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Attractive Sectors

Retail



Introduction

Japan boasts the world's second largest retail market, with a value exceeding US\$1,124 billion (135 trillion yen, 2007). In addition to its size, the enormous influence of Japan's retail industry attracts global attention as being the origin of many Asian trends. For retailers in particular, the Japanese market offers an abundance of diverse opportunities to sell products and services that offer luxury, style, convenience and high value.

Luxury

The Japanese market remains to be a significant source of revenue for high-end retailers. Premium international brands continue to enter the market and expand their store networks within Japan.

Style

Japanese consumers exhibit some of the world's keenest interests in fashion styles and trends. Fashion from other countries that offer distinctive characteristics find broad acceptance in the Japanese market, while contributing a piece of their own identity to the exciting and vibrant apparel market in Japan.

Convenience

Japan's non-store retail market is rapidly expanding, centered on the Internet and mobile phone mail orders. A diverse range of new business models has evolved, offering foreign firms extensive opportunities for entry into non-store retailing as well.

High Value

The highly-developed nature of the Japanese market rewards foreign companies offering high-value products and services that improve the lifestyles, environment, and health of consumers.

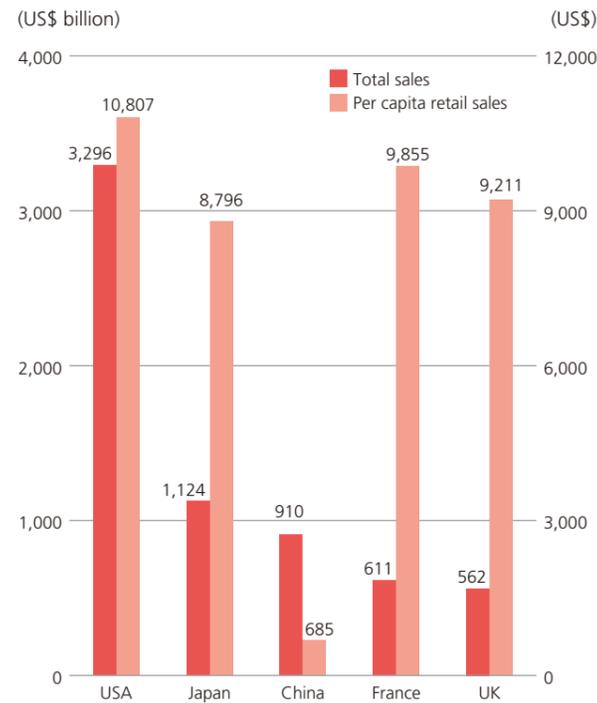


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Market Overview

Total & Per Capita Sales of Top 5 Retail Markets



Source: "Global Retailing 2009," IGD

Japan's Retail Market

Japan's retail market is the world's second largest, worth some US\$1,124 billion (135 trillion yen) in 2007. Benefiting from a base of sophisticated consumers with high levels of disposable income, per capita retail expenditures have reached US\$8,800.

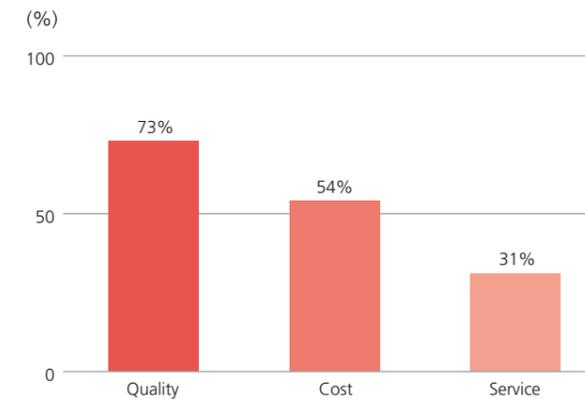
Japan is a mature market, yet it hums with the dynamic development of new businesses, urban renewal, and local city development, presenting a broad range of opportunities for market entry.

Japan's Retail Sector Attracts throughout Asia

Japan's retail market attracts consumers from across Asia. The number of tourists traveling to Japan from other parts of Asia continues to grow, with roughly 35% citing 'shopping' as one of their reasons for visiting*. Moreover, women's fashion magazines from Japan are especially popular in China, Taiwan, Hong Kong and South Korea, highlighting the power of Japanese retail to resonate throughout Asia. For foreign companies, Japan's market holds significant opportunities for advancing into other Asian markets.

