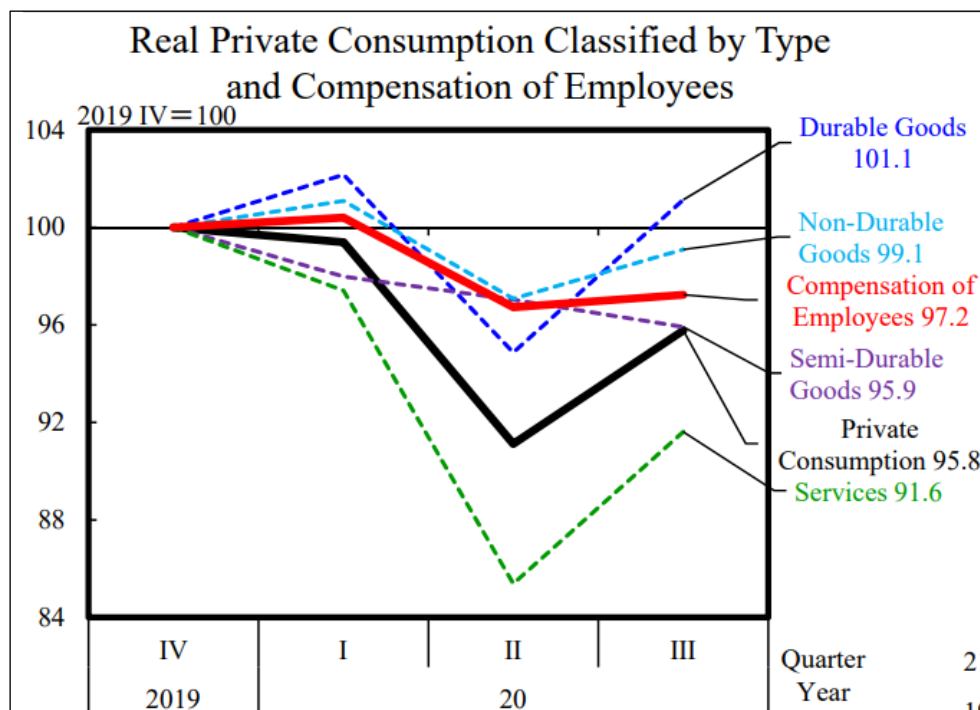


Figure 7 Real Private Consumption 2020 (Cabinet Office Japan 2020)

Consumer spending in Japan increased to ¥280,783.5 billion JPY in the third quarter of 2020 from ¥268,232 billion JPY in the second quarter of 2020 (Cabinet Office Japan 2020).

b. Changes in Spending and Shopping Behavior

As the employment environment deteriorates, household income is also affected. Since May 2020, the actual income of households with two or more workers has increased due to the effects of government benefits, but since June, the income of the head of household, has decreased compared to the same month of the previous year (Kuga 2020a). Consumers inevitably have adapted behaviors and sought new mechanisms to cope by adopting new and creative lifestyle habits from teleworking, virtual drinking parties and online shopping (www.an-yal.com 2020).

Following the lifting of the state of emergency, a retailer survey conducted in August 2020 showed a recovery trend in consumer usage. On the other hand, it can be seen that consumers are still reluctant to use service industries such as travel, leisure and restaurants. This trend is expected to continue in the future (Yoshimoto 2020).

Incidentally, it was found that people in their 60s and older are worried about infection despite purchasing online, whereas younger people in their 20s and 30s are placing importance on the availability of so-called “delivery” services when purchasing goods via online retailers. As for the next year, Japanese consumers are likely to continue using such convenient services. Similarly, digital payment options should receive a boost from the desire for reduced contact shopping experiences in-store (Euromonitor 2020).

Another effect was a stronger consideration of purchasing habits and locations. Not only has the epidemic of the new coronavirus stimulated consumers' online purchasing *behavior*, it has also changed purchasing *sentiment*, such as what is important when making a purchase (Yoshimoto 2020). Online shopping for household supplies increased by 30% after COVID-19, whereas overall online shopping for shopping categories (including food) increased by 20% (Das et al. 2020). Until now, cosmetics and beauty products, food and daily necessities were once primarily bought at stores but are now the top three online purchase categories (Eyez 2020). A survey of 73 consumers in May 2020 showed that 37% of interviewees in Japan confirmed they would purchase more online (Diep 2020a). After the Japanese government lifted its COVID-19 state of emergency in May, 46% of consumers said they would continue or increase online clothing purchases (Warc 2020). Japanese consumers are increasingly concerned about their health, economy and increasing food prices with a majority of consumers (76%) saying that they have altered their spending habits to save on household expenses (Nielsen 2020).

On the other hand, for many Japanese consumers COVID-19 has shown how the relevance of ethical living is increasing interest in sustainable business—topics such as a strong interest in food waste and supporting local business have become more relevant (Please refer to chapter 18 for more information) (Turkki 2020). These movements in the younger generation are expected to establish a new working style and are also considered to be a watershed for regional revitalization (Yoshimoto 2020).

c. Changes in Leisure Activities and Hobbies After COVID-19

Consumers were spending more time at home in spring 2020 due to the issuance of a state of emergency. After this the usage rate of video content represented by YouTube and streaming content of movies and dramas provided by Amazon and others increased. Above all, the increase in online video services and streaming utilization rate of women in their 20s and 30s is remarkable (Yoshimoto 2020).

On the other hand, there are some movements going out. At the end of July, the government began its stimulus measure “GoTo Travel” campaign at a time when consumers had a strong tendency to spend time at home or refrained from going out (Kuga 2020a). In addition, points will be given in the “GoTo Eat” campaign: points will either be given to use on meals via the target restaurant reservation site, or the user will receive gift certificates with premium meal tickets which add 25% to the purchase amount that can be used at the target restaurant (Kuga 2020a).

As for social media usage, 72% of Japanese consumers said they had more opportunities to use social network services (SNS) due to the influence of the new coronavirus. In particular, the use of Instagram has increased the most at 65%, and Instagram is also the most popular social media channel for discovering new products at 54% (Eyez 2020).

The new normal has also given rise to niche markets (Kobayashi and Abe 2020). There is an increasing tendency to stay at home and create nice and cozy life at home. More Japanese have started to buy pets. Anicom Insurance, the biggest policy provider for pets, sold 53,456 new insurance contracts in the April-June period—the highest number reported. They also noted that many policy purchasers are many first-time pet owners (Kobayashi and Abe 2020). Furthermore, producers of relaxation-inducing beauty and care products reported an increase in sales. At the time of writing this report, these new and relaxation-oriented consumption patterns are expected to continue until a vaccine is distributed (Kobayashi and Abe 2020).

11. Japanese Consumer Groups

As mentioned earlier, the Japanese market is a fully saturated and constantly shrinking market. Increasing market share is only possible by taking market from competitors. Japanese corporations have therefore been very successful in identifying new target groups and customizing their products and services to them. All Japanese consumer groups are used to being addressed in a very sensitive and well-organized way. Japanese corporations take great care when investigating these groups as well as catering to their needs. As well as “classic” consumers groups, which are often divided by age, the Japanese market also includes consumer groups that are not only of interest to Japanese corporations but also to foreign investors.

In Japan, major consumers groups are also divided in the following generational categories: baby boomers or the silver market (people born between 1946 and 1964), Generation X (1965 to 1980), millennials (1981 to 1997) and Generation Z, whose members were born after the year 1998 (A.T. Kearney 2017).

In this report I will focus on the silver market, millennials and Generation Z since they are the most widely discussed groups in Japan and they have the highest purchasing power. They also differ from their counterparts in other post-industrialized markets. I will further describe and discuss other consumer groups that created strong interest among Japanese consumer product corporations such as “New rich consumers” and “Single Consumers”. There may be some overlap among the different groups.

12. Senior Consumers/Silver Market

In Japan, the 8 million people born in the three-year time span of 1947 to 1949 are known as the *dankai* generation (or silver market/baby boomers), from the Japanese geological term for “nodule” (Invest Japan 2020). This definition is based on the title of a novel by author and economist Sakaiya Taichi (nippon.com 2019).

Elderly Japanese show the highest life expectancy in the world and are known to be healthy and wealthy (Cheron 2011). Kudakia (2018) writes: “the older generation strives to keep active and maintain their health. Many eat well, run, bike, and stay physically fit into their 70s. This a culture where individuals think deeply and proactively about not being a burden on the younger generation, both physically and financially.”

a. Market Size

The number of Japanese older than 65 will grow in the coming decades—a trend that does not only worry Japanese policy makers but also employers in Japan. Not surprisingly, the number of baby boomer (Japanese older than 65) is very high. Figure 9 shows their distribution in the Japanese population and the prediction of age distribution in the coming decades.

