



# E-commerce in Japan: Seizing the cross-border opportunity

The time is now for e-commerce merchants to succeed in Japan

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# Introduction

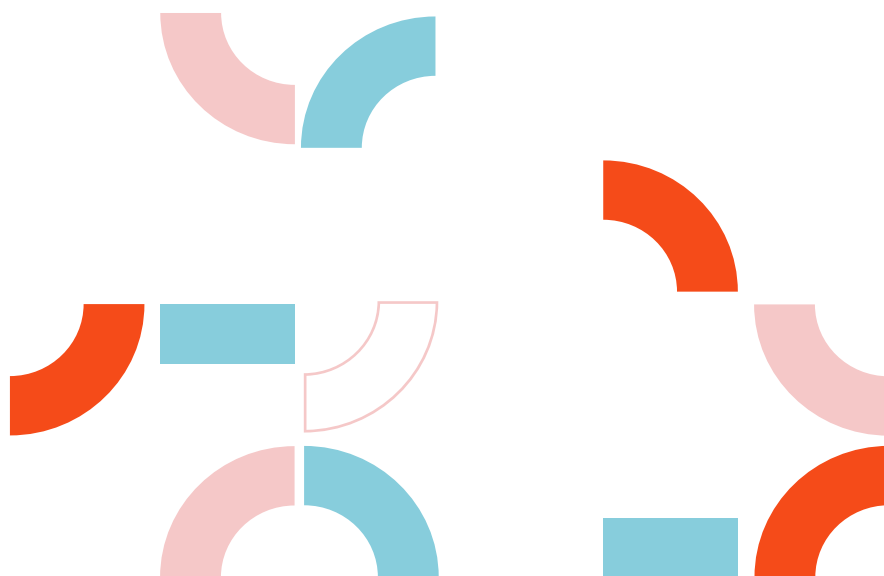
**Japan is the world's third-largest economy [1] and it's the third-largest e-commerce market [2]. Despite this, less than 10% of Japanese online consumers shop with merchants based in other countries [4]. To provide some comparison, that figure is 43% in China [3].**

Japan is open for commerce, scores highly on almost every business and civil society index you could hope for and is the most prosperous country in Asia — and one of the richest in the world.

Increasingly, Japanese consumers are cost-conscious, want global brands, are accustomed to shopping online, and have the disposable income to do so.

In recent years, Japanese consumers have also shown an increasing willingness to try new brands and experiences in their search for a bargain. All these factors point to Japan being a market which any e-commerce merchant or payment provider should want to enter.

In this report, we look at the state of the Japanese e-commerce market in 2020, the reasons why Japanese consumers are likely to be receptive to cross-border e-commerce, and how merchants can succeed in the Japanese online retail market.



## Footnotes

[1]. <https://www.nasdaq.com/articles/the-5-largest-economies-in-the-world-and-their-growth-in-2020-2020-01-22>

[2]. <https://www.export.gov/apex/article2?id=Japan-E-Commerce>

[3]. Original PPRO research

# The Japanese e-commerce market today

Japan's e-commerce market is worth \$160 billion and is growing in value at a rate of 9% a year [3]. To put that in context, only China, the US and the UK have more valuable online retail sectors [3].

Japanese online consumers spend, on average, \$1,666 a year with e-commerce merchants [3].

