

EMERGING MARKET SECTORS

Foods

Roughly 11% of Japan's imports are accounted for by food, making Japan the world's number one food importer. Japan relies on imports for 60% of its food supply. The diet of the Japanese people simply cannot be sustained without food imports from overseas.

In 2003 a breakdown of food imports according to individual products shows **fish** and **shellfish** to be the leading imported food category, as was the case in 2002 but at a slightly reduced ratio of 26.9%. Next in line is **meat** (18.3%), followed by **fruits** and **vegetables** (12.6%). Imports of **shrimps** in particular also continued to account for an overwhelming portion of fish and shellfish imports in 2003.

Despite the food industry having reached maturity, there is a steadily growing market for **health foods** that has already surpassed the Yen 1 trillion mark. In particular, demand for health foods that have been scientifically proven to be beneficial known as **foods for specified health uses** is expected to increase in the future. These are products that are allowed to state their expected benefits for specific uses on their labels e.g "for people with high cholesterol". Such products have to obtain approval from the Ministry of Health, Labour and Welfare. As scientific nutritional investigation and research into products such as these is set to advance further in future, the number of products is expected to increase.

2003 was a year of significant changes to the principal laws governing food in Japan. The enactment of the Basic Food Safety Law in particular was a landmark development.. This law has made it possible for measures to be taken to ensure food safety. On the basis of this Law the Food Safety Commission was set up.

As dietary habits become increasingly more diverse, the number of areas where consumers are unable to make educated decisions based on the knowledge they have is also on the increase. The aim of the Food Safety Commission is to run objective assessments of the risks involved and these are carried out by specialists based on scientific information.

Law	Enactment	Purpose
Basic Food Safety Law	July, 2003	To assess and communicate risks in order to take advance steps to prevent food from having any detrimental effects on people's health
Revisions to the Health Promotion Law (formerly the Nutrition Improvement Law)	August, 2003	To promote good health; revisions mainly made to clauses regarding labeling on health foods
Revisions to the Food Sanitation Law	August, 2003	Revisions primarily made with the aim of protecting people's health by guaranteeing food safety
Revised Japan Agricultural Standards (JAS) Law	June, 2003	To improve the quality and standards of agricultural products; parts of labeling to conform to the Food Sanitation Law

Apparel and Fashion goods

The import penetration rate in the Japanese apparel market has reached 70% on a value basis. Although imports of apparel has stopped increasing in value terms, declining domestic apparel production in value and volume terms has resulted in the share of imported apparel to rise. China accounts for nearly 80% of these imports. With many Japanese apparel manufacturers having shifted their production facilities overseas about 80% of China's exports to Japan are 'development imports' produced for Japanese companies on an OEM basis or "reverse imports" by Japanese apparel manufacturers. European and American apparel brands seeking to reduce both delivery time and the differential between foreign and domestic products, have also been commissioning production to China from where they are shipped directly to Japan and this practice is increasing.

The needs of Japanese apparel consumers are becoming more diverse, they are rejecting dull pre-fabricated casual wear and companies are forced to adapt to these needs by providing a wider variety of choices in material, design and taste.

Thus the current state of the apparel industry can be described as one in which retailers themselves including specialty shops, department stores and the growing "select shop" segment, are also looking for original, distinctive products. For companies looking to enter the Japanese market, having a unique selling point seems to be more important than price competitiveness.

As regards the fashion business with the increasing demand for unique items rather than items that everyone else has there is likely to be an increasing need to provide products of high craftsmanship and attention to detail by responding to individual consumers' needs through one-to-one marketing. Customizing e.g. remakes and pattern orders – is also beginning to attract attention.

Japan's ageing generation is a fashion conscious one that is more interested in selecting items with added value in accordance with their own lifestyle needs than in simply choosing items on the basis of price. Thus these are consumers for whom one-to-one marketing will be necessary. Japanese companies are beginning to focus their resources on developing brands for seniors, a market that until now has been relatively small.

Products of high craftsmanship, made with close attention to the materials used cannot be mass produced nor can these be competitively priced. Still with the diversification of consumers' needs more people are becoming attracted to such products. At the same time, an increasing number of Japanese companies have shifted production to China where the rising level of technological capability has enabled them to produce **high quality wear at low prices** and going by the import figures these products have also attracted overwhelming consumer support. Thus the Japanese market appears to be becoming more and more polarized.