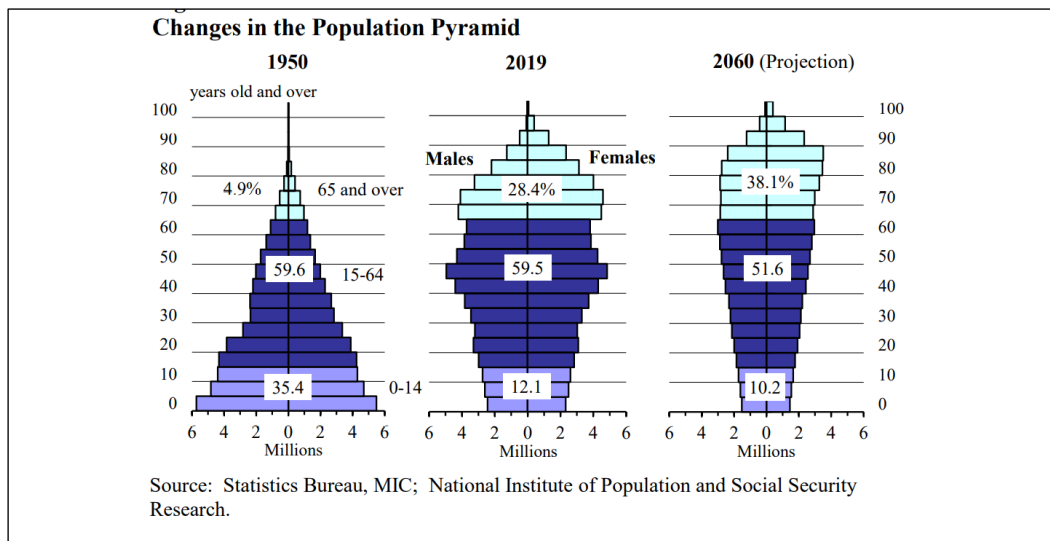


Figure 8 Changes in the Japanese Population Pyramid (Statistical Handbook of Japan 2020)

In 2019, the aged population (65-years-old and over) was 35.89 million, constituting 28.4% of the total population (about 1 in every 4 persons) and marking a record high (Statistical Handbook of Japan 2020). By December 2020 the number rose to 36.23 million people, accounting for 28.82% of the Japanese population (Figure 8).

Population Estimates Baby Boomer			
December 1, 2020 (Provisional estimates)			
	Both sexes	Male	Female
Total Population	12571	6118	6453
Age Groups			
65 - 69	817	396	421
70 - 74	933	440	493
75 - 79	703	314	389
80 - 84	543	226	317
85 - 89	379	136	243
90 - 94	186	52	134
95 - 99	54	10	43
100 and over	8	1	7
Total (in ten thousand persons)	3623	1575	2047
Percentage of TOTAL Population	28,82	12,53	16,28

Figure 9 Baby Boomer Distribution Japan (e-stat Japan 2020)

b. Disposable Income/Wealth Distribution

Elderly Japanese hold half the country's \$17 trillion in financial assets while 28% (of personal financial assets) are held by people under 55 (Obe 2020). Since their number is expected to increase, the majority of Japanese financial assets will be in the hands of the elderly. This provides business opportunities and has led to new production development for products for this target group. Figure 10 provides an overview on the distribution of financial assets in Japan. Seventy-two percent of Japanese wealth is held by persons older than 55 years, although this percentage is expected to rise to 79% in the next 20 years.

Around 65 percent of Japans elderly say they are either very comfortable moneywise or have few financial qualms, the average annual income for senior households in Japan set a record of 3.349 million yen in 2017 (Carter JMRN 2019).

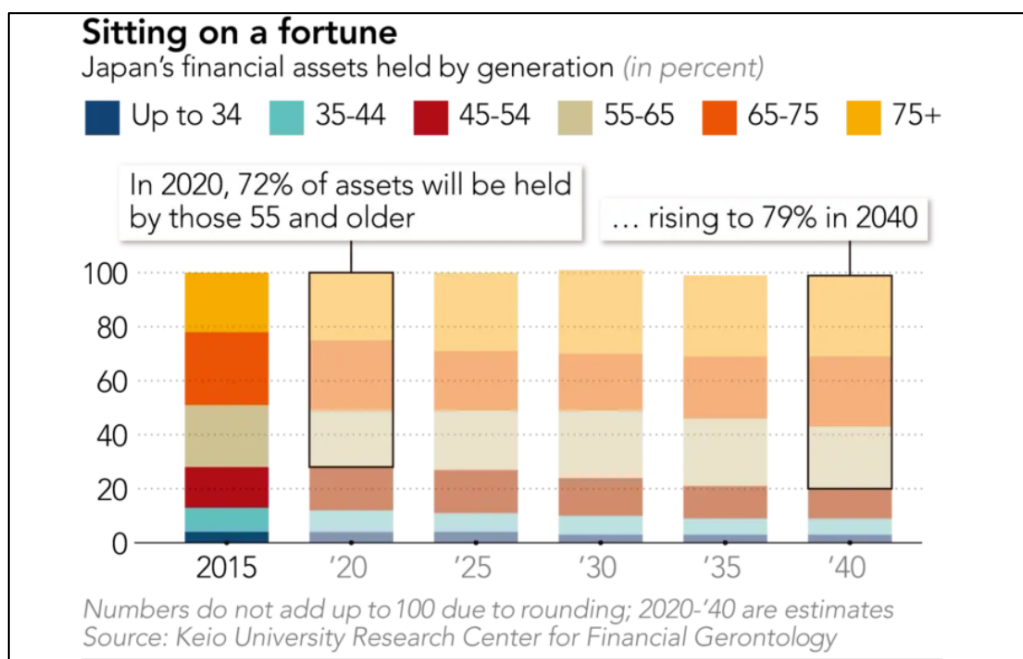
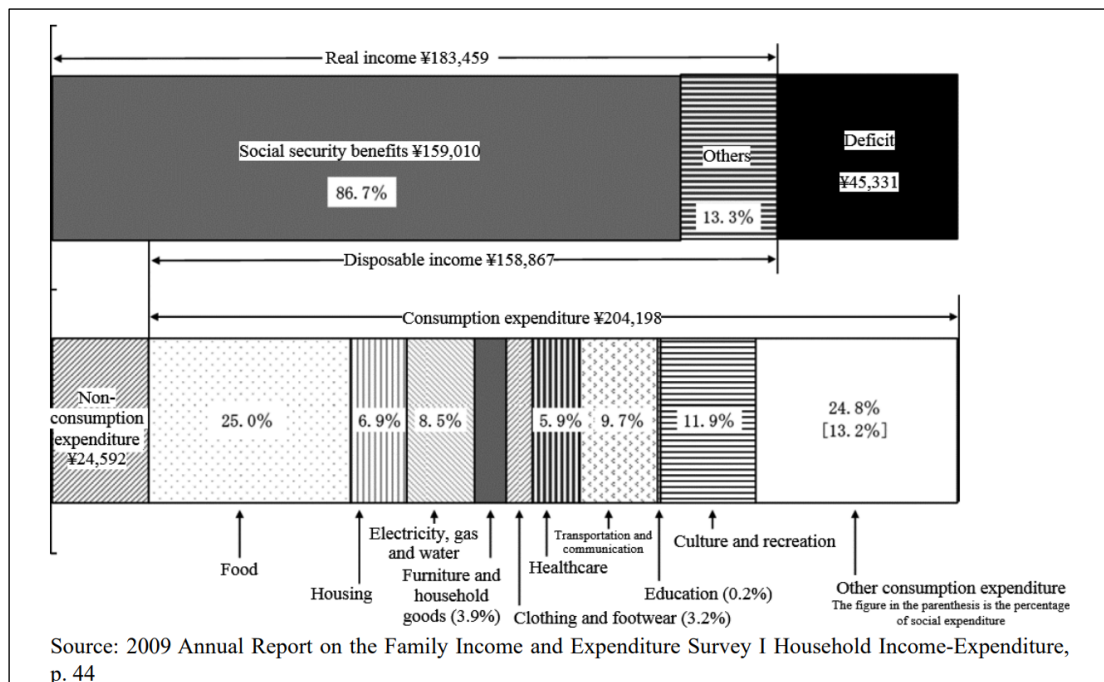


Figure 10 Wealth Distribution in Japan by Age Group (Obe 2020)

But this trend also creates a lot of problems whereby \$2 trillion in personal financial assets, or over 10% of the nation's total financial assets, will be in the hands of people with dementia by 2030 (Obe 2020). Unlike other Western nations, a large portion of these assets will not be inherited by the younger generations. Inheritance tax in Japan can be as high as 55%. Family wealth will therefore not support younger generations in Japan as it does in many European countries.

In 2019 Japanese elderly households (65 years or older) had a disposable income of ¥158,867 JPY per month. Their consumption expenditure is higher, and the deficit is covered with cash obtained with asset liquidation. The following figure provides an overview on the household income and expenditure of non-working elderly households in Japan (Nakazawa et al. 2018).



Source: 2009 Annual Report on the Family Income and Expenditure Survey I Household Income-Expenditure, p. 44

Figure 11 Household Income and Expenditure of Non-working Elderly Households in Japan (Nakazawa et al. 2018)

c. Purchasing Preferences

The high level of accumulated wealth among the older generations of Japanese leads to spending in such sectors as health, financial, travel and leisure services (Cheron 2011). The baby boomer or *dankai* generation has also been the driving force behind many consumer trends, be it homes, cars, color TVs, air conditioners, washing machines or refrigerators (Invest Japan 2020). The Japanese silver market has thus become a role model for marketers in other economies with an aging population.

Elderly Japanese spend less on housing, clothing and footwear, and transportation expenses than younger Japanese consumers. Many of them own their own homes, which decreases their spending on housing (Nippon.com 2015).

Four sectors are benefiting from the increasing silver consumers in Japan, namely living/nursing care, food, medical/health and out-of-home services. All of them are expected to be worth nearly ¥9 trillion JPY (\$82.9 billion) (Francis 2020).

However, silver consumers in Japan have high expectations towards products and their manufacturers. According to Euromonitor (2020), silver consumers in Japan prefer “high-quality products and are less likely to purchase economical products than other age groups. They prefer to buy fewer higher-quality products”. Good after-sales service is also strongly appreciated by older Japanese consumers. Ethical consumption also plays a very important role for this consumer group. They are interested in ethical living because they care about the younger generations and are willing to pay extra for ethical products. In fact, the majority of silver consumers would pay a little extra for ethical products compared to non-ethical products. On top of this they are also less hesitant to pay more for ethical apparel (Euromonitor 2020).