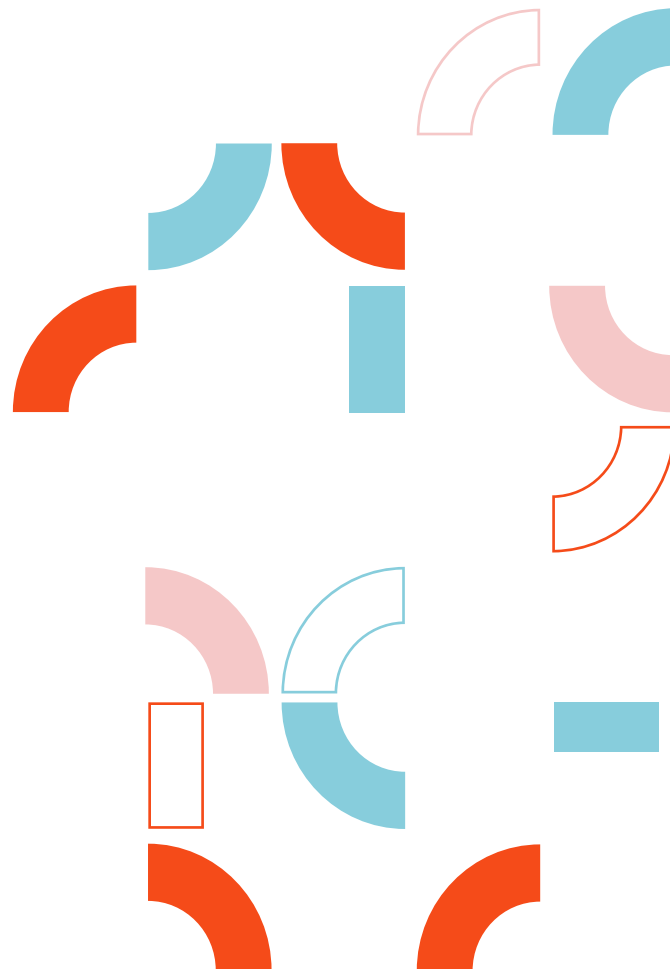
And this is even though online shopping only accounts for 9% of the total retail spend — considerably less than most comparable developed markets [3].

Less than 10% of Japanese online consumers have shopped outside of Japan [3]. Those who do shop cross-border make 29% of their purchases in China, 29% in the US, 12% in South Korea, and the rest in other global markets [3].

But there are already signs of a change in the air.

**//** *There are signs that Japan's online mega-platforms may soon be in for a shake-up.*

**//**

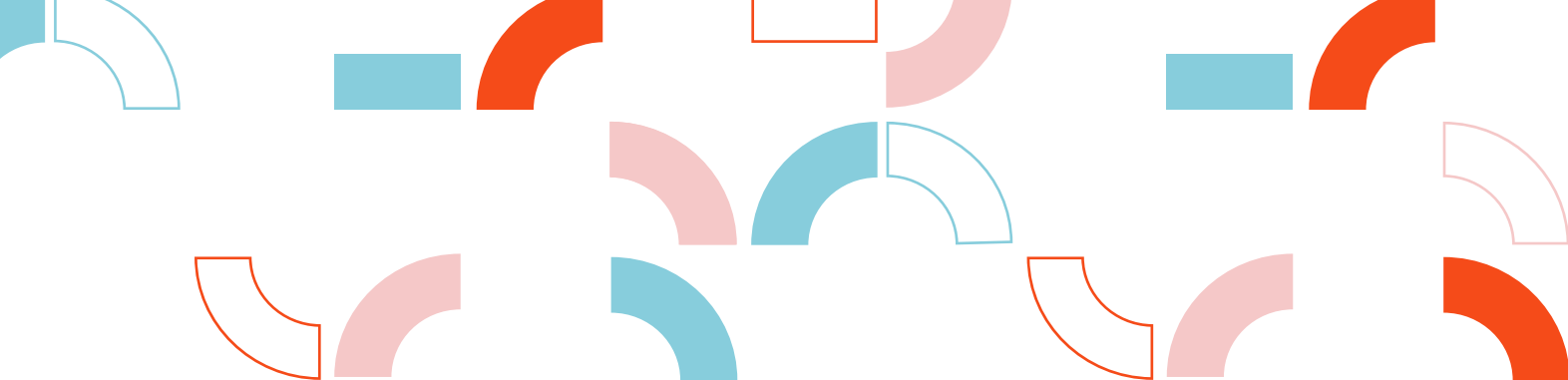


## Footnotes

[1]. <https://www.nasdaq.com/articles/the-5-largest-economies-in-the-world-and-their-growth-in-2020-2020-01-22>

[2]. <https://www.export.gov/apex/article2?id=Japan-E-Commerce>

[3]. Original PPRO research



**Two major players dominate the e-commerce market in Japan, Rakuten and Amazon. Exact figures are hard to come by, but most sources estimate that these two giants each sell over ¥1 trillion (or \$16 billion) worth of goods to Japanese online consumers each year [5] [6].**

The rest of the market is divided between smaller — though often still substantial — players. Late in 2019, one of these competitors, Yahoo Japan, spent \$3.7 billion buying the rival site Zozo, which specialises in fashion.

