



branded

PEOPLE
BRANDS
JAPAN

VOL. I GROUNDWORKS

EDITOR'S NOTE

Japan has always fascinated the world with its hard to decode culture, contradictions and intriguing otherness. Yet today we see a growing interest in a deeper understanding: a longing to get beneath the surface, to understand not only the what, but also the why.

As an independent management and brand consultancy based in Tokyo and constantly exploring Japan, we've always felt the lack of a source that goes beyond the obvious – a magazine that is more than just a newsletter. And as we gather so many insightful and shareworthy experiences and learnings from our projects, we thought it might be best to do such a magazine ourselves.

So, here it is: *Branded* – the new monthly magazine about people and brands in Japan.

Branded highlights current happenings in Japan from the different perspectives our team brings in – from management consulting and strategic brand planning, to consumer and cultural research and data analytics. Our magazine comprises feature articles, case studies, consumer insights, expert opinions and interviews. And of course it also includes a news section with the most recent trends shaping Japanese consumption right now.

Every volume will have a leading cultural topic from Youth, Beauty and Nutrition to Luxury, Money or Work.

The first issue starts with some groundwork around brands, brand relationships and consumer behaviour. We hope it breathes our passion for Japan and makes an inspiring read.

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BEYOND BRANDS

*Learning from Japan -
the next level of brand relationship*

ANNA HOEHN



With consumers being more hesitant and at the same time more demanding, Japanese marketers and retailers are making great efforts to create engaging physical brand experiences and in-store interactions to keep their discerning customers happy and the traditionally close relationships with high quality brands loyal.

More than Shopping

Japanese daily life is standardized and restricted in many ways. Working life is considered a duty that comes with a lot of formal and informal rules and burdens. And, as opposed to the Western world, there is still little ambition to make work 'fun'. Life in Japan is much more about putting expectations first, than living up to individual pleasures. Private life also faces many restrictions, including very physical ones. Tokyo has a density of 6700 people/sq km (compare to Berlin at 3000 people/sq km, or Paris at 3600/sq km). Residents in Japan live on an average of 11.5 sq m (compared to Germany's average 40 sq m). Add long, reckless daily commuting hours and you'll understand that this demands an admirable self-discipline and self-restriction. Frequenting spacious high end departments stores colorful, Disney-like shopping malls and glittering high streets offers a welcomed escape and allows to switch worlds at least for a couple of hours.

This is one of the reasons why offline shopping is still so very popular in Japan, despite booming online sales. Unlike digital purchasing, physical shopping is a highly sensual and social experience. Shopping tours are a favourite pastime, an activity to spend with families and friends. Retailers and brands act accordingly, investing much time and money to create a compelling and entertaining atmosphere of consumption that is worth exploring and sharing.

Stores, malls and shops look, feel and function more like branded spaces than point of sales: unique universes built around the consumer's dreams, desires



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and demands. Shopping venues become entertaining theme parks with integrated event, music and art spaces. The focus is no longer explicitly on the brand, but on the consumer, who is invited to take a central role in a highly interactive process that offers much more than shopping or buying satisfaction.

From big name architecture to interior design, product presentations that change every other day, qualified staff and the most amazing packaging, every aspect of the modern shopping experience in Japan works hard to create an aura of premiumness and mindfulness, giving a feeling of experiencing something that is far beyond the normal.

A bookstore selling coffee or a coffee shop selling books?

More and more shopping areas are integrated with coffee shops, restaurants and bars even in the tiniest spaces, making it sometimes hard to tell whether it's a bookshop that sells coffee or a coffee shop that sells books, a fashion store where you can have lunch or a lunch spot where you can buy clothing. State of the art hospitality concepts add to the customer experience. Customers are treated like guests, invited to come back frequently, to spend time and not just money.

This requires a complete re-thinking of the meaning of the so called 'customer process', which very often is still a synonym for 'sales process.' Focusing solely on the sales act and showing interest only for the paying customer is not enough anymore to convince the demanding Japanese consumer.

From point of sales to point of engagement

The main purpose of physical shopping in Japan has become the trying, touching, smelling and tasting – compensating for the deficits of virtual shopping experienc-



es. As a result, most of the new flagship stores are built for the primary purpose not of selling, but of interacting.

Lexus just opened a luxury space designed by famous designer Masamichi Katayama in the classy Aoyama district. The space, located opposite the Prada shop, is not so much about cars, but a lot about the brand. It doesn't have a showroom to present the latest models, but it does have a café where you can enjoy premium green tea, organic coffee and healthy snacks, as well as an exclusive car library on the first floor, where people idle in designer chairs, flipping through coffee table books about cars. Although one can arrange a date for a test drive on the shop's iPads, the main purpose here is to sense and indulge in the design and luxury of the Lexus brand world.

Just around the corner, Sunny Hills, a cake maker from Taiwan, invites you to enjoy a oolong tea and their premium pineapple cake for free in a most amazing wooden

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1. Shopping in Japan as social event

2. More and more shops blend with coffee shops

3. Japanese denim brands build on tradition and craftsmanship



More than shopping Consumption in Japan is about experiencing and exploring

building designed by Kengo Kuma, served in beautiful Japanese ceramic (see 'Hidden behind Japanese wood' on page 11). Again, it's about the trying not the buying.

The *Tsutaya* flagship store in Daikanyama is a bookstore envisioned by the founder as an open and user-friendly library or campus. The store includes a restaurant and bar where you can read through 1200 pages of Murakami over a couple of Dry Martinis (the shop closes only at 2am!) and a *Starbucks* where people spend hours working on their MacBooks while enjoying an iced latte. Of course you can also just hang out and enjoy the stunning Klein Dytham architecture that shaped the façade in interlocking 'T's to represent the brand name, or lose yourself in the thousands of magazines from every corner of the planet. And while most of the *Tsutaya* branches across the country do not have the same level of sophistication, it's here in Daikanyama where the brand building takes place,

creating a strong halo effect for the rest of the outlets.

As people in Japan are very enthusiastic about quality, ingredients and craftsmanship, many brands and stores build on that to attract consumers. Independent Japanese denim labels convert their stores into tailor studios where you can get a pair of bespoke jeans for the price of a suit. You can watch how the jeans are made and talk shop with the guys, who are both the makers and the sales staff. *Freitag*, which has been very successful at selling its truck canvas bags in Japan, also displays an atelier in the centre of their shop to demonstrate how the bags are made. *Papabubble*, a popular artisan candy store chain, has turned its colourful working spaces into shops. There are countless more examples where experiencing the making is an integral and important part of the consumer experience.

@cosme, the definitive online retailer for cosmetics in Japan, recently opened a new series of pop-up show and smell rooms, where you can explore and test the products, advised by a very knowledgeable staff. The unique idea is that those stores follow the internet forum site *@cosme*, and each store displays and sells products according to their ratings and reviews on the website. The stores also include trial corners with a computer terminal; customers can test selected products and then immediately rate and comment on them via the *@cosme* website. Definitely a best practise case for an integrated on-and offline approach and a great example to show how in-store product trial is likely to increase online sales.

Even more recently *Rakuten*, Japan's most prominent online retailer, is also just about to launch its first café in Shibuya serving fine coffee and snacks as a way to bring the consumer closer to the brand world.

All these are great examples to show that successful brands in Japan are at the forefront to extend 'customer processes' beyond sales, providing highly engaging customer experience, interlinking offline and online and thus creating holistic and interactive brand universes.

The Japanese consumer appreciates it, often photographing everything from great buildings, new products, kawaii displays, pop groups, and yummy food to fancy dressed staff and posting it on *Line*, to *Facebook*, *WhatsApp* or blogs. With ever increasing mobile activity rates, things spread fast in Japan.

How to get it right

The times are long gone when Japanese consumers were relatively easy to win over by sheer premiumness and brand reputation. With an increased price consciousness, strong value-focused offers (*Uniqlo*, *Muji*) and private labels, as well as a fast and broad adaptation of online purchasing behaviour, consumers in Japan have



become even more discerning and harder to excite and convince.

Brands, products and services must inspire Japanese consumers with inventiveness, authenticity, generosity and a great deal of dedication. The good news is that if you manage to win their trust by doing a couple of things right - deliver a consistently outstanding quality of products and services, ensure coherence of the brand experience, and most importantly, satisfy their desires beyond purchase - consumers in Japan tend to become very passionate, engaged and even loyal.

In short: If you want to win in Japan, don't just long for the Japanese money, long for the Japanese hearts.

1. News on TV create queues over night

2. Staff welcoming consumers

3. Every purchase ends with a farewell bow

OBSERVING THE JAPANESE CONSUMER

FRANK HOEHN



The Coded Brand Message

Japan is a rather formal society and belonging to a social class and being acknowledged as such is very important. As the society builds on a profound sense of communality and shared cultural heritage, communication in Japan is in large part based on non-verbal messages. Traditionally, the Japanese categorize and judge their surroundings based upon appearance. Here brands play an important role as senders of coded messages within and between peer groups. Being part of a certain social group and expressing the attitudes appropriate to that group requires the right fit of 'branded' behavior and lifestyle.

Signals of Belonging

As the backbone of Japanese society, the middle class is the most aspired-to social status in Japan. Working as a typical Japanese corporate employee – the salary man – is still most desirable, even for young graduates. Belonging to this large group – or sometimes even to pretend that you

belong – comes with a widely accepted uniformity. It only takes one train ride during the Japanese morning rush hour to find out that these salary men all follow the same codes with their dark suits, white shirts, *Rolex* watches, *Mont Blanc* pens and *Louis Vuitton* briefcases. Within a society that constantly 'reads the room,' the outer appearance and the accessories of life play a significant role, demanding the right choice of brands as signals of belonging.

The Safe Choice

A deeply rooted Japanese core value is the harmony of the group. Every individual must serve this purpose, and anything that might lead to misunderstanding or trouble must be avoided. The Japanese language distinguishes between the opinions and behaviours one shows in public, 'tatemae', and one's true feelings and desires, 'honne', only shown within the four walls of one's own home. Obviously this doesn't leave a lot of room for individual expression, and the rule, 'the nail that sticks out gets hammered', is

still very valid. The Japanese follow those behavioural imperatives, keen to avoid situations that could make them stand out. If you want to play it safe, it's best to follow the herd and to have what others are having.

Manifestations of 'Safe Choices' :

Better go for Nr. 1: Many Japanese tend to be risk averse and feel much better when they can stay in their comfort zone. Awarded 'Nr. 1' brands and choices reassure the Japanese that they are doing the right thing. Nr. 1 is a quality seal applied on almost everything, from cheesecake and wine to vacuum cleaners and e-bikes. It stands for 'recommended by those who must know' and creates a feeling of trust, confidence and reassurance. (See also 'Made in Japan, approved in the world' on page 23)

Follow the Queue: The more people are waiting in line, the more you can be sure you are making the right choice. There are popcorn, pancake and French fries shops that keep people patiently waiting for more than an hour. Queuing itself becomes a social event.

Trust TV: TV in Japan is the most trusted medium (Edelman Trustbarometer, 2014). A broadcast celebrity recommendation of a product can boost popularity, leading to long waiting lines and overnight sell-outs shortly after being broadcast. Obviously this makes TV an extremely important advertising medium.