As in many other markets TV, radio and newspaper media have been playing the most important roles in providing information to silver consumers (Euromonitor 2020). However, after the COVID-19 crisis 17% of baby boomer consumers reported to shift to online shopping (Das et al. 2020).

d. Male Senior Consumers

The monthly consumption expenditures of single men aged 70 and above averaged ¥147,000 JPY and 77.5 of them own their own home (Nippon.com 2015). Men from this generation are characterized as “corporate warriors” who worked themselves to the bone during their lifelong careers in traditional Japanese companies (Wong 2016). Many elderly consumers in Japan actively search for information on the internet about products while many companies targeting older male consumers provide information about “things boomers were enthused about in their younger days—photography, listening to music, playing a musical instrument or singing in a chorus, group hiking, or tips for country living or stock market investing” (Invest Japan 2020). Most elderly male consumers in Japan spend little money on clothing or shoes (Nippon.com 2015).

e. Female Senior Consumers

A significant feature of Japan’s elderly households are the large number of one-person households. Two out of three of these households are single female households, which spend an average of ¥154,000 JPY per month. Home ownership among this group is about 83.4% (Nippon.com 2015). On top of that there is a growing trend of being stylish and looking young among silver consumers in Japan, which has encouraged spending on fashion (Euromonitor 2020). Food expenditures while eating out with friends and family is higher for elderly females than males (Nippon.com 2015). They are also interested in gym memberships and clothing as well as ready-made dishes and meals. Many elderly wives are tired of preparing three meals a day for spouses or live alone and have little desire to cook for only one person (CarterJMRN 2019).

13. Millennials

“Millennials’ is the label used to describe the generation, mostly in the US and the UK, who were born around 1980 and began to enter adulthood, and go to university, as the millennium year 2000 arrived (Howell 2020).

In Japan, millennials are known as the “*yutori*” (free from pressure) generation (www.an-yal.com 2019). They have come of age during turbulent times, such as the 2008 global financial crisis and tsunami and nuclear disasters of 2011 (Behuhuma 2020). The term *yutori* is common for Japanese born between 1987 and 1996, because they experienced a major change in the national school curriculum guidelines in the 1980s (fully enacted in 2002). The new curriculum of mandatory education reduced contact hours and Saturday attendance, suggesting the *yutori* generation has a more relaxed life than the generations before them. Therefore they are the “free from pressure” generation (Wong 2016). During bubble times in the 1980s (Heisei era), millennials in Japan showed a very widely discussed affluent consumer behavior. Young office ladies enjoyed traveling abroad every vacation and went shopping for famous overseas brands while male millennials bought new cars through loans.

While a majority of young adults in other OECD countries see bright futures and successful careers ahead, fewer than 40% of Japanese do, making them the most pessimistic in 18 countries (Ujikane 2016). They have not experienced the times of economic growth in Japan. Nearly 30% of contract workers aged between 25 and 34 said last year that they settled on temporary jobs because they could not find permanent employment (Funakoshi 2016). People under 20 are the least paid (Societe General 2020) millennials while women accounted for 68% of non-regular workers in 2015 (McCurry 2017). They do not show much trust in the national pension system and are skeptical about their future life after retirement. This is the reason why the intention to save among this age group is very high. Low and stagnant pay is the reason many millennials in Japan delay or even forego marriage, home-buying and child-rearing. About 37% of Japanese millennials expect to work until they die (Ujikane 2016), making their retirement expectations one of the lowest in the world (Tubiera 2019). Figure 11 provides an overview on the occupations of Japanese millennials. Only about half of them are in full-time employment, a fact that strongly affects their intentions to spend.

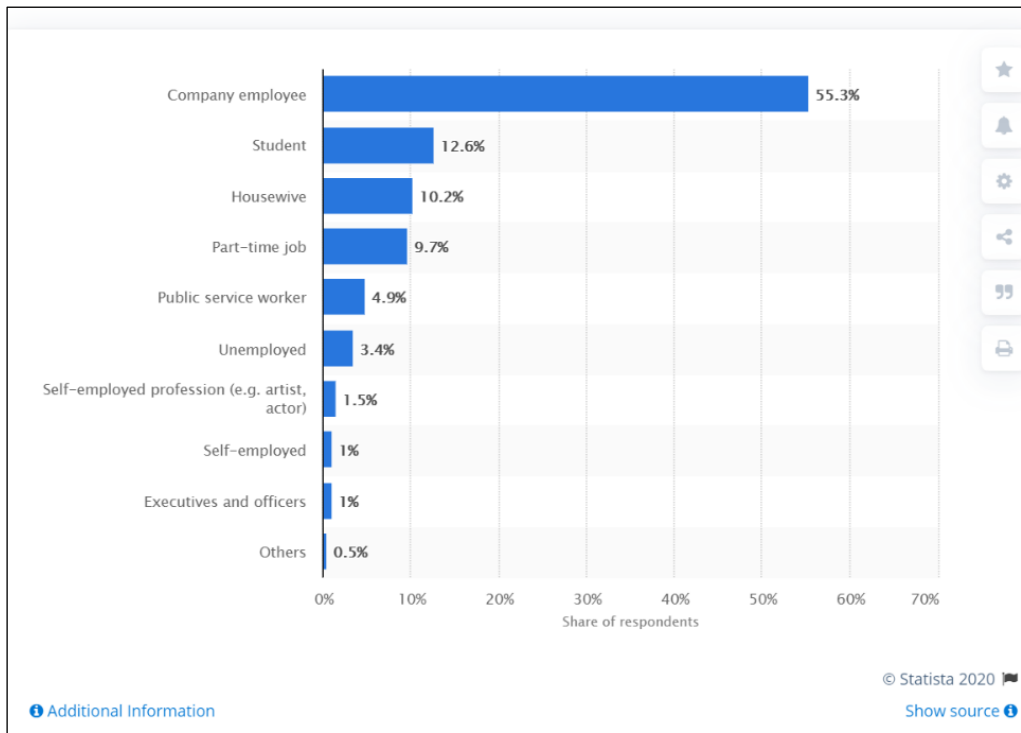


Figure 12 Occupation of Millennials in Japan (Statista.com 2021)

The attitudes of Japanese millennials can be seen in their low scores on satisfaction with life (10% vs. 20% global average), the economy (6% vs. 11% global average), a sense of accomplishment in their lives (17% vs. 41% global average) and a sense of optimism (27% vs. 49% global average) (Plus Alpha Digital 2020).

a. Market Size

Millennials account for about 21% of the current world population and will account for around 75% of the global workforce by 2025 (Tubiera 2019), but the proportion of millennials varies considerably in different countries. China’s millennials make up 25.3% of the population, whereas the proportion of millennials is much lower in advanced economies because of the combined effect of low birth and death rates. Millennials comprise 17.2% of the population in Japan (2018) and 17.8% in Spain. Millennials usually reside in cities (Tilford 2018). Worldwide, between 2017 and 2018 alone, millennials spent more than \$ 200 billion and will be spending approximately \$ 10 trillion in their lifetimes (Behuhuma 2020). At the end of December 2020 Japanese millennials (aged 25 to 39) account for 16.10% of the whole population. Baby boomers, on the other hand, account for 28.82% of the Japanese population.

Population Estimates Millennials			
December 1, 2020 (Provisional estimates)			
	Both sexes	Male	Female
Total Population	12571	6118	6453
Age Groups			
25 - 29	630	326	304
30 - 34	656	336	320
35 - 39	738	374	364
Total (in ten thousand persons)	2024	1036	988
Percentage of TOTAL Population	16,10	8,24	7,86

Figure 13 Millennials Estimates (e-stat Japan 2020)

b. Disposable Income/Wealth Distribution

Millennials all over the world do not enjoy the same income level as their parents. Sixty percent of millennials across the 40 countries surveyed were categorized as middle income. In contrast, 68% of baby boomers—those born between 1942 and 1964—were middle class. Only 53% of millennials in the US and 59% of British millennials were middle class, compared to 69% in Japan and 66% in Australia (Taylor 2019).

Even if Japanese millennials are more likely to be middle class consumers than their counterparts in other OECD countries, they are still less well off than their parents. They own only about 10% of the country’s financial assets, whereas the baby boomer generation holds around 28% of them, almost three times as much.

Approximately 30% of non-regular employees aged 25 to 29 are university graduates or postgraduates, and the disposable income of non-regular employees who have graduated from university or graduate school is estimated to be 221,000 yen for men and 202,000 yen for women (Kuga 2019). 37% of Japanese millennials earned less than ¥ 4 million per year, less than 6 million (19.3%), less than 8 million (17.2%) in 2017. Only 13.1% had wages less than ¥ 10 million and only 13.1% earned more than ¥ 10 million per year (Statista Research Department 2020c).

Even if these salaries cannot be considered low, 57% of young Japanese adults reported that they plan to decrease their overall spending and intend to save more money (Behuhuma 2020). Spending by young Japanese has already decreased over the past years as Figure 13 shows.