Yahoo Japan (now separate from its US parent and owned by Softbank) hopes to use the acquisition to attract younger consumers to its broader e-commerce offering [7].

There are, however, signs that all Japan's online mega-platforms may soon be in for a shake-up.

In 2019 the country's Fair Trade Commission announced an investigation into online marketplaces. This centred around the suspicion that the platforms were placing unfair burdens and costs on vendors using their marketplaces [8]. By early 2020, the investigation was still ongoing [9].

Japanese online shoppers love their mobiles. Fifty-four percent of all purchases are made on a mobile device of some kind [4]. EMarketer predicts that by 2021 Japanese m-commerce sales will be worth \$51 billion a year [10].

**// By 2021, Japanese m-commerce sales could be worth \$51 billion a year.**



## Footnotes

[4]. Original PPRO research

[5]. <https://www.statista.com/statistics/672782/net-sales-of-amazon-leading-markets>

[6]. <https://global.rakuten.com/corp/investors/documents/results/2018.html>

[7]. <https://www.wsj.com/articles/yahoo-japan-takes-on-amazon-rakuten-with-3-7-billion-deal-11568294798>

[8]. <https://asia.nikkei.com/Economy/Japan-antitrust-probe-to-target-Amazon-Rakuten-and-beyond>

[9]. <https://english.kyodonews.net/news/2020/02/a291a365c492-update2-antitrust-watchdog-searches-rakuten-over-its-free-shipping-policy.html>

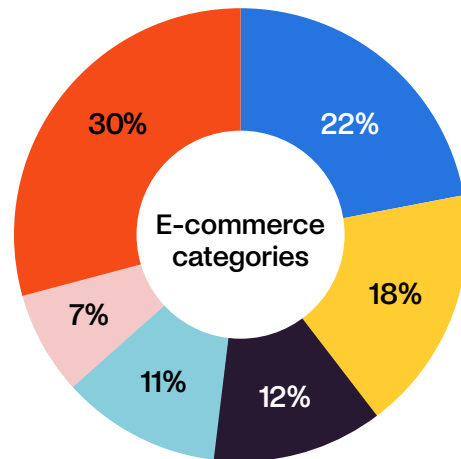
[10]. <https://www.emarketer.com/chart/215650/retail-mcommerce-sales-japan-2016-2021-billions-change-of-retail-ecommerce-sales>



# Fact file: Japan

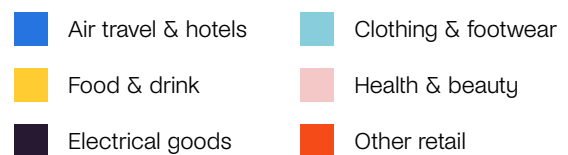
## The people

Population:	126.5 m
Population Online:	118.1 m
Population (15+):	110.3 m
Internet Penetration:	93.3%
Smartphone Penetration:	55.3%
Global Logistics Performance Index Rank:	5



## The economy

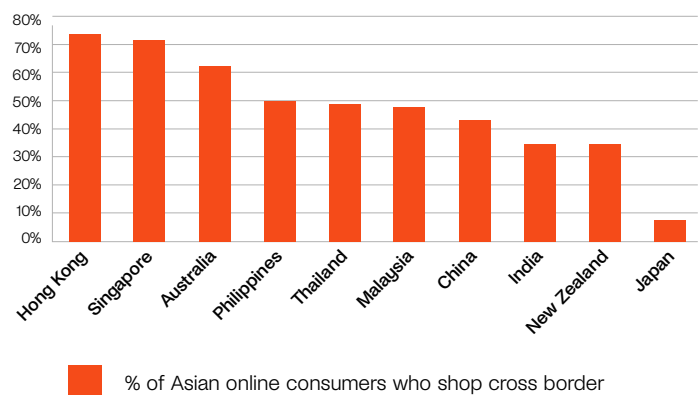
GDP:	\$5 tr
GDP per Capita:	\$39,287
Bank Account Penetration:	98%
Credit Card Penetration:	68%