Japanese people now prefer apparel that matches their tastes and lifestyles and they choose products that offer value above and beyond the price tag. When they find products that suit their lifestyles they tend to pay little attention to the brand name or where the item was produced. They make little distinction between imports from China and other Asian countries and products made in Japan.

The Japanese market seems to be a healthy one from the point of view of foreign brands. In recent years, there has been a marked tendency for famous foreign brands to discontinue import sales and licensed sales to Japan and instead focus on directly moving into the Japanese market. At present they are working to adapt to the market by enhancing brand image – which suffered as a result of the expansion of sales channels and cutting costs.

A number of large direct outlet stores (megastores) for major brands such as Louis Vuitton and Hermes, as well as Chanel, Gucci and Coach, have opened one after another in prestigious locations such as Tokyo's Marunouchi, Ginza and Omotesando districts and have maintained strong sales. The large majority of these outlets have over 1,000 square meters of retail space which is very large by Japanese standards and they have become examples for projecting brand image directly to the Japanese consumer.

Demand for these upscale brands comes not only from the rich. It is not uncommon for average women office workers to own them. Since the target for many of these upscale brands is younger than in Europe and America, the product life cycles are relatively short and careful attention to merchandising including the launch and advertising of new products is essential. Also the continuing popularity of these upscale brands is supported by confidence in product quality and attentive after-sales service.

The Japanese fashion industry is also popular for providing 'lifestyle proposals' i.e. offering ideas that encompass consumers' life as a whole. It is becoming difficult for Japanese companies in the fashion industry to focus solely on wear. **Bags and other miscellaneous goods** also seem to be taking up more and more retail space.

As people have come to favour more casual fashion items, the popularity of leather handbags has declined and **casual-type bags** have become popular. This is also true in the case of import items but at the same time luxury foreign brands such as Louis Vuitton, Hermes and Prada are also as popular as ever. Here again we can see a polarization of the market.

The footwear market has also seen slumping sales of products in the middle price range, resulting in polarization. Until 1996 leather footwear was mainly imported from Italy but as domestic manufacturers began shifting more and more of their production facilities to China imports from China increased. In terms of unit volume China surpassed Italy to become the top exporter of **leather footwear** to Japan and at the largest exhibition of footwear in Japan in 2004 there was a marked increase in Chinese manufacturers.

However while the average unit price of imports from Italy has risen, the volume of imports has remained steady which is another example of polarization.

Gifts and General Merchandise

The Japanese giftware market is a lucrative market. Japan has a long established and deeply rooted custom of gift-giving. Japanese people offer gifts on key life or seasonal occasions. Giving gifts is a means of communicating feelings of gratitude, celebration, sympathy and the like. Japan is unique in that there are initial gifts and gifts presented in return that are commensurate with the gift received, whereas people in other countries do not normally give a gift in return. These return gifts called "okaeshi" make up a huge market. This extra practice of giving gifts in return forms an element of Japanese culture.

Gift items are not necessarily confined to products associated only with gifts. People also offer food and electrical gadgets.

Responding to customer needs, gifts are roughly classified into two categories – personal gifts and corporate gifts. In addition in terms of the timing and purposes gifts are also conveniently divided

into seasonal gifts, commemorative gifts, gifts for occasions and in the case of corporate gifts, sales promotion gifts.

Gifts can be broken down into the following occasions, types and items :