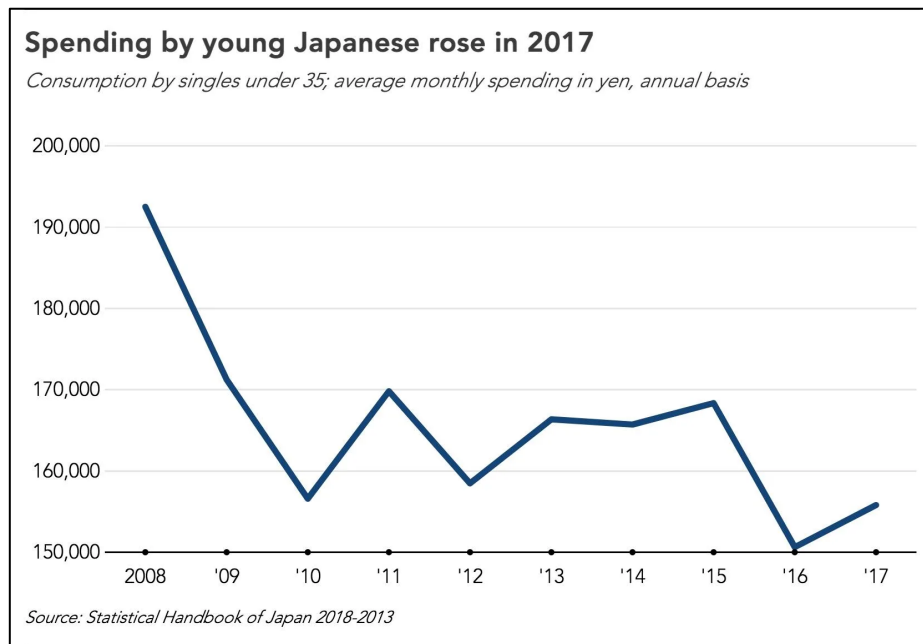


Figure 14 Monthly Spending of Young Japanese (Until 2017) (Hilton and Okutsu 2019)

The fact that Japanese younger people are spending less, is a particularly serious economic problem for Japan: Its population is shrinking, and each household's consumption is decreasing (Funakoshi 2016). Households with heads who are aged 25 or below spent on average ¥150,547 JPY a month in 2014, about 30% less than five years earlier (The Straits Times 2016).

The explanation for this spending behavior can be found in the rather careful attitude of Japanese millennials. Kuga of Nissei Kiso Research Institute states that "this does not mean that young Japanese people today have no money...", but rather they tend to "...not spend money" (Kuga 2019). Matsuda (2020), a millennial herself, writes "Our parents' generation were religiously loyal to their employers. But for us, lifetime employment is long gone, and we millennials are painfully aware that our national pension system is likely to be broken once we reach retirement. Japan's population graph by age is like an upside-down pyramid". In other words, although the disposable income of young single-worker households is increasing, this increased income is not necessarily used for consumption but for savings. At the same time, the numbers of saving-oriented young Japanese are increasing (Kuga 2019). Saving money is a priority for millennials (Euromonitor 2019). An explanation for this situation could be the fact that there are more young Japanese still in unstable work relationships, many of them not expecting to work in one job all their lives as their parents did (Behuhuma 2020). This is especially true of the *yutori* (millennial) generation (Funakoshi 2016).

Unlike other Asian millennials, Japanese are also not interested in receiving consumer loans. We see Asian fintech groups such as Alipay in China and Kakao Pay in South Korea setting up business models lending young people pocket money. This is not the same in Japan. Among Japanese consumers in the 20-40 age group, only one in ten people want to use such services to borrow money (Matsuda 2020). Japanese online retailer Zozotown's "*Tsukebarai*" deferred payment system, which allows consumers to buy up to ¥54,000 JPY of products and pay for them within two months, has been a hit with financially conscious younger Japanese Generation Z and millennial consumers (Biondi and Maguire 2020).

It is not surprising that financial questions play a dominant role in Japanese millennials' lives. At a time when domestic consumption has stalled, their savings rate is on the rise, with those between 25 and 34-years-old saving a larger share of their earnings than any other age group in 2015 (Ujikane 2016). The following figures provides an overview on the financial priorities of young Japanese adults. Almost half of the respondents intend to save more money in the near future while almost 60% are attempting to spend and consume less (Figure 14).

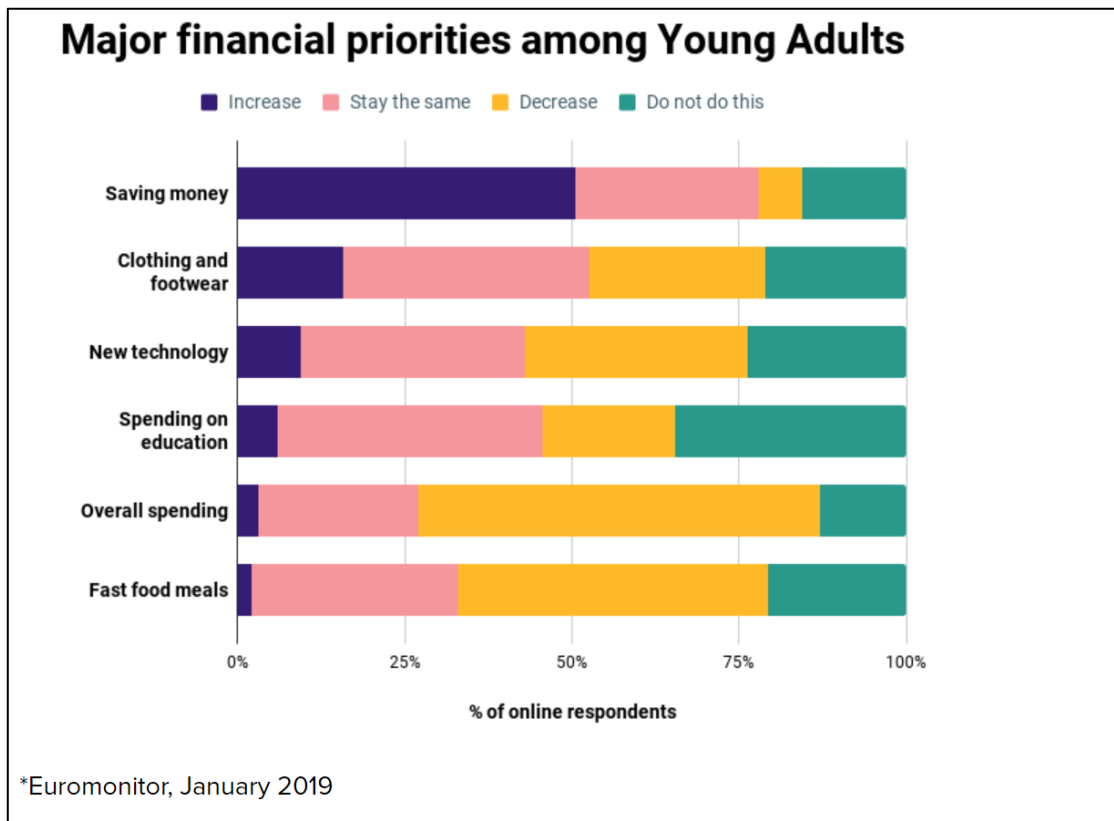


Figure 15 Spending Preferences Among Japanese Millennials (www.an-ya.com 2019)

c. Purchasing Preferences

Millennial shoppers exercise greater frugality in their purchasing decisions compared to the generations before them (Estares 2019, Funakoshi 2016). As explained above, Japanese millennials are reluctant to spend because of stagnant wages and a lack of stable jobs (Funakoshi 2016). Kaori Ishii, a senior consultant at Dentsu Digital, says that millennials value integrity, credibility and rationality when it comes to shopping. “They are the generation of updates, so they don’t want to spend money on products unless the product is easy to update or replace or is long-lasting for the price” (Nago 2019).

Millennials and Generation Z consumers are increasingly choosing to devote their spending power to experiences rather than accruing possessions, especially if those experiences are suitable for sharing on social media such as Instagram (Euromonitor Country Report Japan 2020). Japanese millennials throw around words like “*cosupa*”—short for “cost performance,” or value for money—to rate anything from cosmetics to hotels (Funakoshi 2016).

Ethical consumption is also a topic for millennial consumers in Japan. They are most educated about ethical living and consumption, but at the same time they are least experienced in purchasing ethical products (Euromonitor 2020). Finally, it is important to point out that millennials in Japan are quite different from millennials in other countries. When marketing to millennials in Japan there is an imperative of keeping products simple, relatively cheap but still good quality. In fact, Japanese youth have shown desire for a more simplistic lifestyle (Behuhuma 2020).

Japanese millennials’ purchasing behavior was also influenced by the COVID-19 crisis. They are reported to refrain from “unnecessary” spendings, such as buying novelty items, expensive apparel, luxurious bags and trendy footwear. At the same time, they focus more on buying weekly groceries, personal care items and hygienic products (infocubic 2020).

Young people in Japan look to social media to conduct research on brands before buying (Plus Alpha Digital 2020). Ninety-six percent of Japanese millennials own a smartphone and social media apps like LINE, Instagram or Twitter are some of the most popular among young them (Gough 2020). Twitter is more relevant for millennial consumers than Facebook—around three quarters of Japanese students over the age of 18 use it compared with approximately one-quarter for Facebook (Nussey and Ingram 2018).

d. Female Millennials

By 2000, the proportion of 18-year-old girls advancing to four-year studies had grown to 30%, a decade later it reached 45% and is now approximately 50% (Emmott 2019). In 1980, there were 11 million households with housewives, and 6 million with dual incomes. By 2017 these number almost reversed (Takeo and Urabe 2018). About 1.9 million women have entered the nation's workforce since 2008 (Takeo and Urabe 2018). Seventy percent of women from age 15 to 64 are participating in the Japanese workforce, which is higher than the US but still a rate below levels in Europe and Canada (75 to 80%). The participation in the workforce of Japanese males is 85% (Emmott 2019). Even though an increasing number of women joined the Japanese workforce, the quality of jobs has not increased, and more than one-third of women are working part time (Emmott 2019). The wage gap between full and part-time workers is 31% for women (McCurry 2017).