*"Survey of Conditions of Visitors to Japan" (2006-2007), Japan National Tourist Organization (JNTO)

High Standards for Products Demanded by Users



Source: "Survey on Attitudes of Foreign-Affiliated Companies toward Direct Investment in Japan 2007," JETRO

Consumers Value Quality

Japanese consumers are known to place significant value on quality, a fact foreign retailers have used in their global business. It's often said that products succeeding in the Japanese market will have a better chance of success in other markets around the world. Companies significantly improve the quality of their products and services by incorporating into their product development feedback gained from highly discerning Japanese consumers.

Foreign Companies Have Penetrated Japan's Market

Foreign retailers have achieved broad acceptance in the Japan market by introducing products that meet the preferences and style of Japanese consumers. Entry into Japan's domestic market by foreign retailers typically follows three models:

1. License tie-up with a Japanese firm
2. Establishment of a joint venture with a Japanese firm
3. Establishment of a wholly-owned subsidiary

There have also been many successful cases in which foreign retailers have utilized all three models: first entering the Japan market through license tie-up, then—after attaining market knowledge, sales, and marketing capability—forming a joint venture, before finally making the transition to a wholly-owned subsidiary of their parent company.



Luxury



Key Sector:
High-End Specialty Stores

Japan is one of the world’s top markets for luxury goods, and for many of the world’s first-class retailers operating in the Japan market, their total sales in Japan are often comparable to that in their home country. In addition, many firms position the Japanese market not only as a consumer market but as a test market for premium products.

In recent years, the world’s leading brands have followed one after another in opening and expanding their own exclusive stores in Japan, many of which are positioned as global flagship stores. Some brands use their Japan stores to refine their latest innovations. Hermès, for example, set up its first cafe at one of its Tokyo stores.

Market penetration by high-end brands can also be seen in the clusters of numerous brands in a single shopping district, where retailers have opened many street-facing shops and in department stores.

Recent Trend among Leading Premium Brands

Jewelry / Watches / Fragrances	
BVLGARI	Opened its large-scale store in Ginza in 2007. Features a Bridal Salon and VIP room, the first Bulgari restaurant and bar in Japan and an open terrace lounge on the top floor.
Cartier	Opened its renewed Ginza store in 2007, with gold-colored exterior walls. Established its first ever online shop in 2008, targeting Japan.
CHANEL	Opened its first restaurant in the world in Ginza in 2004. Opened roof terrace restaurant "Le Jardin De Tweed" on the top floor in 2006.
Swarovski	Opened its first ever flagship store in Ginza in 2008. The store design, created in collaboration with Japanese product designer Tokujin Yoshioka, will be adopted for all main Swarovski global stores in the future. The first store to offer Swarovski’s full product line.
Bags / Accessories	
GUCCI	Opened the company’s first “Gucci Building” (i.e., occupied exclusively by Gucci) in Ginza in 2006. Includes a cafe and gallery. Has begun offering the world’s first special ordering for handbags.
HERMÈS	Opened its renewed “Maison Hermès” in Ginza in 2006. The first Hermès store in the world to include a cafe. Introduced the “Yohji” bag designed in collaboration with Japanese designer Yohji Yamamoto in 2008. Opened an online boutique in 2008.
PRADA	Opened one of the largest Prada boutiques in Japan in Ginza, and the “Epicenter Store” in Minami-Aoyama, its largest flagship store in Japan, in 2003.
Men’s Fashion	
ARMANI	Opened its flagship “Armani/Ginza Tower” in Ginza in 2007. The store, which also houses the Japan head office, includes a restaurant with a food/clothing/housing theme and its first ever esthetics salon.
dunhill	Opened its new concept store “HOME” in Ginza in 2007, prior to launching the stores in its base market in London. The theme is “space for the adult male.” Also houses a bar, lounge and barber shop. The interior design was created by Japanese product designer Tatsuya Matsui.

Source: Newspaper reports, etc.