## E-commerce stats

E-commerce Total Value:	\$160.2 billion
Growth Rate:	9%
% of All Retail Sales:	9%
Average Annual Spend:	\$1,666
Mobile Transactions:	54%

Cross-border e-commerce in Japan compared to other Asian markets



# Understanding Japanese consumer demographics

Japan is the world's most aged society with a median age of over 36 years [11]. Senior citizens, those over 65, now account for over 28% of the population [12]. The fertility rate is just 1.6 and is expected to remain unchanged until at least 2030 [13].

The ageing of Japanese society creates opportunities for those retailers who understand the needs of older consumers. The ready-meals market, for instance, is now worth almost \$20 million a year, up from \$15 million in 2010 [14].

According to the Nippon Foundation, much of the growth in this market is driven by time-conscious retirees [14]. In total, the affluent over-65s are responsible for 48% of all spending on personal consumption [15].

But this doesn't mean that there isn't a lucrative market among younger consumers.



## Footnotes

[11]. <https://qz.com/1295721/the-japanese-population-is-shrinking-faster-than-every-other-big-country>

[12]. <https://www.scmp.com/news/asia/east-asia/article/3027329/worlds-most-aged-society-just-got-older-japan-sets-new-records>

[13]. [https://ec.europa.eu/chafea/agri/sites/chafea/files/handbook-japan-2019\\_en\\_0.pdf](https://ec.europa.eu/chafea/agri/sites/chafea/files/handbook-japan-2019_en_0.pdf)

[14]. <https://www.statista.com/outlook/40080100/121/ready-meals/japan>

[15]. <https://www.nippon.com/en/in-depth/a04901/consumption-patterns-of-japan%E2%80%99s-elderly.html>



**In recent years, Japan's millennial consumers have shown themselves more willing than ever to spend on leisure, if the price is right.**

**Levels of car ownership, beer consumption and overseas travel, for instance, are all rising faster among younger consumers than for the population as a whole [16].**

In part, this is happening because younger workers are benefiting from the labour shortage in Japan. In contrast to those aged between thirty and fifty — who earn less now than they did a decade ago — workers aged under 30 now earn 5% more than they did ten years ago [16].

This divergence of economic fortunes requires a highly segmented approach to marketing and merchandising. Confident young consumers will respond differently to middle-aged householders experiencing financial retrenchment.

Another significant demographic trend is the rise of the single-person household. By 2040, an estimated 50% of Japanese adults will live alone [17].

Again, for retailers who understand the market, catering to Japan's singles can be a lucrative business.

Almost any sector that offers convenience, particularly associated with home delivery, has received a boost from this demographic over the last decade.

**By 2040, an estimated 50% of Japanese adults will live alone. Catering to the singles market can be a lucrative business.**

## Footnotes

[16]. <https://asia.nikkei.com/Economy/Japan-s-optimistic-millennials-shed-frugal-habits-and-lift-spending>

[17]. <https://www.bbc.com/worklife/article/20200113-the-rise-of-japans-super-solo-culture>



# Price sensitivity and consumer confidence

For most of the first decade of the new millennium, consumers experienced persistently low inflation and became used to stable prices [18]. Increasingly, however, firms faced with the rising costs of raw materials are either giving in and raising prices — in January 2020, average wholesale prices in Japan went up by 1.7% in response to increased oil prices — or reducing the size of their products, known in Japan as “shrinkflation” [18] [19].

Unsurprisingly, Japanese consumers — once considered highly brand loyal and willing to pay a premium for quality — have responded by shopping around for a better deal.

According to research by Santander, younger consumers are increasingly likely to shop around for a better price [20]. Fifty-five percent of consumers use the internet to research a major purchase with 44% saying they use price-comparison sites [21].

