

Chapter 2 Japan growing with Asia's development - Asia -Pacific framework toward sustainable growth

Section 3 : Expansion of Asian consumer market. Targeting to be a quality market

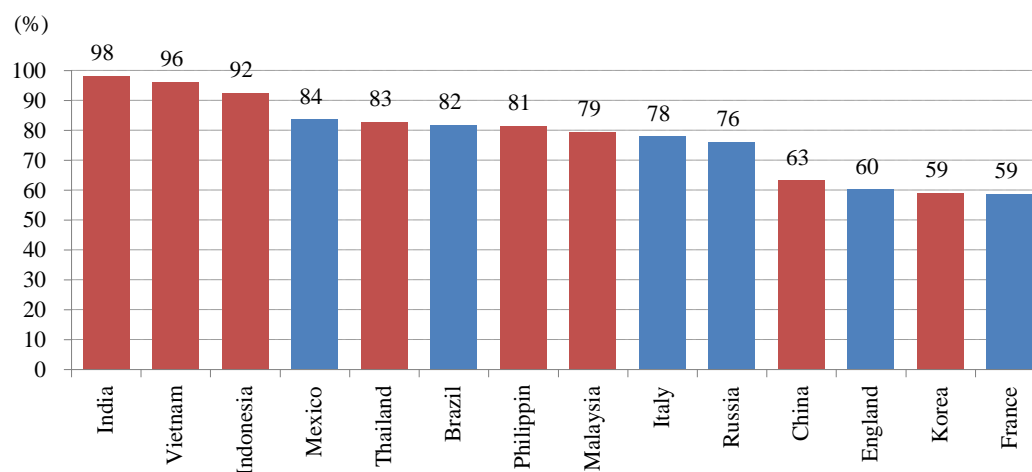
3. Diversified Asia's sales models

(1) Small retailer as main players in Asia's consumption market

Since logistic networks and distribution systems are not as developed as those in developed countries, more consumer goods are distributed through small retailers rather than large-scale retail chain stores.

The share of small retailers in total consumer goods sales exceeds 90% in India, Vietnam and Indonesia (see Figure 2-3-3-1). In small cities such as Third and Fourth class cities⁴ in China, there are many non-chain supermarkets, mom-and-pop operations and local diners. Although demand for many consumer goods is surging in these areas, Japanese companies tend to neglect in terms of their investments. For example, the research conducted by McKinsey & Company⁵ reveals that the recognition rate for Japanese brand TV was 35% in First class cities while the rates are low in Second class cities or lower (see Figure 2-3-3-2). On the other hand, Chinese companies retain high recognition rate by selling products that suit needs even in small cities.

Figure 2-3-3-1: Percentage of sales of consumer goods sold through small retailers by country



Note: Sales ratio passed retail stores, except hypermarkets,supermarkets,departmentstores, from sales volume of consumed goods
Data: Euromonitor International2010

(2) Online shopping expanding in Asia's consumer market

The expansion of Asian consumer market is also observed with the enhanced online-shopping services supported by the prevalence of the Internet.

China already acquired the world top position in terms of the number of Internet users while India is the world fourth despite its low penetration rate (see Table 2-3-3-3). China's B to C e-commerce market has been doubling every year (see Figure 2-3-3-4). Along with the prevalence of the Internet, it is expected that China and India will lead the world online shopping market. Moreover, online

⁴ China classifies its cities into 5 classes according to their populations and economic sizes. First class city includes cities under direct control of the central government and special administrative regions such as Beijing, Shanghai and Hong Kong. Third class is for coastal cities with developed economy and high income levels including Guilin, and Forth class is for cities with 1 million of population or cities with high economic focus such as Luoyang.

⁵ Brian Salsberg, Osamu Kaneda, Jayson Chi, Gordon Orr (2009) "Winning the Chinese Consumer - Opportunities for Japanese Companies" McKinsey Asia Consumer and Retail

shopping market is forecasted to grow further in Asian emerging countries as their income levels rise and the Internet becomes more widely available.