However, the COVID-19 crisis left its mark in this demographic of the Japanese workforce. By comparing the monthly average of female workers in April-July 2020 to the same period the previous year, the hotels and food service sector saw a decrease of 280,000 workers; the lifestyle services and leisure sector decreased headcount by 140,000; and wholesale and retail staff dropped by 110,000, where there are far more female employees than other sectors. Out of this entire workforce, the decline of male workers was only 0.8% over the same period, meaning women were hit hardest (Ishibashi and Nakafuji 2020). In the care and social sector, however, there is a great need for female workers in Japan. The monthly average number of female employees in the health care sector increased by 80,000 in April-July 2020, compared to April-July 2019. Female employees in the information and communication sector have also increased. Some believe the pandemic will offer more opportunities for women as working from home becomes more prevalent (Ishibashi and Nakafuji 2020).

Women who earn more spend more (Takeo and Urabe 2018). The wage difference between men and women in the millennial age group influences their consumption. The National Survey of Consumption comparing the consumption expenditures of single-working households under the age of 30 from 1989 and 2014, found the spending of women increased slightly from ¥153,000 JPY to ¥161,000 JPY, an increase of ¥8,000 JPY (Kuga 2019).

Like their male counterparts they also value their own fashion style (Euromonitor 2020). Female consumers in the same age group spend money socialising and spending time with their female friends. They spend money on new fashion items, having lunch at fine restaurants and visiting beauty salons (Euromonitor 2020).

Japanese female consumers increasingly use social media to present themselves and to receive information about products (Euromonitor 2020). Around 40% of Japanese millennials said they use social media to research brands before purchasing, compared with less than 5% of people in their 50s (Plus Alpha Digital 2017). Instagram is the most influential tool for them to choose a travel destination. The trend is prominent with female travellers, where survey results show the percentages as 47% globally and 40% in Japan, which is higher than the world average of 25%, Japan's average of 16% or the average of 30% of all millennials (Travel Voice Japan 2019). It is not surprising that female millennials are increasingly buying products online and also deferring to cashless payments. Buying used makeup products online has become popular among them (www.an-yal.com 2019). Among single-person Japanese households whose household heads are in their 20s and 30s, 43% pay cashless, which suggests that government efforts to prod Japanese to go cashless may be having some effect, at least among the millennial generation (Reuters 2019).

e. Male Millennials

The relatively new consumer group of young male Japanese consumers that became more prominent over the past years were labelled as *soshoku danshi* (grass eaters). This is because they differ greatly from their fathers and also because their purchasing behavior differs from their fathers'. Their spending behavior creates worry among older Japanese and the Japanese government. Older generation Japanese men were mainly known for buying cars, a house and lunch at their workplace. Younger Japanese men not only marry later but also show an increasing interest in leisure shopping. Japanese millennial consumers are not interested in working as hard as their father, they do not drink as much and also do not show a lot of interest in buying cars or wristwatches, which used to be considered "classic" products for Japanese men (Ryall 2017). Japanese male millennials often love comic books, gadgets and computers (Foremski 2013), but also have a taste for new products, such as cosmetics products. However, they do not spend much more than in the 1980s. Consumption of young men increased only by ¥2,000 JPY per month between 1989 and 2014 (Kuga 2019).

Unlike earlier generations male millennials place more importance on the work-life balance rather than trying to climb the corporate ladder and working themselves almost to death from excessive overtime. They prefer to spend time with their family and friends, often disappointing bosses who want to go drinking (Nippon.com 2019). One reason for this may be the gloomy prospects for millennials when it comes to their careers. As shown above, the number of young Japanese not earning full-time wages is increasing: the wage gap between full and part-time workers is 45% for men (McCurry 2017). It is not surprising then that they show a more cost-oriented consumer behavior; many male millennials also carry large college debt and must still rely on their parents (Foremski 2013).

In general, millennial consumers in Japan can be described as "highly conscious tech geeks" and a "generation [that] cares less about the aesthetic appearance of a product, and more about the story and quality behind it" (Nago 2019). They follow fashion trends while developing their own unique style (Euromonitor 2020). As many Japanese men in this age group do not cook, mostly single men between their 30s and 40s spend a lot of money on food and drinks or eating out. They also spend money on their hobbies and investments (stock market) (Euromonitor 2019).

14. Generation Z

Generation Z (GenZ), or "centennials", born between 1996 to 2012, are a new but increasingly influential consumer group that is starting to attract attention of companies, marketers and employers (Deloitte Millennial Survey 2017). They are younger teens, also known as "Homelanders" (Growing Leaders 2018).

In Japan, Generation Z is known as the *satori* generation. The *satori* generation are decidedly less political than their predecessors. They tend to shy away from protesting about pressing issues affecting society and are reluctant to make their opinion heard out in the streets (Francis 2019).

Millennial and Generation Z consumers may seem similar, but marketers have already found a number of distinctions between the two age groups. Nagumo (2018) writes: "the millennial generation, born from the early 1980s to the mid-to-late 1990s, were often characterized as individualistic to the point of narcissism—children of relative plenty who came of age in an era of global economic growth. Generation Z, by contrast, have been shaped by uncertainty—political, economic and environmental. Twentieth-century models of employment have been eroded by technological change." They are the younger counterparts to that older generation and have grown up with new technology that defines them. While millennials grew up with computers, Generation Z grew up with touch-screens and their phones have always been "smart" (Growing Leaders 2018). Francis (2019) divides Generation Z into four distinctive types:

1. **The *Yōsumi* (wait-and-see) Follower**—Prefer to read the air before making a statement or a decision about something, such as ordering food in a group at a restaurant.
2. **The *Shō-ene* (energy-saving) Pessimist**— Not so good at connecting with others, veer towards a more minimalist lifestyle and have an overall pessimistic approach to things.

3. **The Social Yoiko (active on social media)**—Sensitive to new trends and care about how others perceive them. They especially dislike being criticised by others on social networking sites.
4. **The Jinsei Gachi-zei (life tactician)**—Possess strong social values and have leadership qualities that enable them to enjoy life to the fullest. Compared with the other categories of Generation Zs they have a more traditional mindset (Frank 2019).

Generation Z Japanese are digital natives; they have grown up with instant access to all kinds of information. Furthermore, they stay connected: a third spend six hours or more a day on their phones, compared with only 22% of millennials (Smith and Yamakawa 2020). A surprising recent trend is the emergence of people who cannot use computers. For them, it is faster to type on a smartphone than on a keyboard. The younger generation no longer feel they need computers if they have a smartphone (Shimoda 2016). A sense of urgency can be seen among this group in the workplace in that they are keen to test new methods and technologies the moment they become available (Francis 2019). Digital tools are a part of their lives. They get inspiration from social media and do not hesitate to shop online for ordinary consumer goods (Euromonitor 2020). There is a feeling of wanting to see results quicker and with fewer hurdles or processes involved that are seen as a waste of time (Francis 2019). It is not surprising that traditional media channelling such as TV are becoming less popular among millennial consumers (Figure 15).

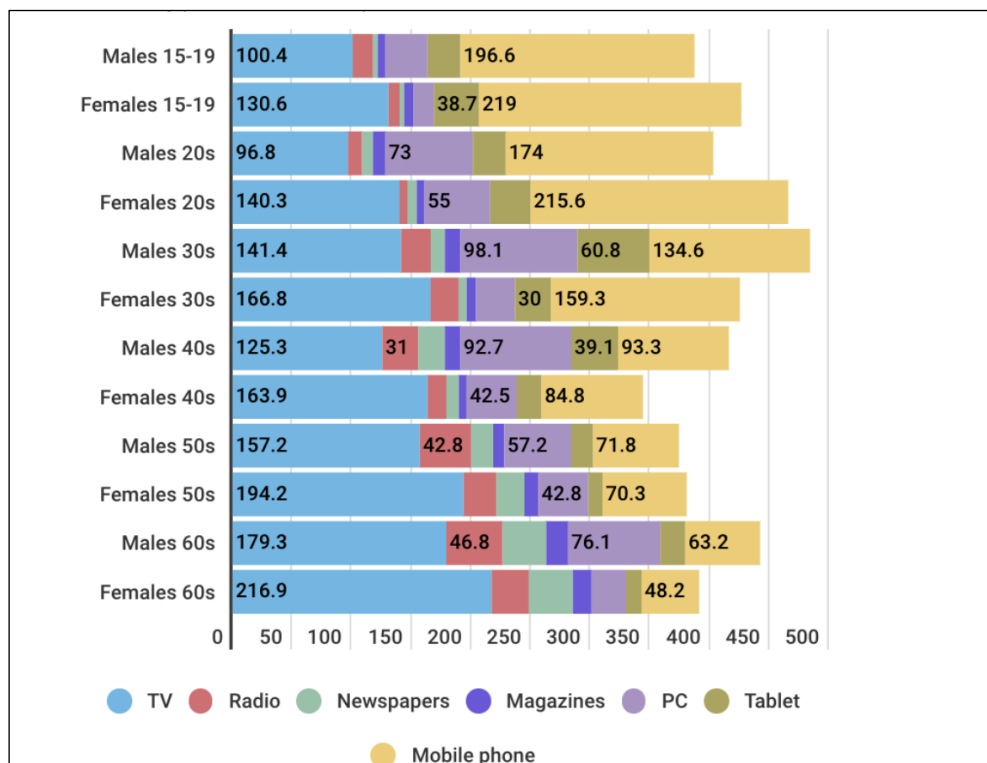


Figure 16 Media Channels Used by Japanese Consumers (Ishida 2020)

Generation Z consumers want to be approached in a narrow and deeply insightful way instead of a mass approach with a big talent and hashtag ads; they are consumers who increasingly refer to the opinions of micro-influencers or peers instead of macro-influencers (Biondi and Maguire 2020). When it comes to choosing travel destinations Instagram and social media play the most important role, with the ratio 50% or higher among 29-years or younger millennials and Generation Z (Travel Voice Japan 2020).