When asked what motivated them to choose a specific online retailer, the most common response was a wide product selection (53%). But 44% said cheaper shipping costs and 41% said a better price [21].

**“** Merchants entering the Japanese market may be wise to consider a price-and value-led strategy. **”**

## Footnotes

[18]. <https://asia.nikkei.com/Business/Business-trends/Japanese-consumers-balk-at-stealth-price-hikes>

[19]. <https://www.japantimes.co.jp/news/2018/02/09/business/japanese-consumers-increasingly-face-stealth-price-hikes-via-shrinkflation/#Xk1-fkrLe70>

[20]. <https://santandertrade.com/en/portal/analyse-markets/japan/reaching-the-consumers>

[21]. <https://www.sap.com/japan/documents/2019/03/8a71f803-3f7d-0010-87a3-c30de2ffd8ff.html>

**Consumer confidence in early 2020 was measured at 39.1 points, on a scale where 38 points represent the long-term average [22]. This is likely to vary; younger and better-paid workers are likely to feel more confident than middle-aged consumers, who have lost out economically in the last decade.**

**Confidence among older consumers tends to suffer as a result of any factor which drives up food prices [24]. Private domestic consumption accounts for about 60% of Japan's GDP [23].**

At the end of 2019, the Japanese government increased sales tax from 8% to 10% [24]. Some products, such as food and non-alcoholic beverages, are exempt from the increase. To offset the impact of the tax for smaller businesses, the government also introduced a points-based system for small shops which rewards shopkeepers for making cashless purchases [23].

Unfortunately, consumers did not respond well to the tax rise. Along with other factors — the impact of typhoons which hit the country in autumn and uncertainty arising from the coronavirus COVID-19 — retail sales fell in late 2019 and early 2020 [25]. Merchants entering the Japanese market may be wise to consider a price-and value-led strategy.



## Footnotes

[22]. <https://www.economy.com/japan/consumer-confidence>

[23]. <https://www.reuters.com/article/us-japan-economy-gdp/japans-gdp-thumps-forecasts-on-robust-consumer-business-sectors-idUSKCN1UY2XY>

[24]. <https://www.scmp.com/economy/global-economy/article/3030952/japan-consumers-cautious-spending-despite-expected-limited>

[25]. <https://asia.nikkei.com/Economy/Japan-s-retail-sales-plunge-following-tax-hike-and-typhoons>

# Why now is the time for Japanese cross-border e-commerce

Excepting the inhabitants of Macau and Hong Kong, Japanese consumers are the wealthiest in Asia [26]. One in every 17 Japanese households has over a million dollars indisposable assets [27]. And over most of the last two decades, Japanese consumer spending has been a dependable prop for the economy, even when exports faltered [28].

The Japanese are connected – 93% have an internet connection – and are willing to spend [4]. The country's e-commerce market is worth \$160 billion, and it continues to grow [4].

But this is not the whole story. In the final quarter of 2019, the Japanese economy contracted by 6.3%, mainly as a result of consumer spending falling in response to the new sales tax and other disincentives [29].

This downturn does not alter the fundamentals of the Japanese market: the wealth of Japanese consumers and their willingness to spend.

But it does disrupt their relationship with established brands and retailers.

**//** *Minor dips in the Japanese economy have opened up opportunities for new brands and retailers to capture consumers shopping around for better value.*



## Footnotes


[26]. <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?end=2018&start=2013>

[27]. <https://www.carterjmrn.com/market-research-blog/craziest-rich-asians-are-still-japanese.php>

[28]. <https://www.bloomberg.com/news/articles/2019-08-07/japanese-consumers-help-prop-up-economy-during-export-slump?sref=chWJcN7x>

[29]. <https://www.wsj.com/articles/japans-economyshrinks-as-sales-tax-increase-cools-consumption-11581898410>





**Consumers who have decided that they won't spend because of financial uncertainty may be open to switching their loyalty to a new retailer, if that retailer can both win their trust and offer them better value.**

We've seen this strategy work in other markets. German discount retailers successfully used a value-first strategy to increase their share of the British grocery market from under 6% at the time of the financial crisis to 14% today [30].