Open to innovation

Although thoughtful and careful with their choices, Japanese consumers are very explorative and playful when it comes to innovations. With countless new product launches each year, the Japanese are happy to give it a try – leading to first trial rates that are higher than in the rest of the world. But as fast as new products and services appear, they are gone.

'Gambare'

The Japanese truly admire honest dedication and the pursuit of perfection, in professional as well as in private life. The guiding principles are "Gambare", to always do one's best, and "Kaizen", to continuously improve the existing.

This is exactly what the world famous Sushi Master Jiro is doing. For more than sixty years he has gotten up every morning to create the same outstanding Sushi with the proclaimed ambition to become a bit better every day than he was the day before.

There is a re-invigorated interest in stories like Jiro's. The Japanese consumer has long been known for being very sophisticated in taste and style, demanding high quality and uncompromising reliability. More than anywhere else in the world, there is a real fascination with the quality and meaning of products and brands. Japan is explicitly proud of having a highly elaborated culture of excellence in craftsmanship that stands in contrast to daily life that is dominated by fast-moving, plastic mania and one-way products. Telling authentic stories about heritage, materials, techniques and the creator is vital to conjure up a convincing brand narrative, especially in the premium sector.

Winning the last mile

Because the Japanese consumer demands excellence in service, shopping in Japan comes with world-class customer service. Everything you buy can be delivered to your home, fast and affordably. It's common to explore offline and then order online, and you will hardly experience a grumpy salesperson or a grim face if you leave without making a purchase after having tried on ten pairs of trousers. When you shop in Japan you always end up with a carefully wrapped and nicely packed product, like a small work of art, plus a deep and respectful farewell bow at the shop exit.



HIDDEN BEHIND JAPANESE WOOD

SVEN PALYS

Sunny Hills – how a foreign brand won the hearts of Japanese consumers by being... Japanese

Tokyo is no stranger to foreign brands. Indeed much of west Tokyo and more specifically the Omotesando and Aoyama areas feel like an endless playground for foreign brands to put their flag into the ground and proclaim their detached otherness. This strategy has worked incredibly well traditionally, with brands representing the full spectrum from common FMCG all the way to super high-end luxury, being consumed exactly because they allowed the consumer to escape normal Japanese life. Their appearance was welcomed and bolstered Tokyo's status as one of the great global centres next to Paris, London, and New York. Authenticity and heritage are here the buzzwords, with successful brands like *Prada*, *Hermès* and *Louis Vuitton* emphasizing on one hand their origins and on the other that you can get exactly the same experience in Japan as abroad. The famous restaurateur Joël Robuchon recreated a French chateau in Ebisu so the setting fits the menu, and *P&G* has chosen to import *Downey* from America with all its original foreign labels instead of localizing to demonstrate to customers that they are not getting a Japanese hand-me-down.

However, this strategy seems to be losing traction in Japan these days. With more and more national and international media celebrating how Japan even makes foreign things better than the country of origin itself, outright foreignness is increasingly not a good enough selling

point anymore. Japanese pride in 'made in Japan' is on the rise and so foreign brands are now fighting for relevance by bringing Japaneseness into the fold, saying that they might be proud of their heritage but understand that they have much to learn from their host country. Joël Robuchon serves sea urchin jelly for his starter, and the macaroon specialist *Ladurée* has green tea and yuzu flavours in their Tokyo store.

When *Sunny Hills* – a Taiwanese pineapple-cake specialist with shops in Taipei, Shanghai, and Singapore – opened its Tokyo store in Aoyama recently, we could see the next step in national-hybridity. Just off bustling Kototoi Street, lies a structure clad in dissecting wooden beams reminiscent of Japanese traditional woodwork. The building is clearly a creation of the Japanese architect Kengo Kuma, whose Nezu Art Gallery celebrating modern Japanese architecture is just a stone throw away. At first glance it's unclear what this building is exactly for. It doesn't carry any logos or notice boards plastered on the front to give you a hint to its purpose.

A staircase naturally illuminated by a window surrounding it looking onto Japanese shrubbery is to the left of the entrance. Clearly this is a Japanese space, with a finely tuned sense for subtlety and natural beauty born from material, light, and nature. The stairs lead to a second floor kept similarly plain. A wooden table



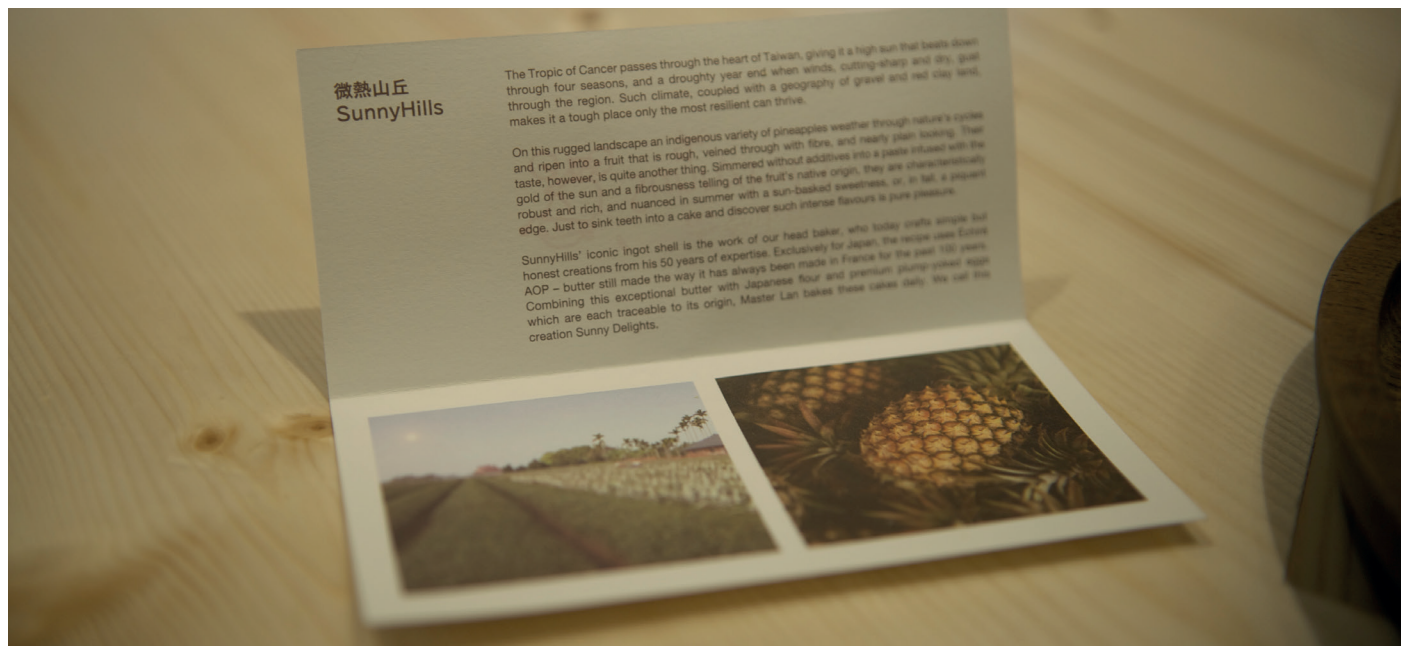
1. A customer sending a Line message to a friend about the pineapple cake he just had.

2. Understated brand signage at the entrance to Sunny Hills

3. Seasonal flowers adorning the centre of the wooden table

4. The perfectly formed pineapple cake served with taiwanese oolong tea on a wooden tray

5. An explanation card given with the sweet that explains the brand's origin and beliefs.



owns the space with a small flower display bringing an accent of colour, while the wooden beams surrounding the building cast pleasant cascading shadows onto the space. A lady clad in *Muji* linen asks softly the customer whether they would like to sit and enjoy a tea. A space like this raises certain expectations – Japanese wagashi sweets with mild uji green tea – yet the tea served is a Taiwanese oolong and the sweet accompaniment a pineapple cake.

Although these delicacies are foreign in origin, they belong in this space perfectly. The oolong is mild and served in Japanese porcelain, while the cake is wrapped in Japanese-style mulberry paper placed on a wooden tray. Even inside the wrapper, the small sachet to absorb moisture is covered in Japanese. The cake itself looks familiar – a perfectly crafted block, like a pastry version of a yokan Japanese sweet bean jelly.

It's hard to tell whether this product is foreign at all. Only a short note on paper spells out the products origin as being Taiwanese but at this point it feels like a minor point of what is actually a deeply culturally engrained Japanese brand.

Taiwan is still a relative white card in the Japanese mind. It doesn't conjure up a national pedigree that bestows an air

of luxury or premiumness that France or Italy for example do. Instead if pushed to spell out what Taiwan stands for, images of China rise to surface. A dangerous connection for a sweets manufacturer, in a country famously picky about food and also highly skeptical of China, with its numerous high profile food scandals. By serving its pineapple-cakes through a Japanese filter, *Sunny Hills* is able to break down national prejudice and show that their cakes are of the same standard that their Japanese consumers are used to from Japan.

But what still stands out as the most poignant decision by *Sunny Hills* is their choice to offer the cake and tea free of charge for any visitor who comes into the shop. It's an act of unusual hospitality that a Japanese consumer would understand as 'omotenashi' or going out of your way for the consumer. *Sunny Hills* wants to build an image in its consumers' mind that this is a brand of high-level service, pleasure, and transparency. It wants you to enjoy it and scrutinize it.

Foreign brands celebrating Japan seem to be the newest thing in branding right now and we are expecting this to be a growing movement as Japan's self-confidence is on the rise in the light of the Olympics and the upturn in the economy under the helm of Prime Minister Abe.



SAME BUT DIFFERENT

How to manage foreign brands in Japan

FRANK HOEHN



Freitag
Flagship store in
Shibuya offering a
complete and holistic
articulation of what
the brand stands for.

Brands evolve over time by providing consistent and convincing product quality as well as a distinct cultural background and point of view. But ultimately brands are defined by the people who use them. A brand only takes shape when its consumers have a clear perception of its product or service, an idea of its values, as well as an understanding of the role the brand is meant to play in their lives.

To maintain momentum, a brand has to continuously prove its relevance over various occasions and experiences. Even the most successful brands have to constantly earn and renew their customers' satisfaction and admiration and must always work to stay ahead of their competitors in all interactions.

Consistency and relevancy for brands that act globally

A brand is an organic entity and its lifeblood is the people who are dedicated to bring its values and attitudes to life. In a globalised world, brands are represented, shaped and managed by employees with various cultural backgrounds and belief

systems.

One of the biggest challenges for globally operating companies thus is to transfer the level of understanding for what the brand stands for from market to market. In order to succeed in this, a company must be aware of the different cultural contexts in which it acts – not only of its consumers, but also of its employees, ambassadors and everybody who has an impact on brand experiences and interactions along the customer journey.

A brand that acts globally has to remain strong and stable at its core, but also be flexible and culturally adaptive in its outer shell.

Don't let touch point's turn into pain points

To manage a Western brand in Japan, a company must develop an honest sensitivity and deep understanding of the cultural differences – especially those regarding cultural core values, the Japanese way of communicating, the working culture and the common definition of

customer service.