Ginza – a Symbol of Japan’s Consumer Market

With so many premium brands attracted to Japan, Tokyo’s Ginza in particular has become a world-class fashion district rivaling New York’s Fifth Avenue and the Champs-Élysées in Paris. With its beautiful cityscape of department stores, Japanese shops of old standing and multi-tenant buildings, Ginza also boasts numerous restaurants, movie theaters and other leisure establishments. The area is thronged not only with Japanese shoppers but also with tourists from throughout Asia, who come to shop among Ginza’s many attractions. Against the backdrop of this content-rich environment, in recent years

many luxury brands have established Ginza flagship stores in buildings dedicated exclusively to their own brands. Often, these stores offer product lines comparable to that offered in flagship stores in their home markets.

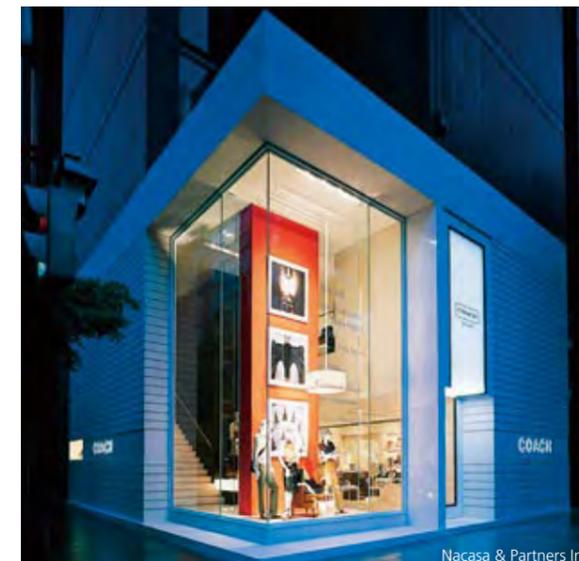
Beyond other Tokyo areas such as Omotesando and Shinjuku, where street-facing shops and directly managed stores are numerous as well, many leading brands have opened stores in other regions of Japan, giving rise to clusters of brand name shops in popular shopping districts such as Osaka’s Shinsaibashi and Fukuoka’s Tenjin.

Case Study:
COACH JAPAN

Establishment: 2001
Country: United States

This leading marketer of American handbags and fine accessories has made impressive inroads into Japan. Coach first entered the Japanese market through an exclusive distribution agreement with Mitsukoshi, a leading Japanese department store. As sales continued to grow, the company diversified its distribution and in 2001 established Coach Japan Inc., a joint venture with Sumitomo Corporation. In 2005, Coach, Inc. acquired Sumitomo’s 50% interest in Coach Japan, making Coach Japan a wholly-owned subsidiary, to enhance its ability to drive the firm’s Japan business.

Coach occupies a unique pricing tier between luxury European brands and domestic brands, and positions its brand as “accessible luxury.” Japan is already Coach’s second-largest market after the United States and the flagship store in Tokyo’s fashionable Ginza district is one of the company’s highest performing locations worldwide. The company has also been looking at expanding its network of stores and increasing its market share in Japan.



Nacasa & Partners Inc

“COACH’S DISTINCTIVE PROPOSITION AS AN ACCESSIBLE LUXURY BRAND RESONATES WITH CUSTOMERS WORLDWIDE AND PARTICULARLY WELL IN JAPAN WITH THE CONSUMER TREND TOWARD VALUE.”

– Victor Luis, President and CEO, Coach Japan Inc.

Style

Key Sector:
Apparel Specialty Stores



Apparel specialty stores are flourishing in Japan, appealing to customers with finely-crafted images that target each consumer's sense of style. Foreign apparel retailers presenting a variety of distinct styles have opened specialty stores in Japan and have been well received. Such retailers typically enter the Japan market on their own or partner with a Japanese firm.

The Surge of Global "Fast Fashion" Apparel

U.S. clothing retailer Gap, which entered the Japanese market in 1994, today manages more than 100 stores across Japan and is steadily expanding the company's Banana Republic brand, a subsidiary that launched its first Japan store in 2005.

Spain's ZARA, a brand being developed by INDITEX Group, opened its first Japan store in 1998. With a repeat purchase rate in Japan are surpassing that in other countries, the brand is steadily expanding its store network. The company first established a joint venture with a Japanese firm when it entered the market, then transitioned to a wholly-owned subsidiary.

The Swedish firm H&M created a wholly-owned subsidiary, and followed up with the opening of its first Japan store in Ginza in September 2008. In its promotions and marketing, H&M places its primary emphasis on conveying a consistent brand image, to thoroughly ensure identical brand communications in every country.