The Japanese economy is not likely to stay depressed in the long term. The Japanese government considers the influence of the sales tax and other factors, such as COVID-19, to be temporary disruptors. Not permanent dampeners. It still ranks the economy as "recovering at a moderate pace" [31].

The challenge then is for retailers to enter a disrupted market that is ready for newcomers offering better value. And to do it in a way that wins consumer trust and acceptance and will allow that retailer to absorb a greater share of consumer spend as the market rebounds.

## Footnotes

[30]. <https://www.statista.com/statistics/300656/grocery-market-share-in-great-britain-year-on-year-comparison>

[31]. <https://www.bloomberg.com/news/articles/2020-02-20/japan-still-sees-economy-recovering-despite-recession-forecasts>



# The importance of localisation

**English proficiency among Japanese consumers is relatively low. Exact figures are hard to come by, but estimates put the proportion of Japanese who speak and read workably fluent English at less than 10% [32]. And a 2019 survey placed Japan lower on international rankings for English proficiency than it was when it was first tested in 2011 [33].**

Over 70% of Japanese consumers say that they will only buy from sites that are in Japanese [34]. At the same time, Japanese shoppers are peculiarly sensitive to the impact of bad content.

In a recent survey by Adobe, 43% of Japanese consumers said the thing they most disliked about retail and brand websites was poor content [35].

Edelman, in its trust barometer, rates Japan as a low-trust society [36]. One of the quickest ways to lose trust is to do a poor job of translating content into Japanese.

To ensure smooth market entry and a quicker uptake, work with companies able to localise into Japanese to the highest possible standards.



## Footnotes

[32]. [https://www.mitsue.co.jp/english/global\\_ux/blog/201709/14\\_1700.html](https://www.mitsue.co.jp/english/global_ux/blog/201709/14_1700.html)

[33]. <https://www.nippon.com/en/japan-data/h00594/japan%E2%80%99s-english-proficiency-drops-among-non-english-speaking-countries.html>

[34]. <https://www.kwintessential.co.uk/blog/localisation/new-research-localization-important-successful-global-e-commerce>

[35]. <https://tamko.co/en/blog/content-and-the-japanese-consumer-survey-2019>

[36]. <https://www.edelman.com/post/japan-know-trust-challenges-forward-momentum>



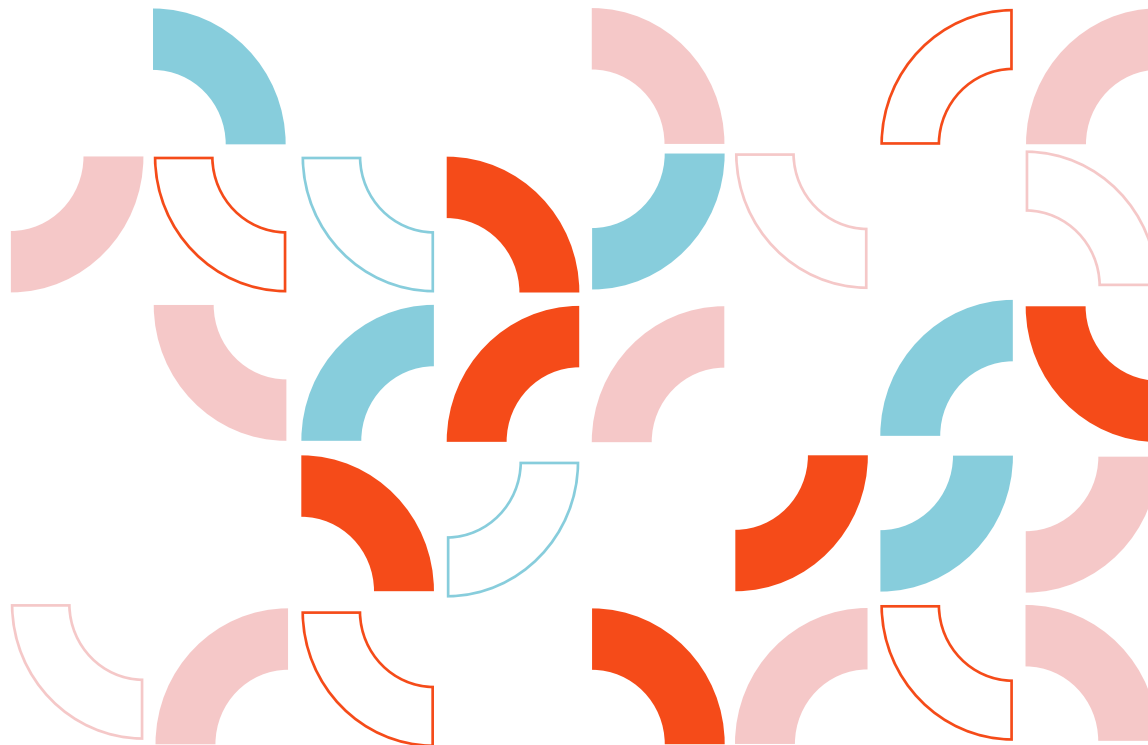
# Quality: the key to trust for Japanese consumers