The following section highlights three typical hurdles on the way to successful touch point management in Japan.

1. Understanding of the brand values

At times employees involved in customer processes do not have the right understanding of what the brand stands for and/or cannot identify with those values. This deficit tends to become obvious on the operational level of frontline behaviour and attitudes, and its the reasons very often are deeply rooted in culture. The lack of identification with a brand and its values makes it difficult, sometimes even impossible, for employees to engage with and commit to the brand enough to pass on the spirit and excitement of the brand to the customer. Instilling Japanese staff with the specific brand values they are supposed to represent and communicate is an essential task and definitely takes more than populating brand handbooks or running a two hour brand induction session. For instance, brand positioning like “Not normal” for *Mini*, “Open your world” for *Heineken*, or “Beauty comes in

all shapes and sizes” for *Dove* might be concepts that are tricky to get in line with Japanese values and therefore need careful explanation, translation or even adaptation.

It's our observation that small brands tend to do a better job in conveying their values than the big beacon brands. Based on the conviction that experiencing is always better than simply being told, *Fuglen*, one of the trendiest coffee places and bars in Tokyo with Norwegian roots, sends its baristas and barkeepers for a month of induction and training to Oslo, to make sure they understand the Norwegian-ness behind the brand. It apparently pays off, as after more than a decade in Tokyo, it's still hard to get a free seat.

2. Understanding customer service

Japan has earned its reputation for having a world-class service culture, with an extremely high level of dedication to service and customer excellence.

Every morning employees gather around their managers to collectively commit on ‘Gambare’, the uncompromising promise

to do everything possible to guarantee customer satisfaction.

However, there is a big difference in the concept of customer service in Japan and Western markets. Whereas in the West it's all about the individual empowerment that allows the flexibility necessary to satisfy individual customer needs, in Japan customer service is seen as a very precisely designed, "one size fits all" customer process, not leaving much space for individual solutions or spontaneous reactions.

This might be explained by the importance of rules, standardization and a top-down hierarchy within the Japanese working culture. The group is much more important than the individual, and an agreed-upon process is seen as an expression of the joint belief system of the entire group. Strictly sticking with the process gives the reassurance of always doing the right thing and staying in harmony with the group.

For this reason, sometimes the process seems to be more important than the customer, which in practice can lead to "checklist style" approaches not allowing for any extra wishes the consumer might have.

Japanese customers understand and usually don't have any complaints, whereas Western customers tend to perceive this as being inconveniently rigid and might leave very disappointed.

3. Understanding the Japanese work attitude and leadership behaviour

Japanese working culture is shaped by a management concept called "ho-ren-so", which stands for Hokoku (report), Ren-raku (communicate or touch base), and Sodan (consult or discuss) and implies a back and forth reporting and correcting between managers or leaders and their subordinates. Whereas the Western working life relies on independence and accountability, the focus in Japan is on collaboration and a group dynamic that demands constant approval

from the top. For Japanese employees the idea of making mistakes is very terrifying, which is why they prefer an interlinked system of reporting and controlling. This leads to situations where a normal customer interaction like changing the schedule of a hotel stay requires the involvement of the frontline manager, or any bank transaction is controlled by a superior. It is important to be aware of the fact that a Japanese workforce might feel uncomfortable with Western management techniques that are based on individual empowerment and autonomous action.

This means that great brand management in Japan starts with solid and careful human resources management, with a focus on training and personal development of brand-related co-workers and frontline staff.

How to manage consistent brand experience across the touch points

To address these challenges for Western brands in Japan, brand managers have to be well prepared and equipped to culturally root their brands and to lead their Japanese or cross-cultural teams.

Based on our experience from various brand management assignments in Japan we recommend the following:

1. Define and communicate the meaning of brand values within the Japanese cultural context for all involved brand stakeholders
2. Identify all relevant touch points and customer interactions along the customer journey
3. Define customer expectations and desired service standards for each touch point
4. Develop a process infrastructure around the touch points and set up tailor-made training programs for the employees involved
5. Integrate human resources in the management of the brand



Different and exclusive regional flavours – Matcha green tea from Kyoto.

HAVE A BREAK

SVEN PALYS

... have a Kit Kat – how the humble two chocolate finger snack became a culturally iconic brand in Japan

Back in 1973, when the Japanese confectionary company Fujiya first brought Kit Kat to Japan, nobody could have foreseen how this humble foreign two-finger chocolate snack would become one of the most culturally engrained brands of Japan on par with the likes of *Uniqlo* or *Kewpie Mayonnaise*.

On its launch, the brand was championed as British and was proudly introduced to Japan as "*Mackintosh's Kit Kat*". But as the craze for Britishness was on the wane, the brand also lost traction in

the Japanese market. *Kit Kat* needed to reinvent itself and find something else in Japanese consumer culture to hook onto. In 1988, *Nestlé* bought the brand from *Mackintosh*, which also saw the end of *Fujiya's* involvement with the brand in Japan. *Nestlé* re-launched *Kit Kat* soon after, removing the *Mackintosh* logo and stripping it of all other British symbols. The brand became culturally neutral, a risky move.

A clever adman, however, noticed that *Kit Kat*, when pronounced according to

Japanese syllabary (Kitto Katto), sounds a lot like the Japanese for 'sure win' (kitto katsu). Japan has a long history of such word play and a lot of superstition is born from it, so that for example it is uncouth to serve anything in fours, as the number is read 'shi' which also carries the meaning of 'death'. However, armed with the lucky meaning of 'sure win', *Kit Kat* chose one of Japan's most iconic points in the calendar year to do with success, the cherry blossom season, to revamp its brand.

Cherry blossom season has been the cultural beginning of a new cycle for millennia in Japanese society. The new school year begins and new company recruits start their career. Even promotions and bonuses are customarily paid out in early spring. In such a context the trees shedding their white and pink foliage are a major trope in media to show a new beginning. Here *Kit Kat* plugged the hole and started bringing out special cherry blossom season packages and heavily promoted the idea of giving a *Kit Kat* to those who begin a new part of their life. The plan worked incredibly well and soon the giving of *Kit Kat* became a ritual for these occasions. Moreover the packaging allowed for customization, leaving a part of the packaging empty to write a personal message.

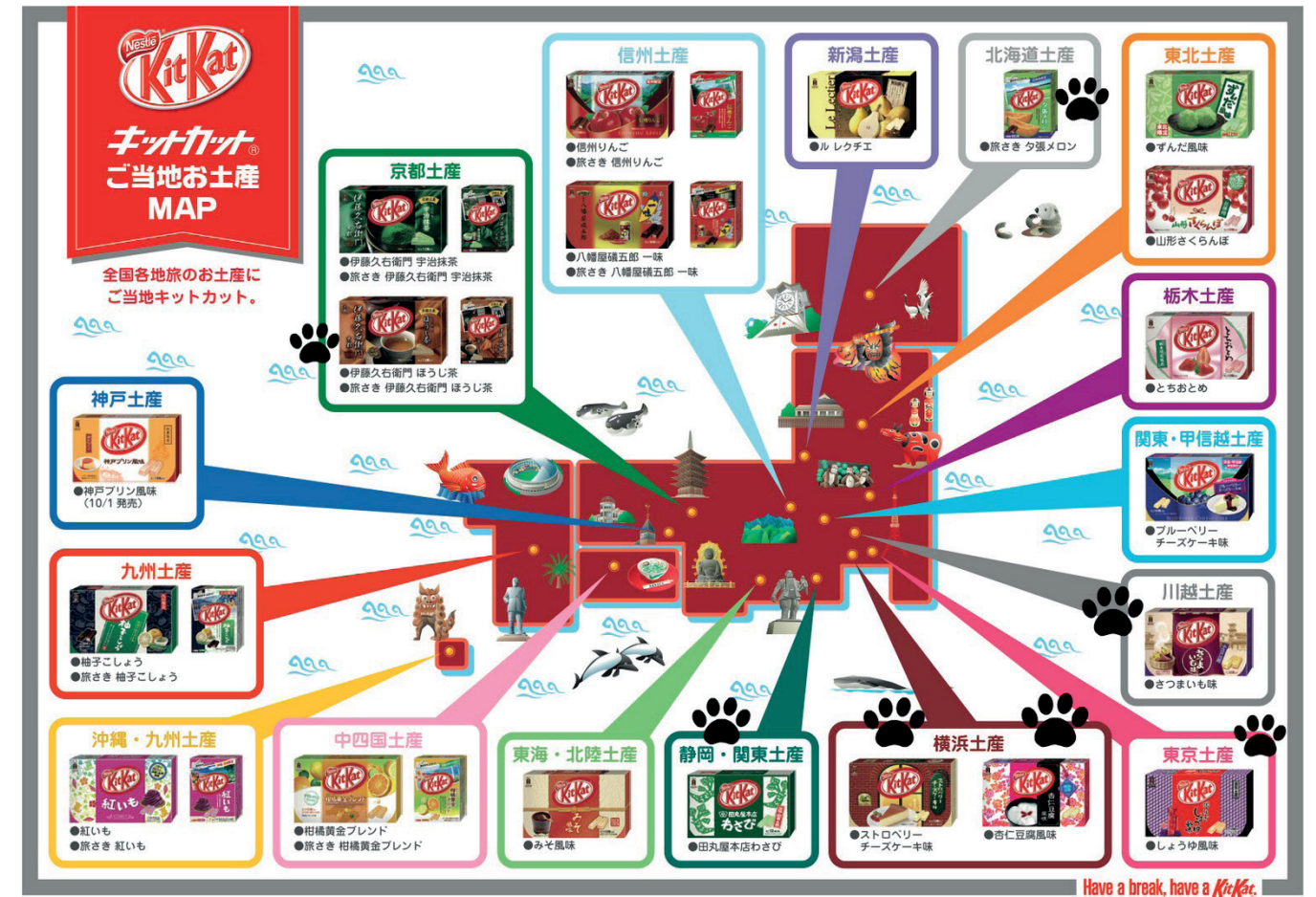
Although a huge success in and of itself, choosing a moment for a brand to own also naturally limits it to that moment. *Kit Kat* needed another cultural truth to ensure high sales outside this two-week period. It proved its clever instincts by realizing another cultural truth – regionality. Japan has strong regional identities born from centuries of relative isolationism: 'The other' had to be found inside the borders and so regions pride themselves strongly for their differences in taste. Local economies flourished by establishing themselves as definitive producers of one specialty. For example, Niigata prefecture is famed for its rice, Hokkaido for its milk, and Kobe for its beef. Regional specialism was a major reason behind do-

mestic travel. Japanese would travel far to buy omiyage, or souvenirs, to bring back home as a sign of connoisseurship.

Kit Kat saw the potential in this before any other major sweets producer and started producing regional special editions that you can buy only in the locality they are associated with, no matter where they are actually made. The convenience stores at the bullet train platform in Kyoto station stack high boxes of green tea flavoured *Kit Kat* for travelers eager to take a memento home to Tokyo to share with the family or colleagues. Right now *Kit Kat* produces over 70 regional varieties, laden with regional imagery and local patriotism.

