



The new Japanese consumer

Brian Salsberg

The attitudes and behavior of Japanese consumers are shifting dramatically, presenting opportunities and challenges for companies in the world's second-largest retail market.



Seductive shelves piled with goods lure shoppers to a big-box retailer in Japan, where the company hopes to popularize deep-discount, bulk-purchase retailing.

After decades of behaving differently, Japanese consumers suddenly look a lot like their counterparts in Europe and the United States. Celebrated for their willingness to pay for quality and convenience and usually uninterested in cheaper products, Japanese consumers are now flocking to discount and online retailers. Sales of relatively affordable private-label foods have increased dramatically, and many consumers, despite small living spaces, are buying in bulk. Instead of eating out, people are entertaining at home. Workers are even packing their own lunches, sparking the nickname *bento-danshi*, or “box-lunch man”.

This fundamental shift in the attitudes and behavior of Japanese consumers seems likely to persist, irrespective of any economic recovery. That’s because the change stems not just from the recent downturn but also from deep-seated factors ranging from the digital revolution to the emergence of a less materialistic younger generation. An examination of the strategies of leading Japanese and multinational companies, along with interviews with more than two dozen executives of the most significant retail and consumer industry players, shows how consumers are changing and why. It also suggests the kinds of moves—such as rethinking relationships with customers and becoming more flexible about sales channels—that businesses must take to seize the opportunities created by Japan’s new normal.

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How Japanese consumers are changing

Japanese consumers have long been both distinctive and reassuringly predictable. Unlike their counterparts in Europe and the United States, they eschewed low-priced goods, preferring high-end department stores and pricier regional supermarkets. They were willing to pay high prices for quality products, and their love of brands sparked the emergence of a mass-luxury market where owning expensive, exclusive products seemed essential rather than aspirational. This combination helped boost the country's retail sales to an estimated ¥135 trillion (\$1.48 trillion) in 2008, second only to the United States. Yet Japan's consumers are rapidly changing, in four primary ways.

Hunting for value

Japanese consumers are reducing costs and questioning their famous inclination to pay for convenience: a September 2009 MyVoice Internet survey found that 37 percent had cut overall spending, while 53 percent declared themselves more likely to “spend time to save money” rather than “spend money to save time.” In apparel, high-end department stores concerned about the vanishing shopper have started leasing space within their stores to value-focused competitors such as casual-clothing chains Uniqlo and Forever 21, hoping that this will revive customer traffic. Japan's leading skin care companies are more aggressively introducing lower-priced products. Luxury-goods companies are watching a decade of growth disappear, with year-on-year sales declines of 10 to 30 percent.

What's more, sales of private-label products are booming. Experience in many North American and Western European markets suggests that once people switch to private brands, they rarely change back. Japan is in the early stages of this transition: until recently, the private-label penetration rate was just 4 percent, compared with the global average of 20 percent.¹ Japan's largest retailer, Seven & I, which operates 7-Eleven convenience stores and Ito-Yokado general-merchandising stores, expects private-label sales to grow by about 60 percent, to ¥320 billion, this fiscal year.

Spending more time at home

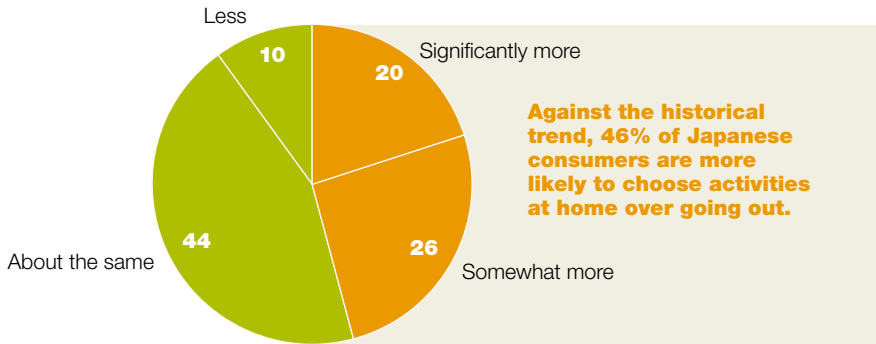
The Japanese used to spend little time at home, as a result of factors such as long work hours and small living quarters. Yet almost 50 percent of a representative sample of consumers across a range of age groups and geographies are now spending somewhat or significantly more time there. The suddenness of this behavioral change has prompted a term for it: *sugomori*, or “chicks in the nest.” In fact, a September 2009 MyVoice Internet survey found that the top four ways people chose to spend their days off were surfing the Internet, watching television or

¹ *Private Label Trends, Update 2009*, Planet Retail, January 2009.

The growing stay-at-home segment has earned its own nickname: *sugomori*—‘chicks in the nest.’

Compared with 1 or 2 years ago, how much time are you spending at home?