A recent study of consumer preferences in Japan found that 65% of Japanese online shoppers are likely to stop using a brand if they see that brand in a 'low quality' environment [37].

More than 80% of respondents said it was important that brands appeared in a high-quality context.

This has clear implications for online retailers; even at a time when Japanese consumers are looking for lower prices, e-commerce sites and apps still need to look slick.

*Even at a time when Japanese consumers are looking for lower prices, e-commerce sites and apps still need to look slick.*



## Footnotes

[37]. <https://www.campaignasia.com/article/japanese-consumers-shun-brands-in-low-quality-environments/455143>

# Japan's reliance on cash

**As you might've inferred already, Japanese consumers are cautious shoppers. In addition to a focus on quality and value, consumers in this market are often risk-averse and sensitive to data collection.**

A whopping 4 out of 5 purchases are still made with cash in Japan, despite its global position as a high-tech, innovative country [38]. Cash remains a huge part of the payment culture in Japan, even in the current pandemic.

When it comes to e-commerce, there are several popular payment methods that enable consumers to pay in cash for purchases they make online. Among them are Konbini convenience store payments and Pay-easy. (However, for shoppers more comfortable with digital payments, Pay-easy also offers online bank transfers.) These two local payment methods are new to PPRO's platform this year, offering payment service providers and their merchants a way to boost conversion with Japanese shoppers.

**Footnotes** [38]. <https://www.japantimes.co.jp/news/2019/08/21/business/cash-king-aging-japan/#.XrL6FRNKjBI>

## Konbini: a part of Japanese daily life

With Konbini convenience store payments, consumers can make purchases online and pay in cash at over 50,000 locations including 7-Eleven, Lawson, and FamilyMart – three shops that own the lion's share of the market – as well as Ministop, Seicomart, and Daily Yamazaki.

In Japan, these shops are more than a convenient place to quickly grab necessities; they are a part of daily life. As such, accepting Konbini payments is a must-have for running successful e-commerce in Japan.

## Pay-easy enables online and offline payments

Pay-easy – which has the most comprehensive network of banks in Japan – gives consumers two convenient, secure options for e-commerce payments: online bank transfers and offline cash payments at ATMs and post offices. Both payment flows give prudent Japanese shoppers a way to shop online without providing personal card details or accruing credit-based debt.

By accepting bank transfer payments, merchants can enable shoppers to checkout using an online payment method that is the second most popular in Japan.

# Local cards in Japan

Credit card penetration is 68% [4] and 68% of all online purchases are made using a card [4].