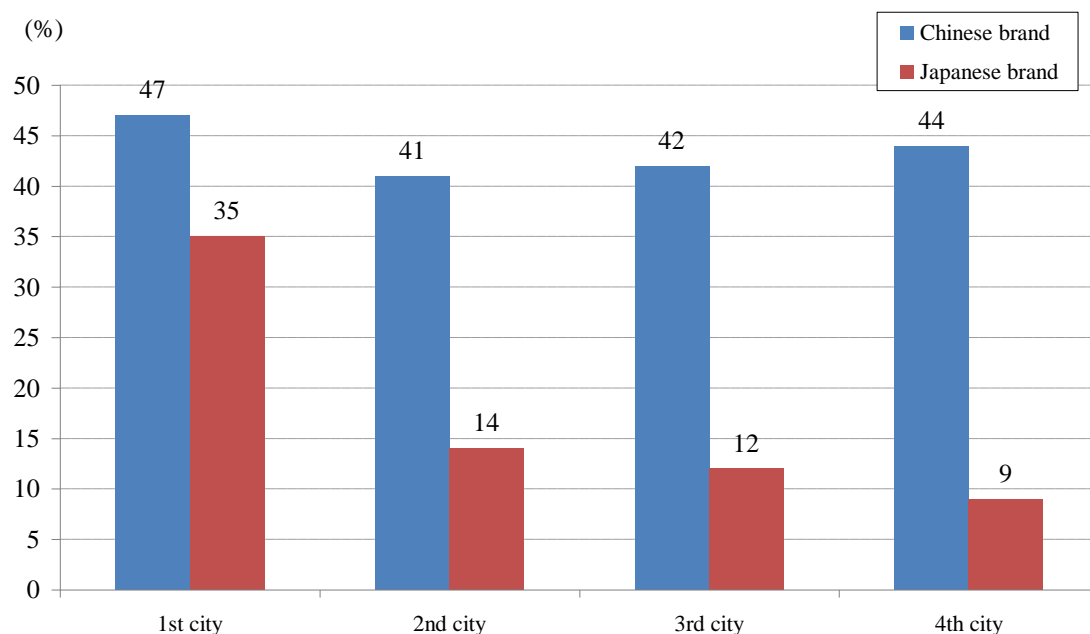
In China and India, online shopping users are restricted to the people in high-income segment. However, the online shopping usage ratio to total income is 10.9% in China and 9.4% in India. Their ratios are higher than that of other Asian countries and areas and demonstrate that people in China and India tend to actively utilize online shopping (see Table 2-3-3-5).

Under these circumstances, more Japanese companies including Internet shopping site operators are trying to expand into the markets of Asian emerging countries (see Table 2-3-3-6).

For example, in January 2010, Rakuten, Inc. announced its alliance with Baido, Inc., the largest Internet search engine in China, to launch the Internet shopping business in China. For Rakuten which focus the Asian market, this is the third overseas business expansion project followed by that in Taiwan in 2008 and Thailand in 2009.

Meanwhile, Asian emerging countries have restrictions for systems such as unmatured online settlement system and delay of development of distribution networks. It creates issues for consumers including the concern for the security of online shop that they would like to use and unavailability of convenient settlement methods.

Figure 2-3-3-2: Brand recognition of Japanese and Chinese TV set manufacturers in China (up to the top three brands recalled)



Note: 1st city n=475, 2nd city n=1680, 3rd city n=2191, 4th city n=2051

Data: [McKinsey Asia Consumer and Retail]

Source: Consumer survey by Insights China (2009)

Figure 2-3-3-3: World Internet-using population rankings (current as of Sept. 2009)

Population of internet users in the world ranking (as of the end of 2009)