Recent Trends at Leading Foreign-Owned Apparel Companies Operating in Japan

Company	Date of Entry	Activity
Casual		
Brooks Brothers Japan (U.S.)	1979	Opened its Ginza headquarters, its largest flagship store in Japan, in 2004.
Diesel Japan (Italy)	2003	Opened its premier Asian flagship shop in Ginza in 2008.
HANESBRANDS JAPAN (U.S.)	1992	Located its Asian business general headquarters in Japan in April 2006, which also plays a role in the company's growth in East and Southeast Asia.
Gap Japan (U.S.)	1994	Opened the first foreign store of its "Banana Republic" subsidiary brand in Ginza in 2005.
Zara Japan (Spain)	1997	Became a wholly owned subsidiary of the Spanish head office in 2005.
H&M Hennes & Mauritz Japan (Sweden)	2008	Opened its first Japan store in Ginza in 2008.
Outdoor / Sports		
adidas Japan (Germany)	1998	Opened its first Asian Performance Center in Shinsaibashi, Osaka in 2004. Opened Performance Center Harajuku in 2008.
Puma Japan (Germany)	2003	Established PUMA Apparel Japan through a joint venture with Hit Union in 2006.
MAMMUT SPORTS GROUP JAPAN (Switzerland)	2007	Opened its first domestic flagship store in Omotesando in 2008.

Source: Company websites and newspaper reports, etc.

Japan's Apparel Market

The development of multiple brands by major apparel manufacturers is frequently cited as one characteristic of Japan's apparel market. A single company may develop several brands that are defined by gender, age bracket and concept, handling every process, from manufacturing to sales. With domestic manufacturers taking an approach of regularly scrapping and building brands, Japan's apparel market demands a branding strategy that can capture clearly identified consumer needs.

A format known as select shops, which marketers have created for managing multiple unique brands at a single location based on a retailer or store concept, has also proven viable. Companies such as BEAMS and UNITED ARROWS typify this approach. The manufacturer-affiliated retail SPA business is also expanding rapidly, as seen in the explosive growth of Uniqlo.

Case Study:
ZARA JAPAN

Establishment: 1997
Country: Spain



Zara Japan was established in 1997 as a joint venture of Inditex Group, Europe's largest apparel company, and Japan's BIGI Group. The firm became a wholly-owned subsidiary in 2005, when Zara embarked on a campaign to extend its store network across Japan.

After ten years in Japan, Zara has gained a wide experience and a good understanding of the demands of Japanese customers. As a result, their Japan stores appeal to a wide range of age groups and professions, offering a high level of customer service and quality products in the latest styles at attractive prices. Inditex highly values its Japan business, and views the market as vital in its Asia-Pacific operations.

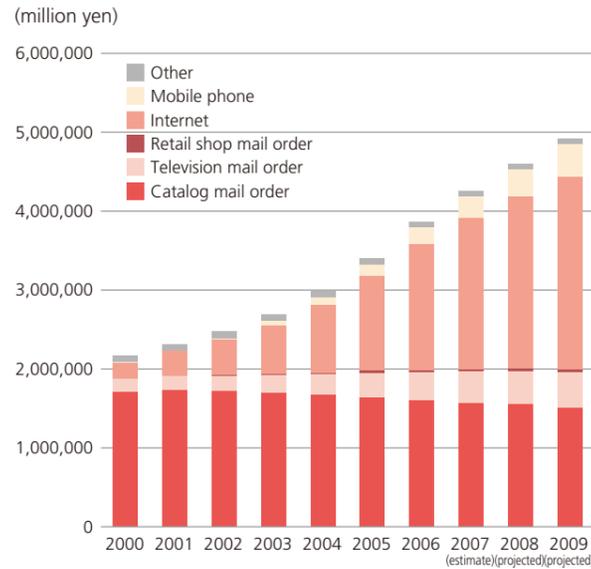
"JAPAN AND JAPANESE CUSTOMERS HAVE ONE OF THE HIGHEST KNOWLEDGE AND SENSIBILITY FOR FASHION. NO ONE RELATED TO THE FASHION MOVEMENT CAN DEVELOP THEIR BUSINESS WITHOUT BEING IN CONTACT TO THE JAPANESE MARKET."

– Jesús Echevarría, Chief Communications Officer (CCO), Inditex, S.A.