But even more recently *Kit Kat* keeps experimenting with new ideas and created a bakeable version and is going into a collaboration with a Japanese chocolatier. Collaborations are big business right now as brands are feverishly pairing up to create holistic 'by extension' brand worlds to capture each other's fans. It serves to portray the brand as flexible and caring, as the brand is willing to adapt to the world of the consumer instead of stoically protecting itself from others. This feels more natural in a world of fickle consumers who won't stay loyal to a single brand but will be loyal to a mindset. Brands in Japan build strongly on a core mindset that acts as a guiding red thread through all they do, enabling them to be surprisingly flexible around the central idea. Often foreign brands feel foreign, for better or for worse, for their quite monolithic attitude to branding. *Kit Kat* on the other hand has chosen to take a Japanese approach, defining a core value that the brand is built on – being fun, curious, collaborative, alongside familiar visual cues – and then adapting to what culture brings up. Flexibility has made the brand feel very Japanese indeed.

Kit Kat has come a long way from a time when it was defined as the British tea-time snack. Now the brand couldn't be more Japanese and only the older gen-



eration would be able to point it out as a foreign brand. *Nestlé* understood how to use cultural truths, creating relevancy but also successfully pandering to Japanese consumer attitudes to consumption. Flexibility and adaptability have been key to the success of the brand and show real potential for brands to seeking cultural traction. Consumers thank you for adapting to their culture more than you might expect.



1. A map detailing all the local varieties of Kit Kat across Japan

2. Strawberry Cheese Cake flavour from the port town of Yokohama with a red brick backdrop symbolising the port's warehouses

3. Kit Kat flavoured after a Kyoto speciality 'Yatsushashi' cinnamon cookies

4. Cherry Blossom Flavoured Kit Kat only available during spring

MADE IN JAPAN, APPROVED BY THE WORLD

How Japanese brands use international accolades to reassure customers at home

MARKUS WINTER



Walking through the tightly packed shopping aisles of Japan, it's hard to miss the mass of golden, silver, and bronze coloured ribbons. They adorn the fronts of packages and the explanation tags of products, proclaiming their quality accredited by far-flung and often unheard of institutions – *iTQi*, *DLG*, or the *International Institute for Quality Selections*, to name but a few. No international institute of accreditation stands out more than the Brussels-based *Monde Selection*, awarded by the International Institute for Quality Selections. Since 1961, *Monde Selection* invites manufacturers from around the world to submit products in five categories, ranging from food and beverages to cosmetics products. Judged by a panel of independent experts consisting of Michelin-starred chefs, nutrition experts and master sommeliers, prizes are given out to all products achieving a certain grade on a quality assessment point scale. Annually over two hundred products are awarded with one of their three ribbons. But how is it that a prize that most Europeans would be hard pressed to name has become such an iconic symbol of Japanese craftsmanship and product quality?

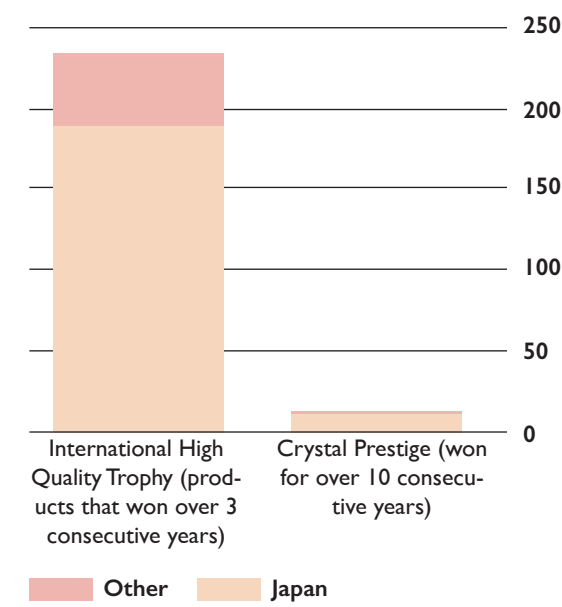
Of 232 International High Quality Trophies awarded last year by *Monde Selection*, an astounding 188 went to Japanese entries, compared to 116 in 2010. Japanese goods formed the majority in every single product category in 2013. This ratio holds true across award categories and attests to the near-religious fervour with which Japanese brands are pursuing this award (see chart).

This Japanese competition fever, however, is quite a recent development. In 2007, for instance, there were only a handful of Japanese participants, with 18 food products being awarded, compared to 92 in 2013. Japan's love for international accolades is thus a trend still in the making, and the factors driving it are recently developed.

Leading the way are Japanese producers of goods that are foreign in concept, such

Gotta get 'em all

Japan's share of Monde Selection awards 2013



as *Francais*, the manufacturer of French sweets based in Yokohama; *Meiji*, one of Japan's largest cheese producers; *Vitorwa*, a cosmetics brand best known for their whitening lotions; and *Kimura*, a major soft drink bottler. Japanese brands like these routinely send their products to *Monde Selection* as well as to other foreign prize-giving bodies. Once recognised, these companies plaster products, packaging, homepages and explanatory pamphlets with mentions of the prize – very much unlike foreign awardees that often don't use the accolade at all or mention it only in a press release.

What is noteworthy is the motivation behind this national push for international recognition. The purpose of collecting foreign prizes is to upgrade the brand image in the eyes of Japanese customers. This trend is underpinned by three motivations: to create a more authentic brand world, to reassure customers of a product's quality, and finally to prove Japan's fastidious eye for crafting objects of the same quality as, if not superior to, those of their European counterparts.

Juchheim, Japan's premier purveyor of German-style Baumkuchen with a history that goes back to the 30s, has grown spectacularly over the last decades, with shops in almost all major department



stores up and down the country. They have worked hard to create an image of real German-ness, even employing a Hamburg-based design agency to help with their branding.

For them these international prizes play an important role to build trust in their 'German' quality. Recognized by the German *DLG* (the German version of *Monde Selection*), Juchheim can claim to be on par with the 'original' German product standards certified by German experts, whilst being made in Japan promises a flavour made for the Japanese palate. But if one reads between the lines, first and foremost, the award collection frenzy panders to the desire to satisfy a growing, yet still undefined sense of Japanese pride. There's even a pinch of arrogance in this race for foreign accolades, showing the world that Japan takes foreign products of

whatever kind and leads them to perfection. You don't need to leave Japan to be able to enjoy 'real' French confectionary or German sausages. You can get the authentic, even improved, experience without leaving the comfort of your home.

Conspicuously absent in all of this are Japanese awards. Japanese prizes, such as *Cuisine Kingdom Select*, awarded by a food magazine, or the *Best Cosmetics Award*, handed out by @Cosme, also a magazine, are few and mostly invisible (largely because they command less credibility). The major reason behind this is that Japan has no history of awarding trophies for outstanding products and hence is only starting to create its own award world. Collecting such trophies for foreign products, however, could go a long way in reassuring Japanese customers that they are appropriate for the Japanese palate, which many customers believe to be different from the Western one, or for their skin, which many believe to be more sensitive, requiring products specifically crafted with Japanese consumers in mind.

For foreign brands trying to woo Japanese customers, there are several valuable lessons to be learned from this peculiar attitude towards accolades. More than elsewhere, many Japanese customers like the assurance of a safe choice as recommended by experts and proven by awards. Foreign brands could thus gain from showcasing their accolades won at home more prominently, assuring demanding Japanese customers of their superior quality. At the same time, they should strive to win endorsement from Japanese award bodies.

In the end, what works for Japanese brands producing foreign goods may very well work for foreign brands operating in Japan: assuring customers that their products are up to international standards as well as suitable for Japanese consumers' palates and bodies. In both cases, accolades are a powerful way to sway consumers' purchasing decisions.

You get the authentic experience without leaving the comfort of your own home

IN JAPAN, THE DEVILISHLY RICH WEAR HERMÈS

HERMÈS
PARIS
MADE IN FRANCE

*Why France's Most Successful Luxury Maison
Still Outguns Italian Powerhouse
Prada in Japan*

MARTIN WEBB



Largely due to the increase in consumption tax, sales at Japanese department stores in April were down 12% compared to the previous year, according to the latest figures from the Japan Department Stores Association. But that was the first decline in six months, with almost all of the major department stores and brands boasting healthy single-digit growth throughout the last two quarters. Much of the consumption during the first three months of 2014 can be attributed to purchases made in advance of the tax hike, with the clear winner being *Hermès*, who recently reported growth in Japan sales as +22%.

Prada has failed to buck the global slowdown in the luxury sector as it reported underlying growth of 4 per cent in Q1. Shares in the company fell nearly 7% on Friday, May 6th, to a two-year low after it reported poor results for its wholesale business and sales growth of just 3.9% in the Asia Pacific region compared to a 14 per cent rise in the same period last year.

Over a third of *Prada's* business is in Asia, and while other brands have been reaping rewards from the rapid growth in the luxury sector of the US as the biggest engine of growth over the past year, *Prada* has just 14 per cent of its business in the Americas. Fashion industry analyst Luca Solca told the *Financial Times* that the brand's decision to push its prices higher was also "certainly not helping" sales.

The stark differences between these two revered houses is epitomised by the look and location of their flagship stores: the tiny translucent tiles of the *Hermès* monolith reflect the lights of Ginza, the gilded tract in which a presence projects prestige, while *Prada's* Epicenter looms over Aoyama, clearly proclaiming its fashion pedigree.

The reasons for their success are also surprisingly different, but they share one commonality: in their category (luxury and fashion) each has earned the position of being "safe choice" among affluents. This distinction has been earned less by doing things right, than by not doing things wrong.

Prada's success in creating a secondary line with an identity very distinct from that of its progenitor lies at the heart of the company's long-term profitability. A flagship store for *miu miu* is currently under construction in Aoyama, and will be designed by Swiss duo Herzog & De Meuron, who also designed the *Prada* Epicenter it will stand beside. The consistent branding employed to create a clear identity for each line, has ensured success for both, avoiding the dangerously diffusion-heavy composition of companies like *Marc Jacobs*.

Hermès, naturally, has eschewed the notion of spin-off brands, and resolutely sticks to a distinctly anti-fashion image. And while *Prada's* sales of bags consistently dwarf those of its competitors on the ground floor of *Isetan's* Shinjuku store, France's most prestigious brand remains aloft of the fashion bag fray, demarcating its lofty status with the positioning of both its prices and points of sale.

But it is the venerable French maison's excellence in serving its best customers that lies behind its consistently stellar results. According to Helge Fluch of *Japan Access*, a HNWI (High Net Worth Individuals) marketing firm based in Tokyo, "*Hermès* has a special role in the Japanese market. Their brand image is higher than for any other luxury brand, and can be attributed to the fact that *Hermès* continuously and consistently made sure to satisfy an elite customers segment, comprised of consumers with high net worth and wide social influence."

The basic principle of marketing to HNWIs is very simple: It is essential to establish a personal relationship with the clients. In Japan, face-to-face interaction is even more essential for success, yet often hard to execute for many companies. "By accessing the very closed networks of HNWIs, by understanding their preferences, companies can satisfy selected highly influential customers who will then take these experiences back into their social environment, and have the potential of becoming the most sought

after advocates," explains Fluch. "*Hermès* did this better than any other luxury brand in Japan."