In Japan and South Korea in particular, expert bloggers are more relevant than celebrities, offering live-streaming events and platforms where audiences can interact with streamers instantly to ask for advice or share opinions (Biondi and Maguire 2020).

a. Market Size

In most markets Generation Z is seen as a promising new market, simply because of its size. In Japan, however, their relevance in comparison to the biggest consumer group (the baby boomer) is not as significant. The following figure shows the percentage of Generation Z individuals and their percentage among the whole Japanese population. In Japan only 13.85% of the population are between 10 and 24 years old (December 2020).

Population Estimates Generation Z			
December 1, 2020 (Provisional estimates)			
	Both sexes	Male	Female
Total Population	12571	6118	6453
Age Groups			
10 - 14	534	273	260
15 - 19	566	290	276
20 - 24	641	331	309
Total (in ten thousand persons)	1741	894	845
Percentage TOTAL of Population	13,85	7,11	6,72

Figure 17 Generation Z Estimate Japan (e-stat Japan 2020)

b. Disposable Income/Wealth Distribution

Generation Z is estimated to become the largest generation of worldwide consumers in the year 2020 and they are assumed to account for \$29–143 billion in consumption (Fromm 2018). Japanese numbers are not very detailed. One reason is the fact that the majority of Japanese Generation Z consumers are still either in university or high school and do not have an independent income. The number of Japanese university graduates is almost 80% of the population, so most Japanese start earning money at the age of 22 or 23. On the other hand, Generation Z consumers have a strong influence of the purchasing decisions of their parents and grandparents. Being “Six-Pocket-Angels” they receive pocket money and gifts from up to six different sources.

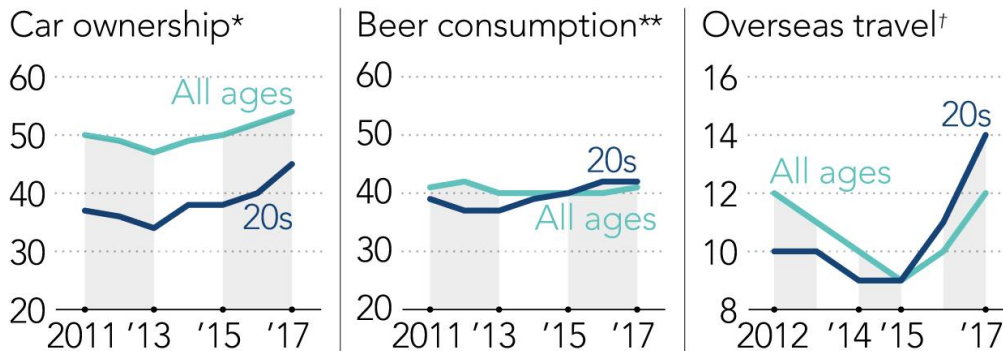
c. Purchasing Preferences

Generation Z shows different attitudes than millennials, who are a few years older. Before the COVID-19 crisis young Japanese between 18 and 22, were reported to have a more "outward-facing, positive mindset" compared to previous years (Hilton and Okutsu 2019). Generation Z consumer are still very young, some of their attitudes appear contradictory. They do like personalization of products and services, but only about a third are willing to provide the kind of data needed to deliver it. They say they prefer ethical products, but only a minority are willing to pay more for them (Smith and Yamakawa 2020). Generation Z cares more about personal success and being perceived as successful than other generations. They are more concerned about purchasing brand name products and buying products to make them feel good. They are also more willing to pay more for a product that helps them convey the right image (Fromm 2018).

Before COVID-19, purchasing behavior of Japanese in their 20s started to change and became less frugal. Figure 17 shows that 45% of people in their 20s owned cars in 2017, an eight percent increase from 2011. Since 2016, leisure activities like beer-drinking and overseas traveling have jumped to outpace the country's average (Hilton and Okutsu 2019).

Japanese in their 20s are becoming less frugal

(in percent)



*Among respondents who hold a driver's license

**Drink beer "often" or "very often" †Travel more than once a year

Source: Mitsubishi Research Institute

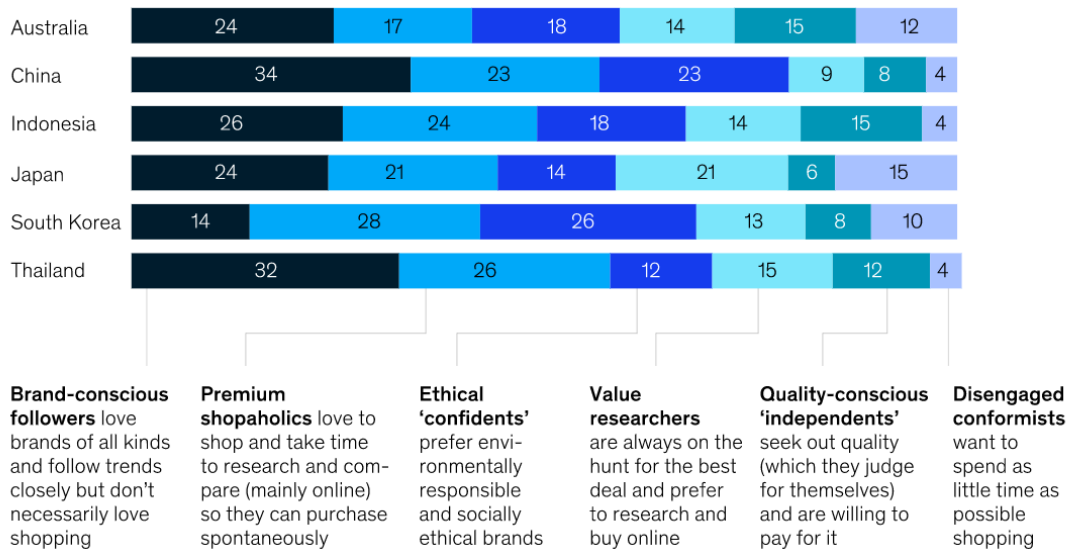
Figure 18 Changing Consumption Among Japan's Generation Z (2019) (Hilton and Okutsu 2019)

Generation Z consumers (ages 16–21) all over the world spend mostly on cars, entertainment products and hobbies, their studies, mobile phone related products, their appearance and dining. Younger consumers (ages 6–11) spend their money on toys, confectionary, video games, clothing, movies, collector cards, board games and magazines/comics (Fromm 2018). In Japan they show similar interests.

Being the youngest cohort of consumers, Japan's Generation Z consumers are often still in the discovery phase of luxury, especially pertaining to niche brands. "Generation Zs are coming to luxury younger than millennials did and discovery is a really big drive for them (Biondi and Maguire 2020). In Japan, 51% of Generation Z consumers say they prefer brands that are popular with others (Kim et al 2020). They are very open to look at new brands, while before luxury heritage brands were everything" (Biondi and Maguire 2020). Because of their growing number worldwide and increasing interest in luxury brand products, Generation Z consumers are the hope of global marketers and they increasingly create attention. A McKinsey report (Kim et al. 2020) divides Generation Z shoppers in Asia into six categories. In Japan the brand-conscious category is the most dominant.

Brand-conscious followers and premium shopaholics are the largest segments within Generation Z.

Generation Z population by archetype, %



Note: Figures may not sum to 100%, because of rounding.
Source: McKinsey Asia-Pacific Generation Z Survey, November 2019, n = 16,000

Figure 19 Generation Z Shoppers Categorization (Kim et al. 2020)

At the same time, Generation Z consumers are avid buyers of second-hand products online. Mercari, a virtual flea market connecting consumers to sellers of used items, based its success largely to the more frugal and sustainable approach of the younger generation. About 50% of its 11 million monthly users are in their teens or 20s (Estares 2020) (See chapter on C-2-C-Markets)

d. Female Generation Z

Ninety-eight percent of Japanese women in their twenties use social media. Instagram is used by 68.5% of women in their twenties (Takigawa 2017). Social media plays an important role when choosing products. However, in Japan they are not as relevant to make purchasing decision than for Generation Z shoppers than in neighbouring countries. Especially celebrity endorsement are more popular in China and South Korea than they are in Japan (Figure 20).

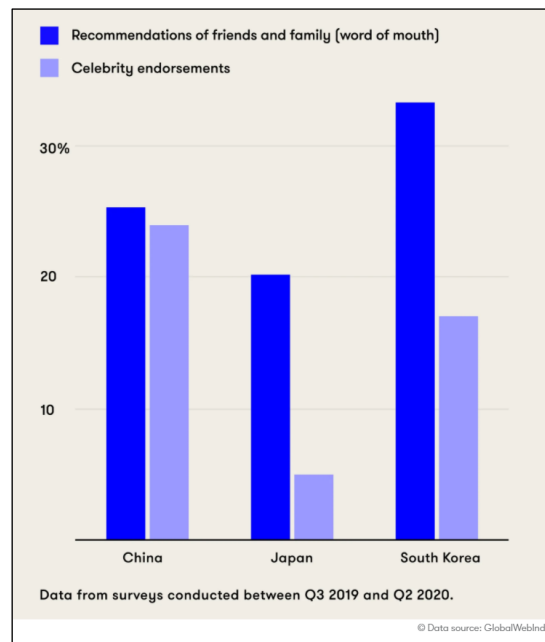


Figure 20 Finding Out About New Brands (Generation Z) (Biondi and Maguire 2020)

e. Male Generation Z

Male Generation Z consumers in Japan show a different consumer behavior than male millennials. As mentioned above their consumption behavior is less frugal, they show more interest in cars and alcohol (Hilton and Okutsu 2019). More than fifty percent of them are aware of sustainable development goals such as climate action and reducing inequality (Dentsu 2020). About 90 percent of male Generation Z consumers in Japan use men's skincare and makeup, a market that is expected to grow (beautyTech.jp 2020). Fashion styles are a means of self-expression (Kostrzewski and Nowak 2018).