Convenience

Key Sector:
Non-Store Retail

Change in Market Size by Type of Non-Store Retail Channel



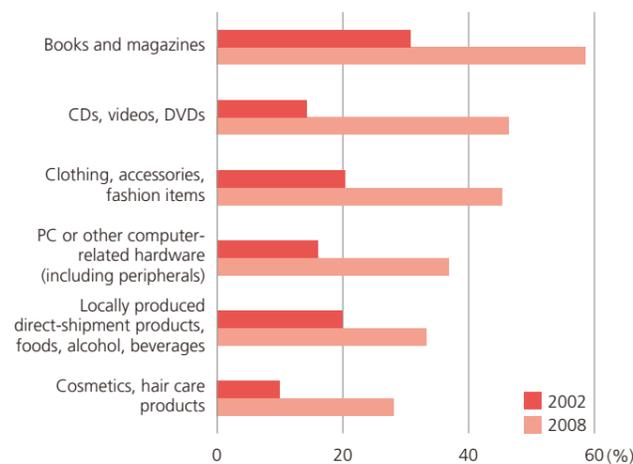
Source: "Mail Order and e-Commerce Business 2007-2008: Current Status and Future - Enterprise Edition," Fuji-Keizai

Japan's consumer-oriented e-business continues to grow annually, reaching approximately 4.4 trillion yen in 2006, an increase of 27.1% over the previous year. In addition to catalogs and TV shopping channels, sales via the Internet and mobile phones have shown remarkable growth in recent years. And these sales have spread beyond traditional items such as home electrical appliances, personal computers, books and software, to include lifestyle goods, apparel items and more. The market is growing not only due to the convenience of anywhere/anytime shopping, but also because these channels enable retailers to offer products and information different from that in their retail outlets and distribute previously unavailable niche merchandise.

Businesses such as manufacturer-affiliated retailers and consumer electronics stores also have successively entered the online market, and foreign companies are not an exception. Online retailer Land's End entered the Japan market in 1993 and has steadily established its brand, while Toys"R"Us launched its Internet sales business in 2000 and Cartier established its first online shop (in Japanese) in 2007.

Moreover, with the proliferation of such sales channels and the realization of two-way communication by way of broadcast digitalization, television mail order is predicted to boom as well.

Online Shopping (products purchased)



Source: "Internet White Paper 2008," Access media/impress

Considerations in Choosing Purchasing Channels

	At a store	Via websites of PCs	Via websites of mobile phones
Want to buy as cheaply as possible	74.4	71.2	62.8
Want to spend as little time as possible in buying	32.7	32.0	28.4
Want to buy high quality products	57.6	37.5	31.1
Want to buy difficult-to-obtain articles	4.7	23.6	15.7
Want to buy only after comparing multiple articles	38.0	35.6	18.1
Want to buy only after fully understanding details	39.5	34.4	22.4
Want to buy without having to go around to various stores	20.1	22.4	11.8
Want to shop at a store with a plentiful selection of goods	46.0	14.6	8.5
Want to shop at a store where I can feel at ease	53.0	34.0	29.3
Want to buy products that meet my standards	22.2	21.6	14.2
Want to buy goods which are in vogue	6.4	5.7	4.2

Source: "Information and Communications in Japan, White Paper 2008," Ministry of Internal Affairs and Communications

Mobile Phone Non-Store Retail Market

Japan's Internet penetration rate, which has risen to about 70% (end of 2007), is characterized by the fact that 80% of all users surf the web with their mobile phone*1.

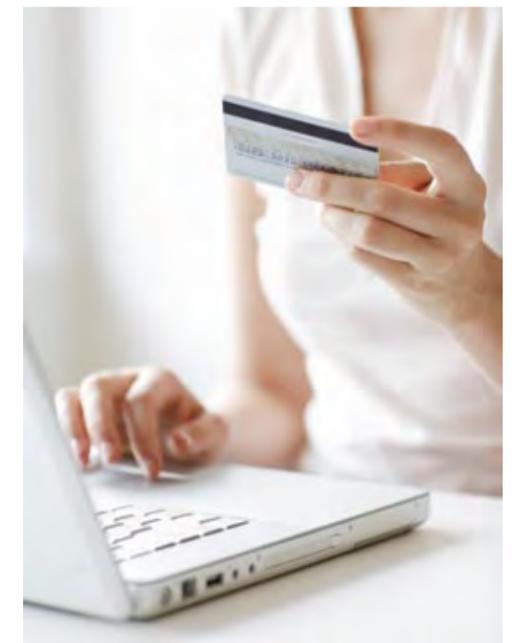
The mobile phone Internet services market has expanded rapidly in recent years, driven by enhanced mobile phone functions, faster transmission speeds, and lower connection charges. The number of consumers who use their mobile phone for shopping has climbed to 36%, centered on consumers in their 20s and 30s*2.