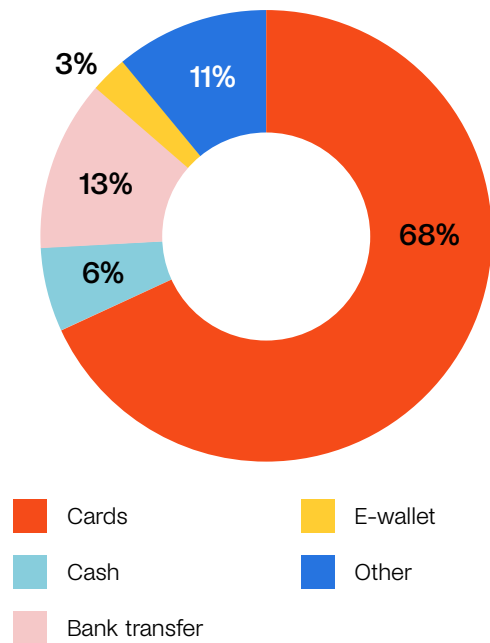
This is so similar to markets such as the US (66% credit card penetration) or the UK (65%) that retailers entering the Japanese market might make a dangerous assumption.

They might assume they can use their existing payment infrastructure and rely on strategies that work well in their other markets. This is not the case.

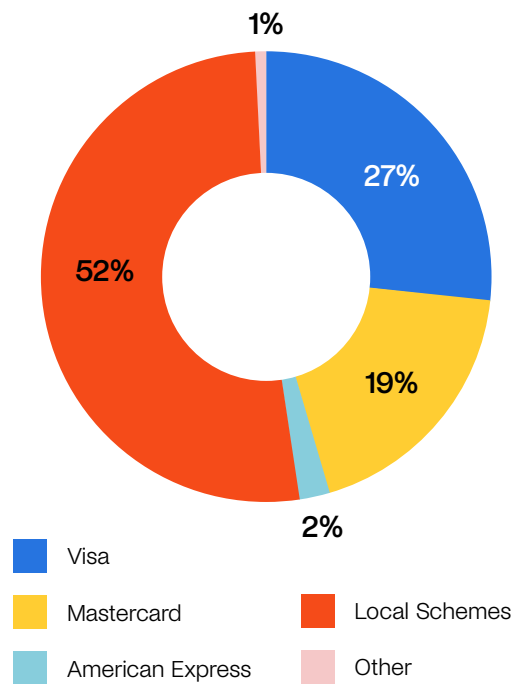
For a start, 52% of all online card transactions made in Japan are completed using locally issued cards [4].

The Japanese do not use standard Western-brand credit cards to anywhere near the same extent as consumers in other markets.

Payment methods in Japanese e-commerce



Card scheme breakdown by value









# Conclusion

For many e-commerce providers, Japan has often seemed like a market that was too complex and too different.

For this reason, even as cross-border e-commerce has boomed in neighbouring China and other Asian states, it has only grown slowly in Japan. This is a lost opportunity.

Of all the countries in the region, Japan is perhaps the most open and ready to do business. Internationally, it ranks far higher than average for rule of law, honesty in government and ease of doing business. Japan's population enjoys world-class connectivity, has the highest GDP per capita in the region — and Japanese consumers are used to and enjoy shopping online.

With Japanese consumers more cost-conscious than ever, there is every reason to believe that merchants with the right offering, the right sales approach and — crucially — the right localisation, can win big in Japan.

*Of all the countries in the region, Japan is perhaps the most open and ready to do business.*



# Boost conversion in Japan with the right payments mix

To speak to someone about adding popular Japanese payment methods to your package, get in touch at: [contact@ppro.com](mailto:contact@ppro.com)

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PPRO is the world's leading local payments platform-as-a-service, removing the complexity of domestic and cross-border payments for top-tier financial institutions, payment service providers, and their merchants.

PPRO provides partners with the ability to accept locally preferred payment methods like e-wallets, bank transfers, cash, and local cards in more than 175 countries across the globe. Through one contract and one API.

PPRO's powerful platform does it all – processing, collecting, reconciling, reporting, settling funds, and more – and we've got market experts in every region so that partners can turbocharge their speed-to-market and increase conversion in every corner of the world.

To find out more, visit: [www.ppro.com](http://www.ppro.com)





PPRO builds local payments infrastructure designed to help businesses gain access to new markets and new customers – because payment choice drives sales.

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