For the vast majority of retail firms, the "star business" is the high volume business and priority is assigned to channels based on sales volume. The most affluent consumers have extremely exacting standards when it comes to in-store experience and levels of service.

"The people responsible for exclusive rich customers are in most cases not rich themselves and can not understand the needs and desires of HNWIs fully," Fluch explains. "In the case of *Hermès*, the fact that the former CEO Mineaki Saito used to have regular personal contact with HNWIs in his work for *Mitsukoshi* Department Stores, makes all the difference in their dealings with affluent customers. Saito, understanding the importance of dealing with HNWIs in a different way and assigning time and budget for this, made *Hermès* the only brand in Japan that executed a real HNWI strategy."

Data from surveys among ultra-rich people in Japan conducted by Japan Access, show affinity levels for *Hermès* way beyond those of all its competitors. The conclusion must be that none of them have been able to develop a workable affluent outreach program. So, while *Prada's* enigmatic inverted triangle motif continues to adorn the accessories of middle class consumers looking for a safe choice to convey a fashion-conscious image, the dashing figure of *Hermès* seems set to remain the default badge of allegiance for Japan's most privileged elites.

Martin Webb began his career in the world of magazine journalism, first in London and then, from 2001, in Tokyo. After two years as Fashion Editor at *The Japan Times*, from 2005–2007, he joined PR agency Wag, Inc., working for clients including *Marc Jacobs*, *Vivienne Westwood* and *Swarovski*. In 2009 he was appointed Director of Marketing & Communications at *Marc Jacobs Japan*. After almost five years in that role, he left in early 2014 to set up communications agency *Communion*.



5 QUESTIONS TO... HOON KIM

1. How would you - in 5 words - characterize the Japanese consumer?

Sophisticated, spoiled, eager, open, happy.

2. What could marketers and brand managers from around the globe learn from the Japanese market?

It's a double-edged sword, but global marketers can learn from the patience that Japanese marketers seem to have. Many successful Japanese marketers seem to have 10 to 50 year plans. This may be construed as having no clarity, vision, decisiveness, etc., etc. by the Western counter-parts, but responding to the enormous pressure of delivering quarterly results often force some marketers to be extremely myopic.

3. What does it need to successfully launch a new product in Japan?

First and foremost, the product's quality better be great, whatever the product is. The rest is the same as everywhere. Distribution (availability) and proper marketing. Oh one more thing. PATIENCE.

4. Future trends you see in the Japanese FMCG market?

Further segmentations of categories to cater to niche needs. Look at the rise of micro-beer brands in Japan. The beer category is shrinking but specialized beer is growing. Even in the shampoo category, smaller brands are catching traction...although the 'boom' seems to be over already.

5. Beyond FMCG, sectors you watch for inspiration?

Entertainment industry in a broad sense of the word. We are competing for people's attention at all times. Developing innovative product/content utilizing new platforms are always interesting.

Hoon Kim has worked extensively across the Japanese marketing world, from acting as Managing Director at BBH to Head of Trade at British American Tobacco. Currently, Hoon Kim is Senior Vice President Content Excellence and Partnership at Coca Cola Japan.



'MADE IN GERMANY' – OVER FOUR GENERATIONS

MASAE YAMAMOTO

Being brought up in the Japanese countryside about forty years ago meant growing up in a rather domestically dominated environment. Our local supermarket was stacked predominantly with Japanese goods with only few imported products available and there was little, if any, connection to the world of international brands. Yet one foreign brand nonetheless penetrated even this rather remote area and since then has been omnipresent in my family, by now across four generations – *Made in Germany*.

My grandfather, who grew up in the 1920s and 30s, already held German manufactured goods in high esteem from his youth until late age. I can still remember how he used to praise German goods for their quality and reliability and it was the dream of every engineering student in his generation to study in Germany. For medical students, too, learning in Germany was the highest aspiration, since medicine was studied with German textbooks. Our village doctor, for instance, still wrote his patient files (of course called 'Karte' in Japanese, taken from German) in German although he couldn't speak the language at all. That was quite normal at the time and the use of German evoked associations of sophistication, just as Latin used to do in Europe.

Made in Germany continued to be a powerful sales point also for the generation after that. In the late 1970s, for instance, I was strolling in a local shopping street with my aunt. A woman was selling clothes hangers on the roadside, adorned with a big German flag. My aunt suddenly stopped in front of the shop and examined the hangers very carefully. The saleslady showed how well-made they were and repeated the phrase 'Made in Germany' at least ten times – and at the eleventh time eventually succeeded in selling about twenty hangers

to her. Afterwards my aunt said to me, "well, actually I could not tell the difference from Japanese hangers and they were not cheap, but they were *Made in Germany*". She was neither a medical nor an engineering student, but the fact that her best friend drove 'the coolest Volkswagen Golf' made her want to possess something German, too – and if it's only twenty hangers. German goods were highly aspirational and by then the lure of *Made in Germany* extended far beyond medicine, engineering and cars.

Later, when I myself became an adult during my high school days, we started becoming flooded with information from around the world and foreign brands became a lot more common and readily available. Still, German brands continued to be trusted (almost blindly) and maintained their position. The coffee shop near my school, for instance, used to advertise with the fact that its coffee was brewed with a newly installed German coffee maker. *Made in Germany* continued to be a permanent companion for me as well.

Now, in the fourth generation, the story continues. In the recommendation of my daughter's schoolteacher, for instance, who advised us to buy the German pencils for her schoolwork; or in the local retailer we're now using, who proudly told us that his shop was designed by German architects.

Today, Japan has many brands and products that are recognized worldwide, yet *Made in Germany* still stands out as sign of quality.

Masae Yamamoto spent many years in the hospitality industry before becoming the Vice President for Marketing at an international investment company based in Tokyo. Many of her institutional customers and investors are based in Germany.



The Booming Business of 'Upcycling'

There is certainly a retro air in Tokyo these days. Second-hand shops are filling empty retail spaces even in the most expensive shopping areas and lifestyle brands like *Freeman's Sporting Club* or the recently opened gourmet burger shop *Golden Brown* are offering the experience of bygone vintage times. Especially the younger crowd is increasingly looking for 'meaningful' consumption – products and experiences that have an air of depth and complexity. In other words, buy less, experience more.

One new shop on the Tokyo scene has taken buying old to a new level. *Pass the Baton* in Omotesando and in Marunouchi take in already beautiful old objects and lovingly restore them, or in some cases lovingly imbue with them with new life by making alterations to fit current tastes. The shop works like a museum of beautiful things where each item is given space to breathe and shine on its own. Each item comes with a little note about its story and who owned it before. Sometimes photos of the previous owner are attached to illustrate the story. Here the products couldn't be more opposite to mass consumption. Consumers don't just buy something they like the look of, but buy into an entire backstory. Very literally the baton has been passed onto the next person.



A lot can be learned from this very successful business model. In a world that has been too inundated with virtual interaction and cookie cutter processes, these places offer a safe haven, where the good old world of authenticity, craftsmanship, stories that connect, and one-off uniqueness still exist.

But even beyond *Pass the Baton*, second hand shops are booming. Lifestyle magazines promote 'kodawari' – one's personal unique taste – that you can live out by buying second hand. Here Japan is slowly experimenting with standing out in a subtle way, as the trend is towards living a non-duplicated life.

Feeding the Sweet Tooth

Tokyo has seen a host of major launches of sweets from abroad recently. From ice cream (*Ben & Jerry's* launching its mini cups) to gourmet Popcorn from *Garrett*, upmarket areas of Tokyo are swelling with sweet delights. Especially the new entry from *Max Brenner's* Israeli chocolate empire has caused quite a whirlwind of press coverage and the queues even months after the opening of the store extend for hundreds of eager customers.

In June the world-famous *Magnolia Bakery* renowned for its cupcakes as featured in *Sex and the City* is set to open its first store in Tokyo. The press is already up in arms about the event. The cup cake craze that has surprisingly skipped over Tokyo up to now is about to hit. After the pancake craze that kicked off late last year with the introduction of the *Hawaiian Pancake*

Company into Japan, we can be sure that cupcakes will be the next big thing.

The market for sweets is big business and its clear we will be seeing more international brands coming in the near future. While Japanese consumers have traditionally been slow to take up foreign sweets for fear that they are too sweet for their palate, the current surge of 'rich taste' products, both sweet and savoury, is showing how this market is craving indulgence and unrestrained pleasure. And in the Japanese mind, domestic brands often fail to fulfill this craving.



PRODUCT INNOVATION

My Bottle Drink Drop

We are seeing a strong trend in brands empowering consumers by allowing them to customize their own products and experience. Consumers are growingly desiring to be treated individually and one size fits all solutions might be safe but feel increasingly out of touch in a diversifying market.

The ready to drink category is a perfect example of a category that might bring a lot of choice but not much space for personalization. *Suntory* teamed up with *Thermos* recently to experiment around this problem. The result is a new product that is set to revolutionise the market – *My Bottle Drink Drop*. Shaped like a thermos mug with a special lid that allows flavour capsules to be pushed in – from coffee to lemon cordial. The idea is that the user can decide what temperature the water is and how rich the flavour is supposed to be. The drink experience is literally in your hand, or as *Suntory* puts it: 'if there are 100 people, there are 100 different drops'

Although similar ideas have existed before from companies like *Club Soda* or *Soda Stream*, the range of flavours across hot and cold water and the compact nature of the concept fits perfect into current needs. Already now the product is stocked in *Seven Eleven* convenience stores across Tokyo and surrounding prefectures and *Softbank* has been bundling *Drop* with newly completed mobile phone contracts.



SERVICE INNOVATION

Moneytree

The growing availability of consumer credit in Japan will lead to an increasingly cashless society and change the way consumers pay for their goods. This opens up a host of opportunity for firms that offer new products to service this fledgling industry. One firm is at the forefront of this trend: *Moneytree*, a Japanese start-up that was founded only one year ago by Paul Chapman.

Based on the insight that Japanese consumers don't like to think too much about savings but at the same time are afraid of a loss of control, *Moneytree* developed an app that helps users keep instant track of their spending habits and money flows, while offering security assurances on par with that of a bank (in fact over 1000 financial institutions already signed up assured by the app's safeguards). Its service offer thus goes far beyond that of standard budgeting apps, which are mostly linked to one account, depend on manual data entry or are mere budget trackers. Instead, *Moneytree* offers cutting-edge data analysis of users' spending patterns synched with all accounts and credit cards to create automatic, instantaneous and comprehensive insights on spending patterns – all designed in a very userfriendly way.

It recently raised millions of dollars from major financial firms such as PayPal, MasterCard and Morgan-Stanley, which all hope to get into the game as the way consumers pay for their purchases undergoes a fundamental change in Japan. Likely later this year, *Moneytree* will launch another fundraising round, offering another opportunity to get a piece of the pie.

POLITICS

The Next Las Vegas

The current session of the Diet is increasingly likely to bring about dramatic deregulation to Japan's gambling industry. Though casinos are illegal in Japan, its legal pachinko (slot machine) market is already worth \$200bn per year. Now moves are afoot to finally unlock Japan's massive potential for resort development. After years of discussions, a gambling liberalisation bill pushed for by an inter-parliamentary group was submitted to parliament and will be discussed during the current Diet session. It has the backing of over one hundred lawmakers and is supported by hugely popular Prime Minister Abe as well as most major parties and for the first time has a realistic chance to succeed.