% of respondents (n = 3,003)



Source: Internet survey of Japanese consumers conducted for McKinsey, Nov 2009

reading the newspaper, sitting around the house, or listening to music. “I’ve seen people staying in more,” said Ernest Higa, CEO of Higa Industries, which operates Domino’s Pizza in Japan. “They’re not going out, because of the economic crisis.”

Buying products differently

Japanese consumers are changing not only what they buy but also how they buy it. Long given to shopping near their homes, they are now more willing to travel. They are also deserting department stores in unprecedented numbers, preferring to spend their time in malls and stand-alone specialty shops. Asked by a March 2009 MyVoice Internet survey to explain their defection from department stores, they cited expensive products, “annoying staff,” and an “inability to shop at my own pace.” Consumers are favoring venues that satisfy needs beyond shopping, such as eating and entertainment.

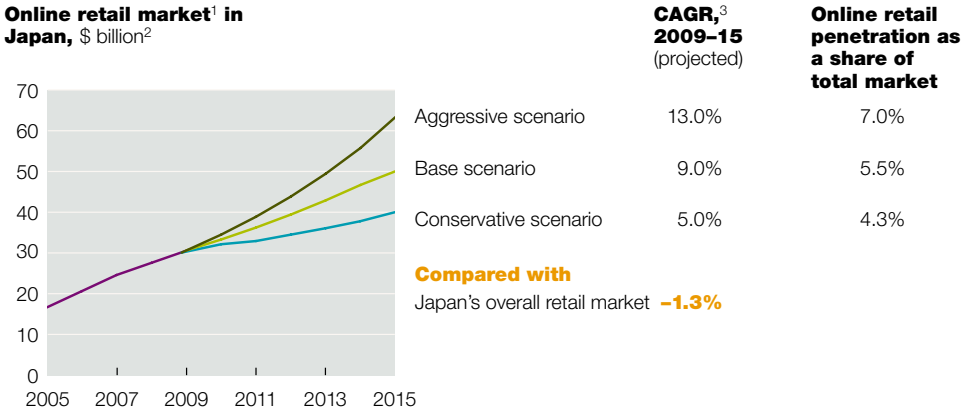
Online shopping is central to both the economizing and the nesting trends. While Japan has one of the world’s highest broadband penetration rates, it has lagged behind developed markets such as United Kingdom and the United States in the willingness of its consumers to shop online. Many explanations have been advanced for this peculiarity: Japanese consumers love the physical shopping experience; mobile-phone screens are too small; the density of retail establishments means that online shopping has less of a convenience advantage; credit card penetration is low.

Whatever the root causes, Japan has shrugged off its reluctance: according to an April 2009 MyVoice Internet survey, more than 50 per cent of consumers are buying more online than they were just 12 months ago. “Mobile technologies are empowering consumers to make smarter decisions about what they buy,” said Duncan Orrell-Jones, senior vice president and general manager of Disney Interactive Media (Asia-Pacific). The total online market for physical goods (excluding ticket sales and electronic downloads of media such as music, movies, and software) is estimated to be nearly \$30 billion, compared with only \$1.3 billion in 1999.² When Domino’s, for example, launched an Internet-based home-delivery service, in 2004, the company’s first long-term internal target was to have 5 percent of home-delivery orders placed through it. To Higa’s surprise, “over 35 percent of our sales today are through the Internet.”

It’s worth underscoring the tight relationship between online shopping and broader shifts in consumer behavior. In a consensus-driven society where individual choice and expression have historically been frowned upon, the ability to browse products, compare prices, and make purchases relatively anonymously is creating new attitudes and empowering consumers. An interesting example is health care, where

²Sales figure for 1999 from Jason Dedrick and Kenneth L. Kraemer, “Japan E-commerce report,” Center for Research on Information Technology and Organizations, University of California, Irvine, December 2000.

The Japanese Internet retail market will grow to at least \$50 billion by 2015.



¹Excluding sales of tickets and electronic downloads of media such as music, movies, and software.

²Average exchange rate in 2009: \$1 = ¥100.

³Compound annual growth rate.

Source: Euromonitor International, Dec 2009; “Current and expected landscape of mail order/e-commerce business in 2008-2009,” Fuji-Keizai; “Research on utilization in Japan 2008,” Japanese Ministry of Economy, Trade, and Industry (METI); McKinsey analysis

the Japanese have traditionally been deferential to authority figures such as physicians. Yet according to a nationwide January 2009 Nomura Research Institute survey, 89 percent of Japan's people are somewhat or very interested in managing their own health care decisions.

Being health- and environment-conscious

Japan has always been perceived as one of the world's healthiest societies, thanks to a combination of lifestyle, diet, and genetics, and Japanese consumers are increasingly conscious of their health. A September 2009 MyVoice Internet survey suggests that spending on health, sports, and recreation, for example, has held up better than virtually any other retail category. One effect of the greater interest of the Japanese in directing their own health care has been the growing popularity of drugstores, which have been Japan's fastest-growing retail channel since 2000: store numbers have increased by 4 percent and sales by 8 percent.