15. The (New) Rich

Japanese consumers are famous for being very wealthy and interested in spending great amounts of money on luxury and brand products. The high number of wealthy consumers have turned them into the focus of attraction of Japanese corporations. These new rich, *nyū richi* or *fuyūsō* as they are called in Japan, are widely discussed in the Japanese media as well. The Japanese term *fuyūsō* is divided in two parts, *fuyū* and *sō*. The general meaning of the word *fuyū* is rich, wealthy, and affluent. *Sō* can mean stratum, layer, or streak. The combined two components indicate the wealthy group of people in the economic wealth hierarchy. A household would be considered part of *fuyūsō* if its total net income exceeded 100 million yen. If total net income exceeds ¥500 million JPY, then a member of this household would be considered a high net worth individual (HNWI) (Haghirian, 2011b).

a. Market Size

Wealth, as opposed to income, measures the ownership of assets in a society. Together with GDP, GDP per capita and household disposable income, it helps to understand the economic well-being of households. Furthermore, the distribution of wealth gives an indication about the degree of equality in a society. Illustrated by its wealth distribution, Japan can be considered relatively equal compared to other countries (Statista Research Department 2020b).

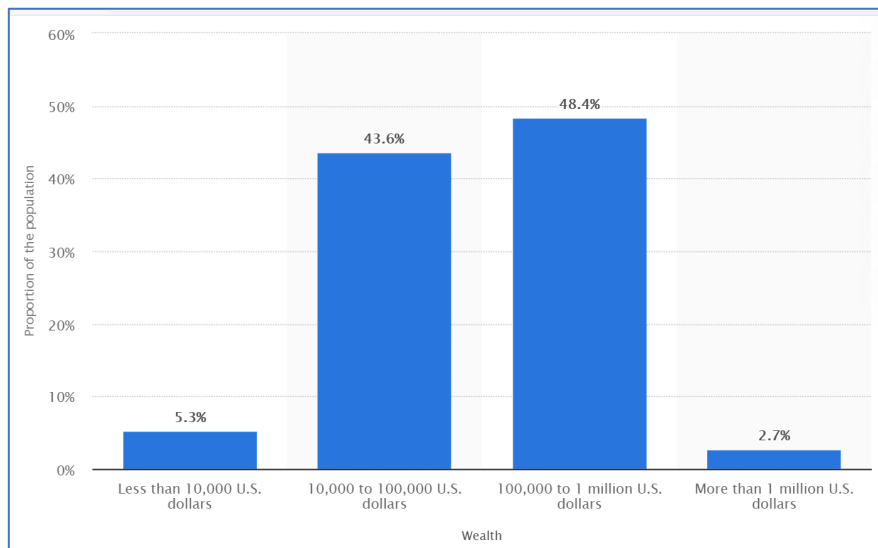


Figure 21 Distribution of Japanese Consumer Wealth (Statista Research Department 2020b)

Adults with an equivalent 100 thousand to one million US dollars in wealth made up around 48.4% of the Japanese population in 2018, while the second largest share of people were worth between \$10,000 and \$100,000. Together, these groups accounted for approximately 92% of the population, making Japan not only one of the wealthiest nations worldwide but also the most equal major society (Statista Research Department 2020b).

“The proportion of the population with wealth above \$100,000 is seven times the global average (McCurry 2017). “Together with Japan’s high average wealth, this relative equality means few adults have assets below \$10,000,” a Statista report stated (Statista Research Department 2020b). Japan is the country with the third highest number of millionaires: 3,025,000 Japanese citizens holding more than one million dollars (Business Insider 2020). In 2019 Japan had the highest number of wealthy households in the past 18 years (Hilton and Okutsu 2019).

b. Disposable Income/Wealth Distribution

Japan has a high income-tax rate for the rich (45%), and the inheritance tax rate was recently raised to 55%. Yet Japan’s “super-rich” remain a lot less wealthy than their counterparts in other countries. In the US, for example, the average income of the top 1% of households was \$1,264,065 in 2012, whereas in Japan, the top 1% of households earned an average of \$240,000 (Koike 2015).

c. Purchasing Preferences

Japan’s high number of wealthy consumers makes the Japanese market to the most relevant luxury goods market. But there are differences even among the wealthy consumers’ attitudes. Where older Japanese consumers still have a preference for luxury fashion and goods, younger rich Japanese show similar attitudes as their counterparts overseas. The emergence of the “*Ikina-Rich*”, a term coined by Japan’s *Nikkei* newspaper, may help explain this contradiction between the statistics and the national mood. This group of young entrepreneurs made net financial assets of over 100 million yen almost overnight. They have different values than the pre-Abenomics generation (Nago 2017). “*Ikina-Rich*”, are less interested in luxury products and more into qualitative experiences such as travelling and purchasing homes (www.an-ya.com 2019). They have differing values to the *dankai* generation (discussed below). They are less interested in buying luxury goods and foreign brand products but rather more interested in gaining new experiences and enjoying life by travelling and spending time with family and friends (Nago 2019).

16. Single-person Households (*dokushin kizoku*)

a. Market Size

As in many other post-industrialized economies, Japan observes an increasing rise of individuals living alone. The phenomenon is called "*ohitorisama*" or "on your own" (Hiyama 2018). The number of single-person households was rising continuously, up from 25% in 1995 to over 35% in 2015 (Lufkin 2020). Like many other OECD countries, Japan shows an increase in smaller family units and individuals living alone, a trend which has continued since 1970 (Figure 20).

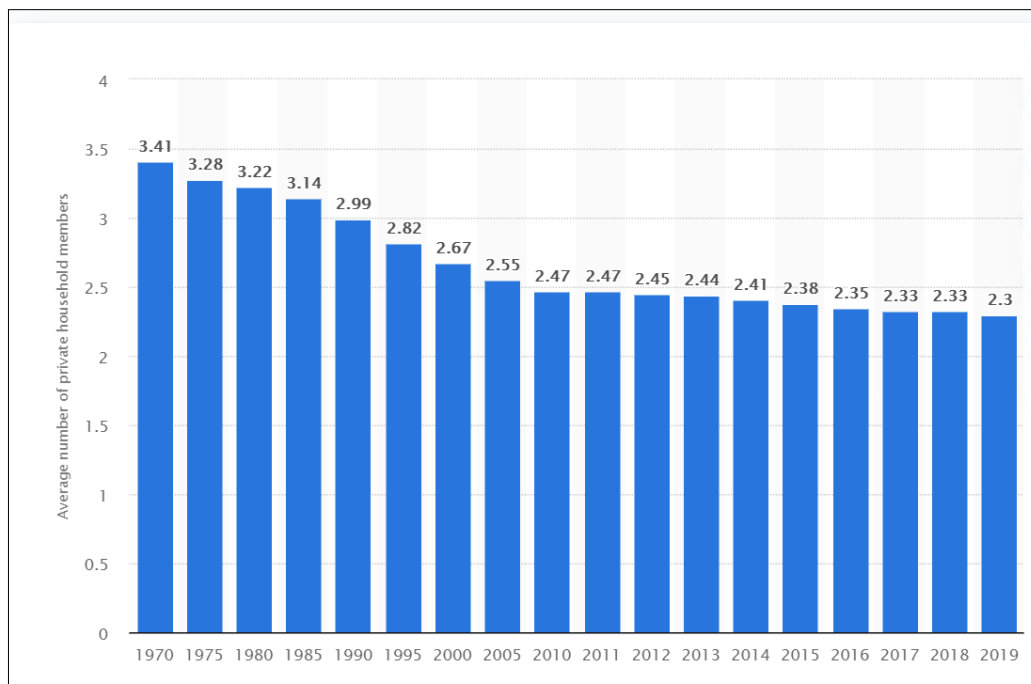


Figure 22 Average Number of Members per Private Household in Japan from 1970 to 2019 (Statista Research Department 2020a)

In 2020, about 60% of households are couples with or without children. One-person households are increasing and represent nearly 35% of all households (Societe General 2020). By 2040, more than nine million people are expected to be living alone in Japan (Francis 2020). The proportion of single-member households is expected to surpass 30% in all of Japan's 47 prefectures and reach 48.1% in Tokyo, with the national average coming to 39.3% (Abe 2019). Fifty percent of the population aged 15 or older will be living in single-person households by 2040 (Lufkin 2020).

The rise of single households in Japan has been steady in past decades. In 1965, only 1.5% of men and 2.5% of women remained unmarried at age 50. By 2016, these figures had jumped to more than 23% for men and 14% for women (Dalton and Dales 2018). It is expected that the proportion of single-member households will continue to grow, with the number expected to increase from 18.42 million households to 19.94 million over the same period. In particular, the growth of single-member households is expected to be high in Saitama, Chiba and Kanagawa prefectures around Tokyo, ranging from 12 to 20% (Abe 2018).

One-person household are not the symbol of a certain age group. Despite the increase of one-person households in Japan, 61% of single men and 67% of single women aged 25-29 years old still live with their parents and often rely on them for financial support (www.an-yal.com 2019). The number of single-member households comprising elderly people aged at least 65, which stood at 6.25 million in 2015, accounting for 11.7% of all households, will likely rise to 8.96 million by 2040, or 17.7% of the total (Abe 2018). Lufkin (2020) refers to this development as "The 'super solo society', characterised by young people who never get married and the elderly who become single again after being widowed, will be the future of all countries."