	Personal gifts	Corporate gifts
Seasonal gifts		
Mid-year gifts	Beer, soft drink, confections, luxury food	Beer, soft drink, soap, coupon
Year-end gifts	Sake, hams, sausages, seasonings	Sake, soft drink, dairy products, coupon
Commemorative gifts		
Coming of age	Pens, photo albums, fashion accessories	
Girl's festival	Confections, dolls, Japanese-style accessories	
St. Valentine's Day	Chocolate, men's items	
White Day	Candles, flowers	
Children's Day	Confectionery, dolls, toys, stationery	
Mother's Day	Carnations, clothing accessories	
Father's Day	Ties, razors, sporting gears	
Respect-for-the Elderly Day	Health products, stationery, hobby items	
Grandchildren's Day	Children's clothing, stationery, toys	
Schichigosan festival	Confections, toys, Japanese-style accessories	
Christmas	Confections, men's or women's accessories, toys	
Birthdays, anniversaries, Etc.	Men's or women's accessories, toys	Watches, luxurious stationery, interior goods, sweets for celebration
Occasion gifts		
Wedding	Household goods, home electronics, pottery, lacquerware, confections	
Childbirth	Baby clothing, baby goods, sweets for celebration	
School enrollment, employment, promotion	Stationery books, men's or women's accessories	Watches, fountain pens, men's or women's accessories
Visit to patients	Flowers, fruits, canned food, toiletry, books	
Health recovery	Towels, coffee, tea, confection, sugar	
House building	Interior or exterior goods, alcoholic beverages	Interior or exterior goods, alcoholic beverages
Reciprocation of funeral offering	Tea, dried laver, towels, kitchen utensils	
Memorial services	Tea, dried laver, confections	Flowers, wreaths, confections
Conferment	Watches, jewelry, men's or women's accessories	Artwork, watches, jewelry, commemorative photo

		frames
Sales Promotion gifts		
Premiums, giveaways		Small stationery items, key rings, towels, toys
Incentives		Letter writing sets, fancy goods, small stationery items

Source : Business Guide-Sha Inc.

Overall the Japanese gift market has expanded with the post World War II growth of the Japanese economy. Today, the Japanese gift market is worth approximately 10 trillion yen. The market remains healthy supported by cultural factors. The market scale is widely expected to be maintained. Among other factors seasonal gifts symbolized by mid-year and year-end gifts are closely linked to Japanese life, irrespective of the distinction between personal gifts and corporate gifts. They are said to account for nearly 20% of the personal gift market.

Nowadays in contrast to the conventional approach which emphasizes gifts offered in the traditional hierarchical society, a new approach is to focus on the horizontal community where people exchange presents at birthday parties and the like. As a result the market is also witnessing the emergence of a new gift business model that deals with a wide variety of gift items that reflect change in consumers' lifestyle, including **fancy goods, lifestyle goods, cosmetic goods, stationery goods, toys and fashion accessories.**

With respect to seasonal gifts such as mid-year (o-chugen) and year end (o-seibo) gifts, department stores, mass retailers, gift outlets, general retailers and specialist wholesalers have traditionally served as the link between manufacturers and consumers.

In addition the recent involvement of fancy shops and specialized wholesalers is becoming typical of the distribution of personal gifts. In the corporate gift sector there are dealers in sales promotion goods such as premiums and novelties. In many shops a large percentage of goods on sale are imported. Their business style varies; some purchase overseas items from wholesalers while other shops use direct imports.

Overall, an increasing number of gift businesses in Japan are exploring the globe in search of product suppliers to satisfy increasingly divergent customer needs. Some companies are seeking to form alliances with overseas companies to jointly develop commercial items designed for the Japanese market. Irrespective of the size or type of business, players in the gift market are undertaking a number of initiatives.

Electric household appliances are frequently used as personal gifts for weddings and housewarming and as corporate gifts in the form of premiums. Imports of air conditioners and dishwashers are currently growing remarkably. A large majority of **imported electrical goods** are from China followed by Thailand, Republic of Korea and other Asian countries.

In the consumer electronic market demand has been stimulated for new value added products that feature eco-friendliness, reduced energy consumption, health and comfort.

There will be more demand in the future for imported gift items that are more refined. Traditionally most imported gift items have come from Asian countries followed by Europe and the USA and this is likely to continue.

In a bid to succeed in this large market, Japanese specialist manufacturers, wholesalers, department stores and other businesses are competing in the race. New products are being continuously developed and introduced. It is likely that gift shops and fancy goods shops will increasingly shift from corporate gifts to those with a focus on personality and quality. This new approach will be a prop to the market. The unique concepts of goods as merchandise such as design attractiveness and inspirational quality will be vital to survival.

Possible characteristics of future consumer needs include the polarization between demand for low priced goods and that for luxury goods, health consciousness, attention to the natural environment and a resurgence of preferences for traditional Japanese cultures.

A greater variety of products will enter the gift category and more shops will sell a wider selection of gift products. Essentially the Japanese love gift giving and the custom of return gifts too will remain.