A recent example is the linking of a fashion show with mobile phone shopping. Attendees of the show can buy items on the spot through their mobile phones.

New business models that combine the existing reach of media communications with the real-time convenience of mobile phones is creating limitless possibilities.

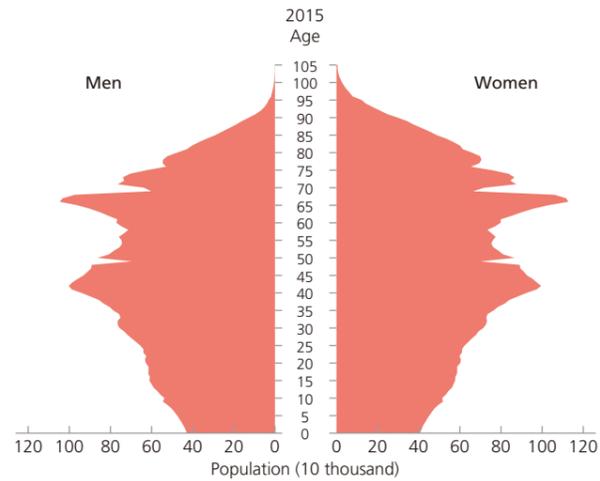
*1 Telecommunications Usage Trend Survey, Ministry of Internal Affairs and Communications

*2 Mobile Phone White Paper 2008, Access Media/impress



High Value

Japan's Population Pyramid (2015 forecast)



Source: National Institute of Population and Social Security Research

Key Sector:
Lifestyle

Japan's material well-being has encouraged active investment to support more fulfilling lifestyles. Foreign firms whose products and services can offer a new perspective of life, or added value that is in line with environmental and health consciousness, are well placed for growth and success in the Japan market.

Lifestyle Markets

Japan's consumer market is witnessing the growing presence of two generations that are pursuing new lifestyles: the first is the "baby boomers"—those born during the late 1940s and who are now approaching retirement years and enjoying high disposable income and time; the second group is their children—the so-called "second-generation baby boomers"—who are currently establishing households of their own. These two groups are expected to generate robust demand for lifestyle-related products and services.

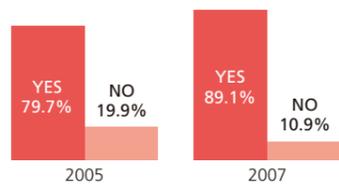
Interior shops offering living spaces attuned to various styles and design preferences cater to consumers demanding a higher quality of life. The entry of foreign brands such as IKEA (Sweden), CASSINA IXC. (Italy) and BoConcept (Denmark) have invigorated the market. With the home furnishings market providing one more sector that is attracting attention, sales at companies such as Ryohin Keikaku and SAZABY LEAGUE, a developer of quality products representative of Japan, are also exhibiting strong growth. In another example, interior goods firm Alessi (Italy) established a Japanese corporation in 2008.

Environmental Awareness Taking Root

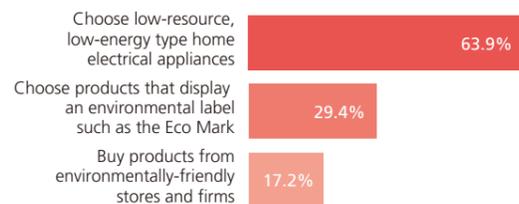
Concern for the environment is receiving greater and greater emphasis in the Japanese market. Already, "green purchasing" among public institutions and firms is well established, and the number of consumers considering not only price but the environment when selecting products has also grown. Indeed, consumers show a strong preference for products with a low environmental impact (i.e., those that reduce energy consumption and waste and utilize environmentally-conscious or "green" design.)

Consumer Attitude on Daily Shopping

Q. Do you consider aspects such as waste, resources and energy when purchasing daily products?



Q. How would you describe your practices?



Source: "National Lifestyle Monitor Survey 2007," Cabinet Office

Awareness of Health and Nature

Rising concerns can be noted among Japanese consumers regarding health and safety. Numerous firms have sought to win consumer support by introducing traceability mechanisms and working to clarify details of the manufacturing processes and marketing channels for their products.