The windfall for businesses in Japan, particularly in retail and hospitality, could be huge: Japan's casino market is likely to become the third biggest in the world, trailing only the U.S. and Macao. Broker *CLSA* estimates its potential at \$40 billion per year, far eclipsing for instance Las Vegas's \$6 billion in annual revenue. Little surprise then that international investors are lining up already. Major casino operator *Melco Crown*, has already pledged to invest at least \$5 billion should liberalisation go through, whilst Las Vegas *Sands Corp* threw its hat in the ring by committing \$10 billion. The game is on.

POLITICS

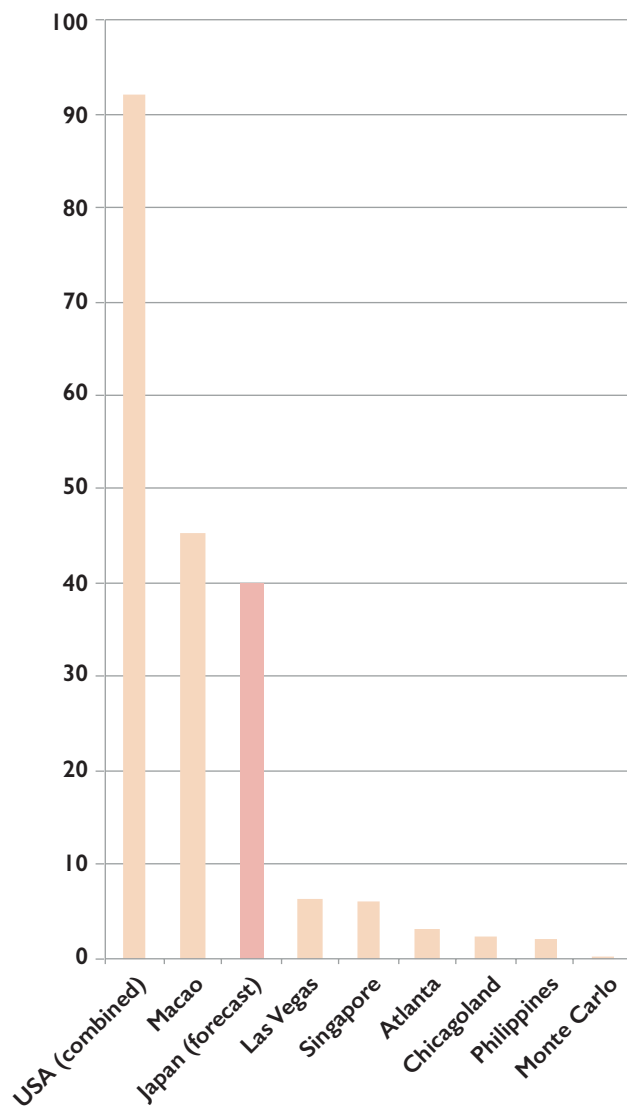
Sales Tax Hike – Back to Robustness one month after

When Japan last increased its VAT (sales tax) from 3% to 5% in April 1997, the economy collapsed (though much of the blame goes to the Asian Financial Crisis happening at the same time). So the outlook was dim for the VAT hike on 1 April 2014 from 5% to 8%, with many forecasts predicting the collapse of Prime Minister Abe's growth strategy. One month after the increase, however, consumption is already going back to normal.

A pre-tax hike shopping spree let quarterly GDP jump to a jaw-dropping annualised rate of 5.9% (the developed world's highest). Consumption then contracted in April, but in less dramatic ways than an-

Viva Las Nippon

Major casino markets by revenue, 2013 or latest available (\$bn)



Source: Bloomberg

anticipated. Department store sales decreased by 8-15% after going up by 30% in March, supermarkets sold between 2-9% less, car dealers saw sales decline by 5%. On the other hand, some of Japan's major eateries (such as family restaurant chain *Royal Host*) actually saw their sales still climbing in April. Taken together, March and April turned out to be rather high performing months for retailers.

All considered, the robustness with which the economy has taken the tax hike signals that consumption levels will remain strong for the near to medium term and that the retail sector will continue to see a robust performance.

CUSTOMER TRENDS

Growing Organic

Whilst food and nutrition – with an emphasis on fresh and seasonal ingredients – play a major role in Japanese culture and daily lives, the interest in organic produce is still surprisingly low.

The implicit understanding so far has been that whatever originates from the Japanese countryside should naturally be safe and high quality. But recent food scandals as well as the ongoing crisis in Fukushima have raised questions about how 'clean' food and drinks really are. A growing number of health- and environment-conscious people are now asking for detailed information about origins, farming and production of what ends up in their pots and on their plates.

With increasing importance being attached to a healthy diet, the demand for organic fruits, vegetables, dairy products and meat is growing – and so is the number of farmer's markets, organic shops (such as *Natural House*), online retailers (e.g. *Alishan*) and organic restaurants (e.g. *Ko-So-Café*). Independent farmers are

CUSTOMER TRENDS

French Eggs

This May, the French independent gallery and bookstore *Ofr* opened its Tokyo branch in Nakameguro, in the same street of *Wieden+Kennedy*, the creative agency.

The opening was publicized via *Facebook* and the organizers managed to mobilize an international, trend-setting crowd of some hundred plus people with a well balanced mix between Japanese and Westerners. So many people attended this event that it was shut down by the Tokyo police after only one hour.

This opening is part of a wider trend towards the growing popularity of small, noncommercial and independent cultural spaces. So far, however, Tokyo is still lagging behind Berlin, New York or Paris in the creation of spaces like this. Closely intertwined with this trend is the organic food movement. The tiny French gallery and bookstore *Ofr*, for instance, also serves a delicious and fully organic and fair trade breakfast on weekends and is thus also part of a growing line of restaurants that offer organic food options.

selling their products on the high streets of Tokyo, using shared pop-up stores or shop-in-shop corners in the big department stores. The trend of 'urban farming' also has arrived in Japan, and supermarkets have started to label their products with the faces and backgrounds of their producers.

Though Japan is still lagging behind the Western World when it comes to the organic hype, this is bound to change with the Trans-Pacific Partnership (TPP), a U.S.-led free trade agreement also involving Japan, which, as the fear goes, might bring in a flood of American genetically modified products. The value and need for all that's 'made by nature' will become more evident and urgent, building a fertile ground for brands from Japan, as well as from abroad, to serve a growing organic market.



CUSTOMER TRENDS

Coffee in the Land of Tea

Over the last half a year or so hardly a week went by that did not see a new, smart and small coffee place open its doors in Omotesando, Nakameguro or Ebisu.

What they have in common is stylish design, combining Japanese decor with contemporary elements. As trends tend to evolve fast in Japan, Espresso and Vanilla Latte seem to be already very yesterday, and 'hand drip coffee' is the latest one-and-only coffee to drink.

What gives this trend a very Japanese feel, however, is the ultimate dedication to everything to do with coffee – beans, baristas, origins, preparation modes and accessories, (we've counted 57 books about coffee in *Tsutaya Daikanyama*, one of the most popular bookstores) – reflecting a very Japanese attitude: whatever you do, make sure you do it 200% right.

CUSTOMER TRENDS

Fly-in Customers

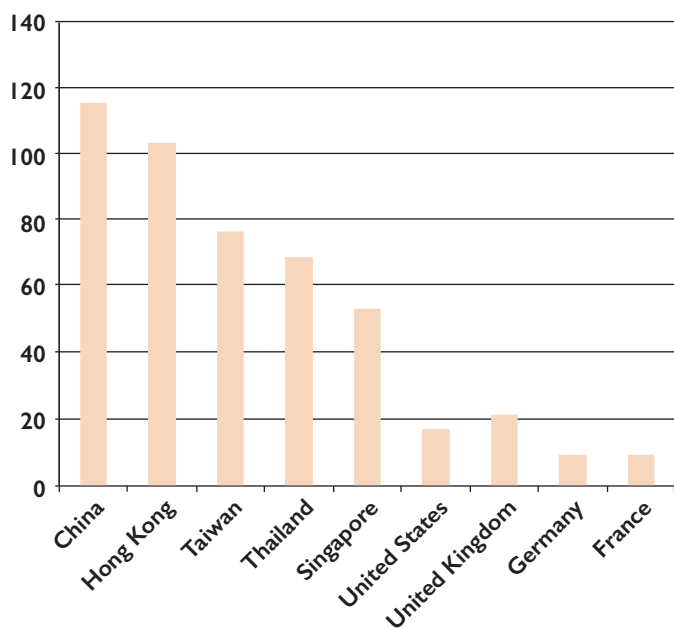
Last year for the first time Japan was visited by over 10 million travellers, collectively spending \$14 billion. Furthermore, the Japanese government estimates that by 2030 these figures will triple to 30 million foreign visitors per year.

This trend is driven particularly by visitors from other Asian countries (see chart). For the entire region Tokyo is an aspirational role model and trendsetter, representing a lifestyle many cities like Taipei, Bangkok, Seoul, Kuala Lumpur or Saigon want to have for themselves in the future.

Customers from the region enjoy the outstanding food and restaurant selection, as well as a sophisticated and high quality shopping experience. On top of all of that comes the weak yen that makes purchases in Japan almost a bargain. Many of the visitors have strong buying power and seek out luxury and premium retailers, shops and restaurants. The up-scale *Mitsukoshi* department store in Ginza, for instance, estimates that 10% of this year's sales will be to foreign visitors. To be continued.

Yokoso Japan

Year on year growth rates in the number of foreign visitors to Japan, Jan 2014 (%)



Source: Japan Tourism Marketing Co.

CUSTOMER TRENDS

Japan's top 15 Websites

1	Yahoo Japan	Search engine
2	Google Japan	Search engine
3	Amazon Japan	Online shopping
4	Youtube	Online video portal
5	FC2	Web services
6	Facebook	Social networking service
7	Rakuten Ichiba	Online market place
8	Ameba	Ameblo blog service
9	Wikipedia	Online encyclopedia
10	Livedoor	News service
11	NicoNico	Video hosting
12	Goo	News service
13	Naver Land	News service
14	DMM	Shopping portal
15	Twitter	Social networking service

Source: Alexa

Elsewhere, porn sites occupy much of the winners' podium, whereas in Japan only one made the top 20.

Most of the Internet traffic originating from Japan goes to social media sites, particularly of sites that allow sharing content and building interest communities, such as *Ameba* or *NicoNico* (see chart).

Overall, the sharing between news sites, social media, content sharing and search engines is very similar to global usage patterns (e.g. in the U.S. or Germany), but with a distinctive Japanese twist: unlike in most other countries where global sites dominate almost all top ranks, in Japan more than half of the top 15 is occupied by domestic sites – specifically those pandering to pop idol, manga, anime and other interest communities where foreign sites have less to offer.