The following are some issues to be taken into account when promoting giftware in the Japanese market :

1. Food safety – Consumers are increasingly wary of synthetic food colours and other food additives and are interested in **organic farming products** and healthy food which are now a focus of food gifts
2. Health, safety and peace of mind – Consumers' health awareness has led to the rise of products with certain value-added features e.g some toiletry products, stationery goods and other daily goods have antibacterial and deodorant features. Some air purifiers, air conditioners and hair dryers have a function to generate negative ions. These trends in the Japanese consumer market reflect the changing lifestyle of the Japanese people.
3. Ecology – Organizations are obliged to prioritize eco-friendly products and thereby help promote the construction of a recycling economy. In the gift market, corporate customers are increasingly choosing products made of recycled materials, biodegradable resin or other green materials. The variety of these products are steadily widening and the costs are leveling off.
4. Universal design – As the elderly population is increasing, there have been advances in the concepts of products that help elderly people to maintain independent lifestyle. More advanced than the conventional barrier-free design, universal design is penetrating the general market and is very likely to grow into a key feature in the gift market as well.

Housing materials

Wooden windows and doors

Imports of wooden windows at 12,571 tons or Yen 7 billion and woden doors at 28,650 tons or Yen 12.5 billion showed a steady upward tendency in 2002. Imports of windows and window frames from the Philippines increased dramatically, occupying the top spot in terms of market share.

Stones and tiles for use as building materials

In 2002, stone materials, primarily marble for interior decorative use and granite for exterior decorative use, came to a total of 1,532 million tons or Yen 101.8 billion. Imported tiles totaled 106,226 tons or Yen 8 billion. Nearly 75% of marble originated from Italy, Spain and other EU countries with imports from China also on the rise.

Plate glass

The value of imports of plate glass in 2002 came to Yen 46 billion

Wallpaper

Imports of wallpaper exhibited a slight downward tendency in 2002 at 20,421 tons or Yen 5 billion, 89% of which consisted of vinyl wallpaper. Imports from Korea were top with a share of 23%, followed by Taiwan and then the United States.

Furniture

Imports of furniture have continued steadily. Factors behind the steady increase in imports of furniture particularly wooden furniture, include an increase in OEM production resulting from orders placed by domestic furniture manufacturers due to difficulties with domestic manufacturing and the accompanying high personnel costs, as typified by labour intensive production and an increase in development and import schemes on the part of leading furniture retailers and wholesalers.

Despite a continued rise in furniture imports in 2003 up 6.3% on the previous year at 1,178,127 tons or Yen 386,5 billion (up 2.4%) there has been a marked slowing off in the growth rate in terms of monetary value.

There has been a remarkable increase in furniture imports from China in recent years after China became the top exporter of wooden furniture to Japan in 2000. China then went on to surpass Taiwan to become the top exporter of metal furniture to Japan in 2001 thereby establishing its position as the manufacturing platform for Japan not only in the textile and apparel industries but also the furniture industry. China's momentum has showed no signs of slowing. Imports are on the increase in every category other than rattan furniture and imports of furniture components as well as finished products from China are also on the increase.

Nearly 90% of the imports of furniture are accounted for by the top six Asian nations. In monetary terms China is top with 30.1% of all imports with the USA (11.0%), Taiwan (10.9%) and Thailand (10.6%) competing neck and neck for second place. EU countries principally Italy account for 13.4% of the overall total.

The majority of imports from the USA are furniture components, a large number of which are then processed and assembled domestically. Metal furniture makes up the bulk of imports from Taiwan, as does wooden furniture in the case of Thailand. However there is a gap opening up between the imports from Taiwan and Thailand as compared with China. 2002 saw an increase in imports from countries such as Germany, Austria, France and Denmark in addition to Italy indicating further diversification of furniture suppliers.

The reasons for imported furniture's growing share of the furniture market include

- a) the continued shift of production to other Asian countries where costs are low and raw materials easily obtainable, enabling low cost products
- b) the increasing difficulty of responding to the diversification and particularization of consumer needs through domestic products alone
- c) an increase in consumers purchasing furniture that fits in with their lifestyles, irrespective of brand names or country of origin

- d) leading furniture retailers and wholesalers increasingly embarking on development and import schemes

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