Greater attention is also being given to natural products. In cosmetics, for example, sales of products using natural ingredients are showing steady growth and the market is expanding. Foreign producers of such natural skin and hair care products, including LUSH (U.K.) and L'Occitane (France), have been widely accepted in Japan.

While U.S. and European firms have been the main manufacturers to enter this sector, companies from other regions, such as Laneige and Misha from South Korea, and Jurlique and Perfect Potion of Australia, have also increased their presence in recent years.

Case Study:
IKEA JAPAN

Establishment: 2002
Country: Sweden



The IKEA Group was founded in 1943 and is now one of the largest home furnishing retailers in the world with approx. 250 stores in 24 countries.

IKEA prides itself on the ability to propose home furnishings capable of coordinating living space with specific lifestyles, while supplying furniture interiors geared to present mixes of superb design and function at truly reasonable prices. The products and services they offered has been welcomed by Japanese consumers with its simple, natural and healthy tastes.

IKEA established IKEA Japan K.K. in 2002 and opened its first store in Funabashi, Chiba in 2006. Currently IKEA operates 5 successful stores in Kanto and Kansai region and plans to continue its expansion over the years to come as well.

"JAPANESE CUSTOMERS ARE VERY WELL EDUCATED, SO THEY UNDERSTAND THE DIFFERENCE BETWEEN A PRODUCT THAT'S HIGH-PERFORMANCE AND LOW-COST RATHER THAN THE OPPOSITE."

– Lars Petersson, President and CEO, IKEA Japan

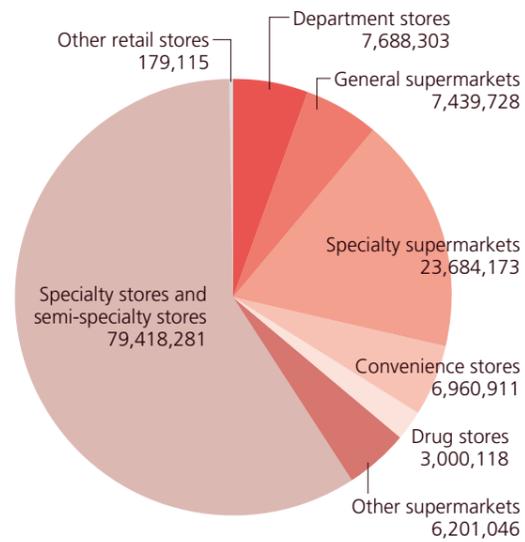
Introduction to the Retail Business in Japan

Major Forms of Retail Business in Japan

In Japan's retail market, various businesses compete by taking maximum advantage of their distinctive characteristics. As social conditions and lifestyles have evolved, business conditions have diversified, markets have moved upscale and new opportunities have been created.

Basic retailers such as department stores, supermarkets, convenience stores (CVS) and specialty stores have transformed along with the changing times. Shopping centers that combine these retail businesses have been developed in a variety of urban and suburban formats, and offer a range of possibilities. In every case, branding and business development that address each area and target market are the key. Outlet malls and "100 yen shops" have also established a strong presence, and mail order sales via the Internet and mobile phones have been displaying remarkable growth as well.

Annual Merchandise Sales (million yen)



Source: "Census of Commerce (FY2007 Bulletin)," Ministry of Economy, Trade and Industry

Form	Characteristics	Trends
Department store	Large-scale retailers in locations with a large population and convenient transportation that sell high-quality products such as clothing, food and interior/lifestyle items.	Japan's major department stores have been undertaking large-scale reforms since 2003. Other notable changes include improvements in customer service capabilities, sales promotions targeting their best customers and construction of barrier-free stores.
Supermarket	General merchandise store (GMS)	Large-scale stores that retail practical clothing, food and interior/lifestyle items. Characterized by extensive inventory and high volume sales.
	Supermarket (SM)	Retailers with sales floor space 250m ² or more, with specialty goods products accounting for 70% or more of all items sold. (In the case of a food specialty supermarket, for example, foods account for 70% or more of all items sold)
Specialty store - Semi-specialty store	Retailers that stock a limited number of specialty products sold by knowledgeable sales staff. (Specialty store: specialty products account for 90% or more of all items sold; Semi-specialty store: specialty products account for 50% or more of all items sold.)	Specialty stores and semi-specialty stores still form the backbone of the retail sector; it is the category with the most foreign companies, including exclusive brand stores and apparel specialty shops.
Convenience store (CVS)	Self-service retailers that deal mainly in food and beverages, and have a sales floor area between 30m ² and 250m ² and whose business is open 14 or more hours per day.	Located in residential areas and along office streets, with around-the-clock operations being the norm. Have evolved as "life support bases" for consumers of all ages by offering services such as ATMs, payment windows for public utility charges and mail order payments, reservations and purchases of airline, movie, concert and other tickets, and receipt of products purchased by mail orders.