Japanese single consumers are expected to become the largest consumer group in the next two decades, even becoming larger than the group of silver consumers (Dalton and Dales 2018).

b. Disposable Income/Wealth Distribution

The yearly average of monthly consumption expenditures per household of total households was ¥249,704 JPY in 2019, showing an increase for the first time in six years. The yearly average of monthly consumption expenditures per household of one-person households was ¥163,781 JPY in the same year (Statistics Bureau of Japan 2019a).

c. Purchasing Preferences

Single consumers typically control their own time and money and spend more freely than their married counterparts (Euromonitor 2020). The rising number of single-person households therefore led companies to increasingly design products and services tailored to singles (Turkki 2019). In past years, several trends have been observed:

i. Cocooning

Cocooning is not a new trend in Japan. Soon after the economic crisis in 2008, Japanese consumers started to spend more time at their homes. This was unusual because Japanese homes tend to be rather small in comparison to homes in Western countries and social activities mainly took place outside homes, in restaurants or hotels.

This behavioral change came—like many trends in Japan—with a new term for it: *sugomori*, or “chicks in the nest.” It started nearly 10 years ago when MyVoice Internet survey found that the top four ways people chose to spend their days off were surfing the Internet, watching television or reading the newspaper, sitting around the house, or listening to music (Salsberg 2010). This trend can also be seen among one-person households, whose owners have a strong desire to shape their living spaces into a style that suits them (Turkki 2019). Creating a special place just for themselves is a source of fulfilment and calmness. They seek to reduce stress by creating a private space filled with things they truly love (Euromonitor 2020). Hiyama (2018) observed this as “the solo market, with many also craving “me time” in a fast-paced, interconnected and workaholic society.”

ii. Enjoying Free Time

Japanese consumers living alone tend to value their freedom and spend their time and money on their hobbies and interests and activities that they enjoy (Euromonitor 2020). The average holiday duration of single full-time employees in Japan is 10.59 days per year, a lot less than in many other Western countries. This time is usually spent on “domestic travel” (35.5%), “overseas travel” (23.3%), “staying at home” (16.5%), others (12.8%) and “illness treatment” (5.3%) (Citizen Watch Co Ltd. 2016).

Japanese single consumers enjoy staying home during weekends or their free time to relax, clean their house, cook, sleep and watch TV. Many of them feel highly stressed at work and strive to create a relaxing and cozy environment at home (Euromonitor 2020).

17. Market-Wide Consumer Trends in Japan and Market

a. Organic Food

Japan has to import a lot of food. The country's self-sufficiency rate on a calorie basis was 38% in 2017, according to the Ministry of Agriculture, Forestry and Fisheries (MAFF) (Maurer 2019). In comparison to the European organic food market Japan is just at the outset but shows great potential. In 2016, Japan ranked as the seventh biggest organic food market in the world with annual sales of approximately ¥143 billion JPY or €1.18 billion euros (Organicnetwork, 2016). In contrast, sales of organic food in Europe have increased from €20.8 billion euros in 2012 to €30.7 billion euros in 2016 (News European Parliament, 2020). Sales of organic foods have increased by 1 to 2% annually since 2014. The larger health food market reported sales of around \$7 billion in 2018 (Maurer 2019).

b. Functional Food

“The term ‘Functional Foods’ was first developed in Japan to refer to foods with added ingredients that claim to provide extra health benefits beyond the nutritional value included in ordinary food itself. Functional food includes additional nutrients such as vitamins, fibre, protein, minerals and other components with a functional purpose” (González 2020). The estimated market size of functional food products in Japan is ¥300 billion JPY (US\$ 2.8 billion) in 2020, an increase of 38.6% since 2018 (Koe 2020).

c. Ethical Living and Consumption

The term “Ethical Consumption” refers to selecting and consuming products and service that are friendly to people, society, and the environment. It is also said to be the "fourth measure" of product selection after safety and security, quality, and price (Yatomi City 2020).

Since the multiple disasters of March 11, 2011, the theme of ethical consumption appears to be of increasing importance in connection with the growing awareness of contributing to a sustainable economy and society (Central Research Service 2020). The COVID-19 crisis has raised awareness of new workstyles, such as telecommuting, satellite offices and work that combines remote work and leisure in rural areas and tourist destinations. Interestingly, when investigated "whether they intend to move in response to the epidemic of the new coronavirus infection," nearly half of the remote workers in their 20s living in Tokyo "are considering moving" (Yoshimoto 2020).

The term “ethical consumption” has become widespread in Japan in recent years (Central Research Service 2020). Euromonitor (2020) describes the influence factors on this new interest in ethical living and consumption in Japan: On the one hand the Japanese government stressed sustainability in its campaign preceding the Tokyo Olympics planned for 2020. At the same time, changes in consumer attitudes worldwide also affect Japanese consumer: Japanese consumers are slowly beginning to understand the importance of sustainable consumption as the country has recently dealt with the serious damage caused by multiple natural disasters. As in many affluent societies, there is a trend in Japan to focus less on material wealth. By buying ethical or environmentally friendly products benefiting society, Japanese consumers are taking a more responsible position and influence corporate strategies (Euromonitor 2020). Half of consumers believe they are more environmentally conscious about shopping than they were a year ago, but they are not willing to buy ethical products if they have to pay more for them (Societe General 2020). Ethical consumption in Japan is—as it is in other markets—also a means for self-expression (Euromonitor 2020).

d. C-2-C-Markets

Despite the abundance of retail possibilities, the second-hand retail market is thriving in Japan (www.an-yal.com 2019). Not only do customer-to-customer (C-to-C) markets play a role part of the sharing economy, but Japanese consumers also show an increasing interest in used goods that offer value for money.

Yahoo! Auction was the first internet company to allow consumers to sell and buy to and from each other and is still the market leader in Japan. However, it mainly targets a middle-class audience. It focusses on higher priced products and allows consumers to sell art, antiques and even real estate. Yahoo Auction also charges a rather high fee, so selling cheap items was not profitable for its users. Mercari’s new app was introduced at the right time. The company did not try to imitate Yahoo! Auction but rather offered a service to a segment that was not adequately served by other Japanese online businesses (Ng 2018). Amongst auction sites, Yahoo! Auction is the most popular with 18.8 million users, while Mercari is second with over 11 million monthly active users (Tamko 2019b).

Mercari is a C-to-C flea market app (Ng 2018), called *furima apuri* in Japanese. Mercari targets everyone who is interested in selling everyday items, such as clothes, CDs or baseball tickets. App users can take a picture of the item they would like to sell, upload it and offer it online within a few minutes. Mercari charges only a very low fee for its services, so even products for a few hundred yen can easily be sold with a profit. This allows users to quickly sell items

they do not need any more, even for only a few hundred yen. The company charges 10% of each sale it makes in Japan (Shu 2016).

18. Recommendations for European SMEs Planning to Enter the Japanese Market

a. The Customer is God!

As explained in this report Japanese consumers have more purchasing power than consumers in other Asian markets. The Japanese consumer market is shrinking rapidly which gives Japanese customer more influence. Japanese corporations have adapted and improved their products and services according to their target groups` wishes and expectations.

When entering the Japanese market European SMEs must provide a similar level of service quality, to be successful. Japanese consumers do not forgive bad service or product defects or inconvenience. Adapting to their high expectations is a must to be successful in Japan.

b. Choose the Right Products for the Japanese market!

European high-quality and lifestyle products have a very good sales prognosis in Japan: Japanese consumers are not only used to buying and experiencing new products, but they also have a high affinity for European lifestyle and design. Across many industries the Japanese market promises high margins, with innovation and design the most relevant factors. If possible, market tests before market entry are advised.

c. Prepare Carefully for Your Market Entry!

Entering the Japanese market needs good preparation and patience. Most successful foreign investors report that entering this market takes about three times as long as entering other markets. It is therefore advisable to use resources and support offered by local chambers or the EU-Japan Centre in Brussels and Tokyo.

d. Adapt Your Product!

Product adaptation is a major factor in successful market entry. Every foreign product needs to be adapted to local tastes and regulations. Import regulations in Japan can also be rather strict and lead to changes in business processes. One major question is whether to adapt the packaging, branding and marketing to the Japanese market and to lose the “foreignness” or to sell the product in its original form. When adapting, Japanese consumers` expectations are as high as with Japanese products; a traditionally foreign product can only be sold in special outlets (such as a foreign supermarkets), which may lose access to larger target groups. Products need to be of the highest quality. Small product flaws (e.g. scratches) that may be acceptable to consumers in other markets can ruin the image and positioning of a foreign product forever. Product quality must be consistent, always! Most foreign manufacturers have extra quality checks only for the Japanese market.

e. Learn About Japanese Business Customs and Culture!

It is very important to familiarise with Japanese business customs and expectations as well as to learn the basics on how to address and deal with Japanese customers.

f. Be Ready for Change!

Entering the Japanese market means change: if you want to enter the Japanese market there will be inevitable changes. It is highly recommended to develop a positive attitude towards change when entering Japan because not only will that make the changes easier to adopt, it will also show you the gains that it can be made from entering such a challenging yet promising market, which will only benefit your company in the long run.

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20. Appendix 2 Support and Information Links

Cabinet Office Japan

<https://www.cao.go.jp/index-e.html>

Consumer Affairs Agency Japan

<https://www.caa.go.jp/en/>

Japanese Consumer Policy (RIETI Japan)

<https://www.rieti.go.jp/en/special/policy-update/031.html>

Keidanren (Japanese Business Federation)

www.keidanren.or.jp

METI Ministry of Economy, Trade and Industry

www.meti.go.jp

The Japan Times

<https://www.japantimes.co.jp>

OECD Economic Survey Japan 2019

<https://www.oecd.org/economy/surveys/Japan-2019-OECD-economic-survey-overview.pdf>

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