FIRMS

Being Cooperative

While the Guardian is still speculating about why Japanese people do not have sex anymore, Japanese brands are starting to couple in ever-growing numbers – be it with domestic brands to enhance customers' brand experience, or with foreign brands to up their international reach and, often, acquire an air of premiumness from foreign upscale brands.

Foreign brands have a lot to gain as well, teaming up in ever-greater numbers with local names to further their brand appeal and create new brand experiences. *Uniqlo's* cooperation with *Jil Sander* a few years back and more recently – and highly successfully – with Celia Birtwell is a case in point. *Uniqlo* is even eagerly exporting this model to its overseas stores, such as New York, where its flagship store has just announced a second collaboration with Michael Bastian. And the line-up of foreign big hitters joining hands with Japanese partners is growing. *Kenzo* recently teamed up with *Starbucks*, while *Comme des Garçons* is working with Tracey Emin and Serpentine Sackler, two of the biggest names in the international art scene at the moment.

Smaller Japanese firms are eagerly adopting cooperative business models as well. *Claska*, a Japanese boutique hotel, for example, has recently teamed up with *tokyobike*, which specifically designed a traditional

Holland-type bike for the hotel. The cooperation allows *Claska* to come off as vintage, attracting its target customer base with Portland-like bike bohemianism. On the other end of the deal, *tokyobike*, which tries to push its overseas sales, can profit from getting its name out to a crowd of international and trend-conscious travellers who stay at *Claska* in Tokyo's Meguro district.

Meanwhile *Pool*, a new fashion boutique in Aoyama that just opened a few weeks ago, teamed up with *Porter*, a Tokyo-based producer of bags and accessories. As the name suggests, the trendy newcomer is using a redesigned public pool as its store, complete with the former changing cabins remodelled to serve as fitting rooms and a laid-back atmosphere in a fresh blue and white setting, matched by the products on offer. *Pool* delivers the most amazing shop space Tokyo has on offer right now, while *Porter* delivers design works and products specifically designed to fit *Pool* Aoyama's brand.

Brands have just started to discover how great the benefits of such win-win deals can be for both sides of the cooperation. Where *Starbucks*, *Pool*, *Comme des Garçons* and *Uniqlo* lead the pack, others are sure to follow.

FIRMS

Finance as the Safe Bet for Japanese Youngsters

Japan's leading business newspaper, the *Nikkei*, just released its annual ranking of the ten most popular employers. This year's survey, based on a nation-wide poll of almost one thousand job-hunting students, had a few surprises on offer.

Surprisingly and going against all global trends after the 2008 financial crisis, for the first time the top 10 is made up exclusively of financial corporations, with *Sony* and other major manufacturers losing their spots in the top 10 (though, of course, rankings differ somewhat depending on students' majors and those companies are still popular for engineering students). No foreign firm made the Top 20 this year, and the tech-age's flagship brands that so many young Europeans

and Americans aspire to work for, such as *Google* and *Apple*, did not even make the list.

This transformation of career dreams is illustrative of some broader changes in how young Japanese see their careers, such as the rising recognition of Japan as a service instead of a manufacturing economy and the growing willingness to bid goodbye to the lifelong employment system traditionally offered by the big manufacturers. But at the same time, it also attests to a still strong attachment to safe choices: going for big and old Japanese firms that have been around for a long time, often for over 100 years, instead of newer upstarts, however successful, or foreign firms (commonly suspected of 'hiring and firing' practices).

FASHION

Reapproaching Japanese Fashionistas

After years during which China was all the craze and Japan was often put on the backburner, international fashion brands now begin once more to pour into Japan's highly lucrative market, still the world's third largest. In particular, recent months have seen new flagship stores of upscale fashion brands sprouting up all over Tokyo. This should help brands to spruce up their image in the notoriously competitive high fashion sector.

To name but a few, *Alexander Wang* and *Boss* opened their first flagship stores in Japan in Tokyo at the end of 2013. *Balenciaga* (the holding company of, amongst others, *Alexander McQueen*) just opened a new flagship store in March this year in Aoyama, an upscale fashion district in Tokyo. A month later, *Kate Spade's* brand world, complete with a bar, settled down in Ginza, Tokyo's luxury mile. And many more are still to follow later this year, such as *LVMH's*, *Coach's* and *Chanel's* new flagship stores on Omotesando (Tokyo's main high-fashion street). Clearly, the brands also have an eye towards 2020, when Tokyo will host the Olympic Games. Being left out is simply not an option and so we can expect to see many more flagship stores opening in Tokyo in the near future.



BEAUTY

The Growing Market of Male Beauty Care

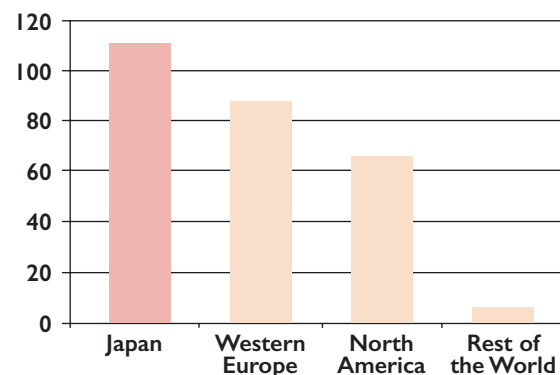
With an average spending exceeding 100 euros annually per capita, the Japanese are the biggest spenders globally for cosmetics. This figure has been consistently growing over the last years as more and more men are consuming cosmetics. Already 49% of all Japanese men are using cosmetics and this number is set to grow as more and more older men are joining the trend for age care. Products specially for older men with bigger budgets are mushrooming, with special scalp care products like *Scalp D* to combat 'aging male hair problems' or brands like *Aesop* or *Marks & Webb* offering up market male specific products. At the same time, male grooming salons such as *Dandy House* are growing in numbers.

This trend is linked to a more general trend towards a holistic view of wellbeing amongst both men and women – what you do to your outside is good for your

inside and vice versa. Many of the men who are taking up cosmetics are doing this with the belief that they are nurturing and pampering themselves, off-setting any anxieties about being too effeminate.

A National Obsession

Average per capita annual spending on cosmetics, '08 (in €)



Source: L'Oreal

HOSPITALITY

Boutique Hotels – Claska Home Alone

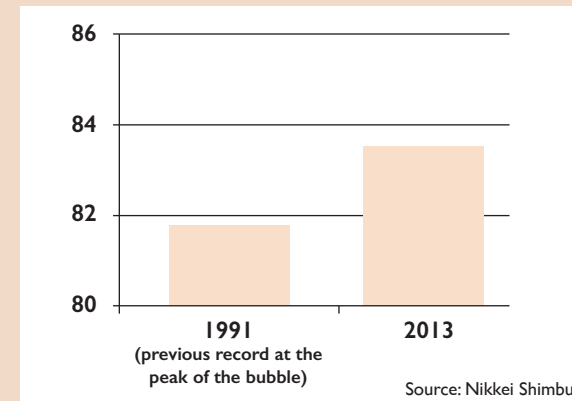
Japan's hospitality industry will be facing severe bottlenecks in the near future. More and more foreign visitors are flocking to Japan: this year's first quarter saw the number of foreign tourists growing by almost 30% year on year. Domestic travel is on the rise, too, consistently ranked in the annual Leisure White Paper as by far the most popular leisure activity, with people going places actually with the sole purpose to stay in a resort or hotel.

At the same time, the last decade has seen almost 200,000 ryokan (traditional, and often old, Japanese inn) rooms disappearing, while hotels can hardly keep up with demand. Now occupancy rates eclipse even previous records set during Japan's bubble era (see chart). Already, Japan is seeing a dearth of hotel rooms, particularly when it comes to the wide space between high-end luxury and cheap accommodations. Often, staying in such premium and mid-class hotels feels like stepping into a time machine back to the 70s.

The decline of the ryokan is illustrative of this opening white space that is in dire need of new and sophisticated players. Particularly boutique hotels, such as *Claska* in Tokyo, are still a rare offering. The mid-price segment has great potential for growth, too. Smart, stylish urban designed hotels that offer great value for money – such as *NH* or *Ovolo* – are still almost unknown in Japan. These players have the potential to occupy most of this market opportunity in the lead up to the 2020 Tokyo Games.

Getting crowded

Average occupancy rates of 19 major Tokyo hotels (in %)



Source: Nikkei Shimbun



FINANCE

Building Credit

Japan is going cashless. Not in terms of wealth, but in terms of payment systems. In the past, debit and credit cards have been exceedingly hard to come by in Japan. This situation, however, has been changing fast since supermarkets came in to take up the slack. *Seiyu* (owned by *Walmart*), a major supermarket chain, is now offering shopping cards that double up as credit or debit cards – as do most of its competitors. Similarly Mitsubishi Tokyo UFJ, Japan's largest retail bank, has finally introduced a debit card.

This growing availability of consumer credit is accompanied by larger transformations in the payment infrastructure. In 2009, *Rakuten*, Japan's biggest online market place, acquired *eBank*, a loss-making online bank. It now has turned around the bank and made it into Japan's largest online-only bank with almost four million account holders, showing the significant white space available for nimble firms in Japan's financial services sector. And the pie is growing quickly: The amount of e-money in circulation has grown by almost 300% from 2008 to just under ¥3tn (\$30bn) in 2013.

This means hard times ahead for the makers of the blue plastic trays now present at every cashier in the country (used to avoid having to pass money from hand to hand directly, which is considered too nonchalant). For the rest of the country, it promises to hold significant gains in productivity and convenience, as well as opportunities for businesses that come up with ideas how to make best use of this significant shift, such as *Moneytree*, our service innovation of the month.

AUTOMOTIVE

Suzuki goes for the Other 59%

Suzuki's k-car (probably best described as a cube on wheels) has been utterly dominating Japan's car market for many years, holding 41% market share according to its chairman. It's efficient, quirky, and what's most important, compact, and hence perfectly adapted to Japan where space is the scarcest resource of all. Now, chairman & CEO Osamu Suzuki is going for the other 59%.

With *Hustler*, *Suzuki* has released a new model that is more versatile in use and comes with a fold-out tent attached to the trunk to form the perfect camping companion. And its new 'k-camper' model offers the same facilities of a wheel estate, complete with bath

and toilet, in a more compact version for about one fourth the price: it will sell for as little as \$19,000, about a fourth of the price of conventional caravans.

With its traditional k-car, *Suzuki* has reached most of the market it can reach for city cars already. With the *Hustler*, however, *Suzuki* is on track to tap into a completely new consumer segment. In Japan's cities, you can't turn around without seeing a k-car. Now, it seems we will be seeing a lot more of them also in the countryside – and if *Suzuki* does things right, also in Europe where the new k-cars have the potential to replace more expensive and fuel-consuming SUVs and pick-up trucks.

TELECOMS, E-COMMERCE & ONLINE

The Big Reshuffling

The telecoms sector is changing at a breakneck pace worldwide. *Facebook's* recent acquisition of *WhatsApp*, a phone communications app, for \$19 billion just upped the game. New technology and usage patterns will also force phone carriers in Japan into new lines of business in order to attract and retain subscribers. So we will continue to witness major changes ahead in Japan's online and telecoms sector (see chart).