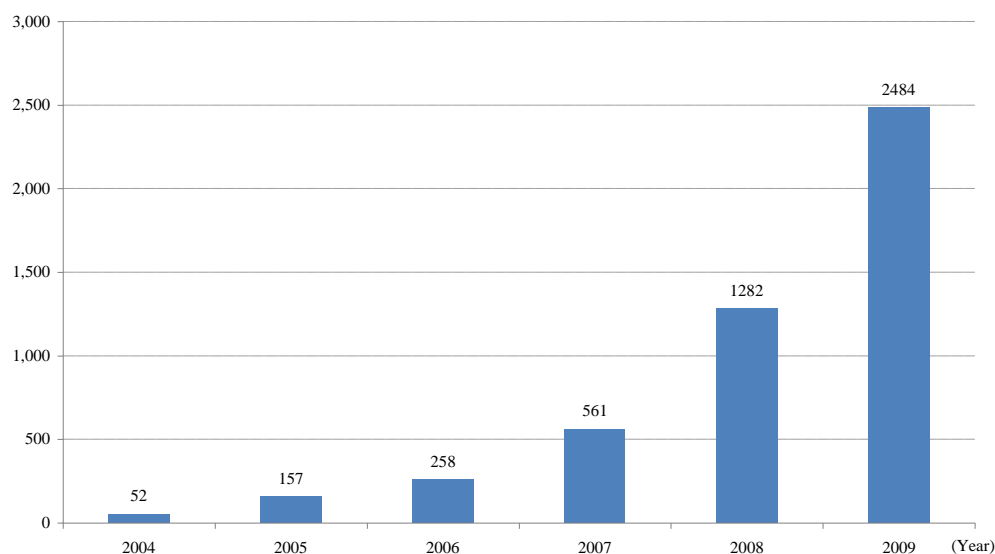
Rank	Country Name	Population of Internet Users	Adoption rate
1	China	3.84 million	26.90%
2	US	2.772 million	74.10%
3	Japan	0.9598 million	75.50%
4	India	0.81 million	7%
5	Brazil	0.6751 million	34%
6	Germany	0.5423 million	65.90%
7	GB	0.4668 million	76.40%
8	Russia	0.4525 million	32.30%
9	France	0.431 million	69.30%
10	Korea	0.3748 million	77.30%
11	Iran	0.322 million	48.50%
12	Italy	0.3003 million	51.70%
13	Indonesia	0.3 million	12.50%
14	Spain	0.2909 million	71.80%
15	Mexico	0.276 million	24.80%
16	Turkey	0.265 million	34.50%
17	Canada	0.2509 million	74.90%
18	Philippines	0.24 million	24.50%
19	Vietnam	0.2196 million	24.80%
20	Poland	0.2002 million	52%

Note: Chinese figures are as of the end of 2009.

Data: Internet World Stats

Figure 2-3-3-4: Trends in the online business-to-consumer market in China

(100 million yuan)



Data: 艾瑞咨询集团 (iResearch) Report

Figure 2-3-3-5: Comparative amount of online shopping usage that Asian countries and regions account for (2008)

	Ratio of usage amount accounted for income (%)	Ave. yearly usage amount	Ave. yearly income of respondents answered (\$)	National income per capita (\$)	No. of respondents answered (n)
China	10.9	2,180	20,075	3,247	504
India	10.1	3,008	29,778	17,455	500
Korea	9.4	2,208	23,386	961	500
Thailand	8.6	3,364	39,300	39,462	521
Singapore	7.7	2,576	33,661	46,986	506
Hong Kong	7.3	2,172	29,675	30,710	500
Japan	7.0	1,552	22,269	4,177	501
Australia	6.6	2,708	40,908	38,543	502

Note: Average yearly usage amount per capita is calculated from average usage amount per capita for 3 months.

Data: MasterCard "MasterCard Worldwide Insights"

Figure 2-3-3-6: Recent examples of Japanese companies expanding overseas in Internet-related business areas

Fast Retailing Co., Ltd.	April, 2009	Form an alliance with "Alibaba.com Japan Co., Ltd.", the largest internet trader, in China.
SBI Veritrance Co., Ltd.	April, 2009	Go into full commercial operation of virtual online shopping mall for Chinese consumers.
Yodobashi Camera Co., Ltd.	July, 2009	Set up internet online shopping site in Chinese.
Rakuten Inc.	September, 2009	Start up EC business by acquisition of local company in Thailand.
Bitway Co., Ltd. (a affiliate company of Toppan Printing Co., Ltd.)	September, 2009	Start distribution service of Japanese animation in Hong Kong. Plan to expand it to other Chinese-speaking countries.
Kenko Com. Inc.	October, 2009	Launch EC business by establishing an affiliated company in Singapore.
Research Panel Asia Inc. (a affiliate company of EC Navi Company)	October, 2009	Set up internet survey service site in Chinese.
OKWave	November, 2009	Set up Q&A in Chinese for Chinese those who are interested in Japan such as overseas education and travel.
Trance Cosmos Inc.	December, 2009	Develop service such as customer support and marketing for open-up companies along with structuring cooperative CRM system in corporation with "Taobao", China's largest EC site.
Rakuten Inc.	January, 2010	Plan to establish a joint venture company between Rakuten Inc. and Baidu in China until end of 2010 in order to sell commercial products for Chinese users on online shopping. Bring cross-border market business into view.
Research Panel Korea Inc. (a affiliate company of EC Navi Company)	March, 2010	Set up internet survey service site in Korea.

Data: News Reports by The Ministry of Economy, Trade and Industry

For further development of online shopping in the Asian market, it requires more robust Internet security, the facilitation of laws and regulations for online trading and others, the arrangement of consumer consultation system for transaction trouble and the environment that both business operators and consumers can comfortably and safely engage with online transactions.