Environmental consciousness has been emerging for some time. A survey conducted last year by the global advertising agency J. Walter Thompson found that 51 percent of Japanese consumers are somewhat or much more focused on the environment than they were a year ago; only 7 percent were less focused. A November 2009 McKinsey survey found that 84 percent of the respondents preferred to buy environmentally friendly everyday consumer products, and that preference is translating directly into business success. Consider, for example, Coca-Cola's I LOHAS (Lifestyles of Health and Sustainability) water, whose selling points include a reduced carbon footprint: bottles are made from 12 grams of recyclable PET³ plastic (rather than the standard 26 grams) that can be twisted and compressed when recycled. I LOHAS is also bottled locally, reducing transportation costs. Less than 12 months after launch, it has become Japan's top-selling brand of single-serve bottled water.

Despite such success stories, Japanese consumers, like their counterparts in many other markets, have hard-nosed attitudes about paying for green goods and services. Just 16 percent of Japanese respondents to a recent McKinsey survey expressed a willingness to pay more for them.

Why behavior is changing

Three factors are contributing to these trends—first and most obviously, the current economic downturn. Just as European and US consumers have become more frugal, so have the Japanese. There's also a longer-term trend at work: Japan's economy has been relatively weak for nearly two decades. The changes that has wrought—such

³Polyethylene terephthalate, a thermoplastic polymer resin.

as the disappearance of life-long jobs and the increase in part-time and temporary labor—is fuelling consumer anxiety. The most recent (October 2009) J. Walter Thompson AnxietyIndex suggests that 90 percent of Japanese consumers feel anxious or nervous, the highest rate of any country in the world. While some money-saving behavioral changes (spending less, buying through different channels, going out less) stem from the downturn, it has in all likelihood primarily accelerated changes under way for some time.

Related to this anxiety is a second factor: the emergence of a new generation with radically different attitudes. This generation—people in their 20s—has grown up through Japan’s difficult economic climate, never knowing the boom times the two previous ones experienced. Its lifestyle has prompted the nickname the *hodo-hodo zoku*, or “so-so folks” (or, even worse, “slackers” or “herbivore men”). Many shun

corporate life and material possessions and are more pessimistic and more likely to be unemployed than their elders.

These young men and women present a challenge to marketers. As the CEO of a leading sports-

apparel company in Japan recently said, “For the first time, we have a generation of consumers that aren’t at all persuaded by what the professional athletes are wearing. We need a fundamental rethink of how to approach this next generation.” In addition, these consumers tend to be more willing to spend money on services than products and on technology than other goods. In December 2008, when a goo Research Internet survey asked Japanese women aged 20 to 26 which products (of any kind) exhibited superior design, for instance, four of the top five were made by Apple, and just a handful of luxury goods made the list.

A final factor driving the change in attitudes and behavior is a series of small, largely unrelated regulatory actions. In March 2009, for example,



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Japan's government reduced the maximum freeway toll on weekends to ¥1,000 regardless of the distance traveled—a huge discount that encouraged trips outside Tokyo to big-box discounters and large-format retailers such as Costco and Ikea. Other examples include regulations allowing the wider sale of over-the-counter drugs; a mandate that all employees over the age of 40 (about 50 million people) take a test to determine whether they are at risk for conditions such as diabetes and high blood pressure and, if they are, requiring them to exercise and diet; and recent changes to reduce underage smoking. The Japanese government has also pushed to increase awareness of and access to health remedies, in part to address the challenge of paying to treat these conditions.



All these changes add up to a new playing field for domestic and international companies. Because Japanese consumer behavior is shifting closer to that of shoppers in Europe and the United States, retailers and manufacturers can look to those markets for guidance. For starters, they should place greater emphasis on generating and maintaining customer loyalty and be willing to experiment with new store formats that better match the way consumers now shop. Companies also should embrace online shoppers for any product, from the high to the low end, given their increasing numbers. “Marketers must begin to think about digital marketing as an extension of the product itself and not just an extra piece of media,” said one Japan-based chief marketing officer of a major consumer products multinational.

The author would like to acknowledge the contributions of Tomoko Hibino-Niitani and Todd Guild to this article.

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The shift to value has already generated some unlikely winners—McDonald's has become Japan's biggest-selling restaurant chain—and helped companies that have traditionally struggled to gain traction. Ikea has become Japan's second-biggest furniture retailer. Costco membership is at an all-time high. Wal-Mart Stores' Japanese operation, Seiyu, reported its best financial results since entering the market. Amazon.com is doing remarkably well. Non-Japanese players are enjoying unprecedented success, and local manufacturers and retailers must respond proactively. Some are thriving—furniture group Nitori has excelled in a down market, as has online retailer Rakuten—but others may need to seek mergers to reduce operational costs and remain competitive, or partner with major retailers to bypass wholesalers and middlemen.

One thing is certain: the world's second-largest consumer market is changing as Japanese consumers increasingly resemble their Western peers. For Western companies that have long regarded selling in Japan as not only different but also difficult, this may be welcome news indeed. ○