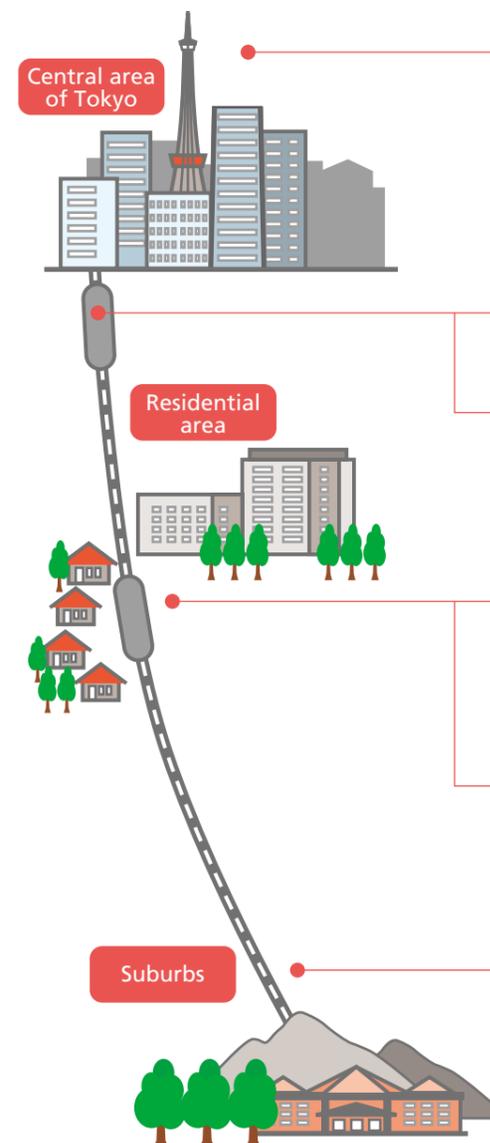
Shopping Center Industry Trends

Japan has approximately 2,800 shopping centers, with an estimated gross sales of 27 trillion yen in FY2007 (Japan Council of Shopping Centers research).

These shopping centers seek to support consumers' new lifestyles by bringing together a range of stores, centered on apparel brands by manufacturers and select shops, as well as service businesses such as restaurants and cinemas.

Moreover, shopping centers are increasing rapidly in attractive locations near mass transit stations, including within buildings located above or across from stations and even within stations themselves.

Types of Shopping Centers



- Offer high-end products**
Central urban hybrid commercial facility
 Located in city center or near major stations, the facility is formulated in combination with shopping centers, offices, museums and hotels, etc.

 Tokyo Midtown (Roppongi)
- Cater to daily commuters**
Station building
 Customers can enter the building directly from the station; bustles with crowds of tourists and individuals commuting to work and school.

 Ebisu Station "atré"
- Ekinaka**
 Commercial facilities located inside station premises, referred to as "ekinaka," have been spreading rapidly in major metropolitan areas that serve multiple train/subway lines.

 Shinagawa Station "ecute"
- Provide combined entertainment and shopping experience**
Themed formats, regional formats, etc.
 Located near residential areas, in a facility that combines a shopping center with restaurants and amusement facilities.

 LaLaport TOYOSU (Tokyo)
- Local-community type commercial establishment**
 Located near residential areas, and provides local convenience and daily needs. Has a large parking lot as an annex.

 Otaka no Mori S.C (Chiba)
- Offer lowest possible prices**
Outlet malls
 Outlet malls offer numerous retail stores aimed at product inventory clearance. Located in the vicinity of an expressway interchange or near a main suburban station.

 Gotemba Premium Outlets®