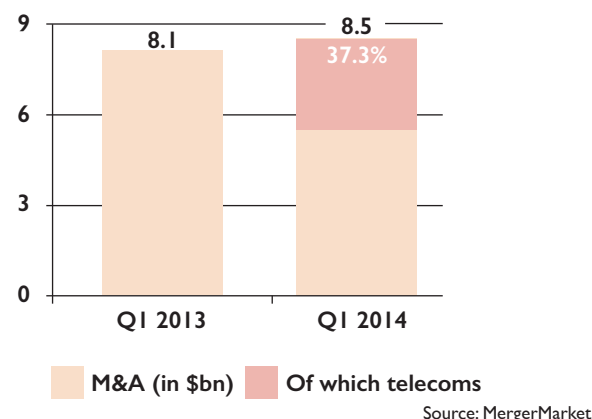
SoftBank, one of three major phone carriers, just became the country's most profitable phone company ranked by net profits in May. This development owes much to *SoftBank's* clever M&A strategy. *SoftBank's* management showed that it is well-attuned to how Japanese customers use mobile phones with well-struck acquisitions, such as that of *GungHo* Entertainment (a smartphone game developer) in 2013. *GungHo's* high operating profit margins considerably increased *SoftBank's* profits and drove its ascendancy to the number one spot. Meanwhile, competitor *NTT Docomo* is leading the way in mobile phone content provision with its *NotTV* (a smartphone-only TV channel) and *KDDI* is strongly pushing into m-commerce, recently pumping millions into *Origami*, a strongly growing Japanese start-up. *Yahoo's* pledge to become Japan's first "Internet Carrier" for smartphones via the acquisition of *eAccess* from *SoftBank* – if

it goes through this year's biggest acquisition in Japan so far – will pile on further pressure.

Further buying sprees only seem a question of time, with many companies ripe for the picking. *Line*, for instance, Asia's most successful instant messaging app from Japan with 400m registered users as of April 2014 (it does not specify active users), is not trailing far behind *WhatsApp* (with 450m active users). With Japanese m-commerce already worth around \$12 billion and growing at an impressive 16% per year, pressure to jump on the wagon will remain strong.

Japan's hyperactive firms

M&A activity in Japan (\$bn)



REGIONALITY

Out of Tokyo

Increasingly, foreign brands are also looking beyond Tokyo as a clever way of establishing their brand presence in Japan – this strategy worked so superbly well for many brands that more and more firms are focusing attention on Japan's regions beyond Tokyo. There's lots and more to gain. Kansai's (the region around Osaka and Kyoto) GDP, for instance, is equivalent to that of The Netherlands and Tohoku's (the region north of Tokyo) economy is as big as Argentina's.

One successful case is *Zebra*, which runs the Danish 'Tiger' retail chain that sells colourful kitchenware. It opened its first store in Osaka, where customers are a lot more fond of colourful goods than their counterparts in Tokyo – it's success in doing so was phenomenal, with people lining up around the block and a considerable media buzz generated. The decision to locate in Osaka in itself was a major marketing tool that helped boost *Tiger's* brand recognition considerably, also outside Osaka.

Now *H&M* is planning to open a flagship store in Kyoto this October, while *Inditex* (the operator of *Zara* and *Bershka*) launched its *Stradivarius* brand in Hyogo prefecture in the south and plans to open a flagship store in Osaka this year.

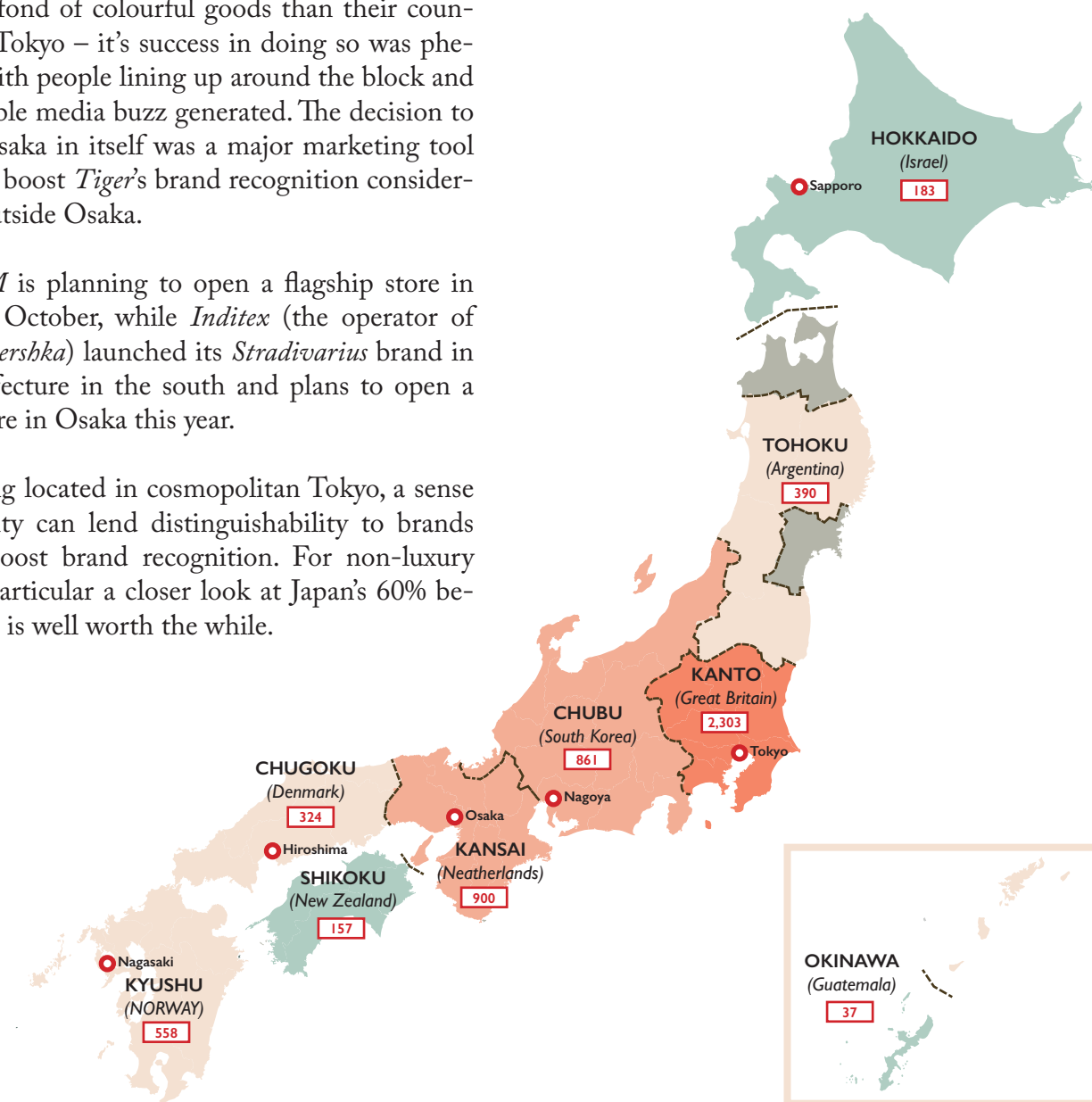
Unlike being located in cosmopolitan Tokyo, a sense of regionality can lend distinguishability to brands and help boost brand recognition. For non-luxury brands in particular a closer look at Japan's 60% beyond Tokyo is well worth the while.

Japan's Regional GDP

with nearest country equivalent 2010, \$bn



Source: Cabinet Office; IMF



MONTHLY FORECAST

Convenience Stores to become Nr. 1 Retail Channel

Convenience stores, called conbini, are a major success story in Japan's retail landscape. They have seen a streak of successes reaching back decades. In 2007, their combined sales overtook those of department stores for the first time. Now, they seem bound on eclipsing even those of supermarkets.

Sales growth of supermarkets in recent years has been flat, averaging roughly half a percentage point over the past two years, while conbini sales have seen unabated growth of over 4% (average year-on-year growth 2012-2014). A number of reasons is driving this development. For one, convenience stores carry the word 'convenience' in their name for good reasons: selling daily necessities is just one aspect of their business; they also double as post offices, ATMs, ticket counters for almost any event, and can handle the payment of any bill. And they are continuing to expand their service offer.

An example of this expansion would be the increasing

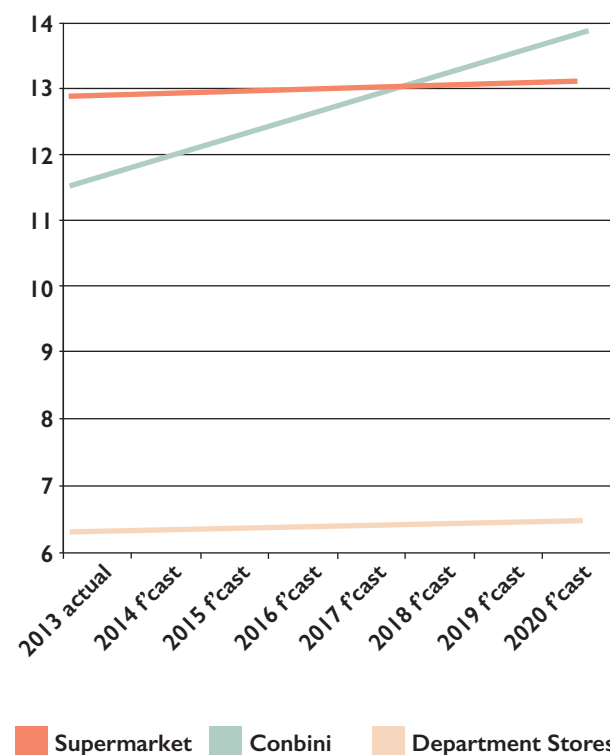
utilisation of convenience store networks as delivery hubs for online as well as brick-and-mortar stores (for instance *Barneys'* recent tie up with *7&i Holdings*, a major convenience chain) fortifies their position in the retail landscape and lures in (new) customers.

Another main factor that will put conbinis in the number one spot is the demographic transition. With ageing progressing and neighbourhood stores growing in importance, we see further growth in the number and sales of convenience stores over the next few years. A recent study by Dr. Iwasaki from Waseda University, for instance, found that the average daily walking coverage by Japanese seniors is limited to about 500m daily. This development will act as a further major driving force behind the rise of convenience stores to the number one spot in the near future.

Hoehn Management projects that conbini sales will eventually overtake supermarket sales in the course of 2019 and will strengthen their lead position after 2020.

The Victory of Convenience

Sales forecasts forecasts (in ¥ tn)



Source: Ministry of Economy, forecasts by Hoehn Management

PRODUCT LAUNCH

Vegetable Ice Cream

In the crammed shelves of Japan's supermarkets that are plastered with stickers that say 'new', it can be quite a feat to spot an actually new product that hasn't been there before in just slightly different packaging. By any account, *HäagenDasz'* SpoonVege ice cream certainly stands out: vegetable ice cream in the flavour combinations tomato-cherry and carrot-orange.

With its creative use of the blender – that at the same time also panders to the strengthening taste for ingredients perceived as natural and healthy – *HäagenDasz'* certainly struck a chord with Japanese customers. Everybody will want to try it at least once for its weirdness factor; and if 120 million people want to try something, it's a success, on any measure.



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