



Cracking the Japanese Market

A guide to the Japanese e-commerce market



Introduction

Japan has a reputation as being a very difficult market to enter with unique market conditions, the language barrier and strong domestic competition. Previously most companies looking to enter the Japanese market would sign restrictive multi-year exclusivity deals with domestic distributors with little transparency or have to go through the expensive and time consuming process of founding a Japanese subsidiary.

However, the market has changed in recent years to make this easier. In addition to changing customer behaviour and marketplace rules, there are a number of solutions that can reduce the difficulty and risk.

The 'minimum viable launch'

Today companies, particularly those with a strong e-commerce focus, are able to test the market and begin selling directly to Japanese consumers and businesses in an easy and streamlined way. This approach has many of the benefits of cross border e-commerce while giving Japanese customers the best possible experience. For many companies this market entry strategy leveraging marketplaces and automation is an attractive low-risk alternative.

Market Overview

The world's fourth biggest e-commerce market representing \$122 Billion in 2018, Japan is dominated by marketplaces with Rakuten, Amazon and Yahoo! Shopping accounting for over one-third of all e-commerce transactions and over 100 million active users. Customers are incredibly loyal to their marketplace of choice due to the loyalty point ecosystem. If your product isn't available on their preference, they will likely buy another product.

Japan has one of the lowest cross-border shopping rates in the developed world. Around 10.2% of Japanese consumers have shopped from overseas websites¹ compared with 54% of US shoppers.²

Japan is characterised by strong domestic competition such as Rakuten, Yahoo! Shopping, and ZOZOTOWN in the e-commerce space and Yahoo! in search. Base, Color Me and MakeShop have more market share than Shopify and Magento.

1. <https://www.hexaresearch.com/press-release/japan-cross-border-e-commerce-market-analysis>
2. <https://www.invespcro.com/blog/cross-border-shopping/>

Rakuten - Domestic powerhouse

Rakuten has a massive customer base with over 100 million members. In addition its e-commerce marketplace, it offers a variety of services including cell phone and electricity plans, online banking, insurance, travel booking, music streaming and much more.

A pioneer in the loyalty program space, Rakuten points are gamified and integrated into all its services and its customers' lives. Rakuten frequently runs sales with strong loyalty point incentives.

Getting a Rakuten account as an overseas company can be tricky and the process takes considerably longer than on Amazon. For American companies it is possible to get your own Rakuten account, but for other companies from other countries this is unfortunately currently not an option.

Rakuten has its own fulfilment service called Rakuten Super Logistics.

The Rakuten Marketplace - An Overview

Rakuten has a particularly strong share in the fashion and food categories. In 2019 Rakuten rebranded Brand Avenue, its fashion marketplace, to Rakuten Fashion to further strengthen its position in fashion.

In some respects, brands have more control over their presence on Rakuten: they have a storefront and their own product listings, they are not shared with other sellers, even if they sell the same product.

Rakuten has more upfront costs but averaged across a whole year, the costs are only slightly higher than Amazon.

Rakuten's advertising platform is very different from Amazon. The equivalent to Sponsored Products is much easier to set up but has much fewer controls. There are however other advertising channels including coupons, newsletter ads and banner style ads.

Context: Japanese Web Design, not so zen

Rakuten is famous for its busy design. This dense, text-heavy design with small images can be seen on many of the most popular sites in Japan. The Yahoo! Japan portal, the single most visited site in Japan, features a similar look. There are a number of reasons for this, such as the risk averse tendencies of many companies; if one website is successful, many will follow suit.

The text-heavy design is fundamentally influenced by the nature of the Japanese language. Japanese characters are logo graphic and, while this dense design can appear confusing to westerners, Japanese consumers are accustomed to processing a lot of information in a confined space.

Another reason for the dense text is the need to convince buyers. Japanese consumers require a substantial amount of detail before they make a purchase decision. The Rakuten listing to the right is an example of this kind of detail. This only shows roughly half the listing for this nutritional supplement and, crucially, all this content is positioned above the purchase button.

Rakuten Listing



Yahoo! Japan



Rakuten & Yahoo! Shopping: An Alternative

To start a Rakuten account as non-American company, you have to either start a local company, work with a Rakuten service provider or work with a local agency who will set up the account on your behalf. All three options have their downsides. Similar hurdles apply to Yahoo! Shopping. While these marketplaces are great opportunities for some companies, there are alternatives.

An alternative:

A possible alternative for companies selling on Amazon enables your products to be sold by local sellers on Rakuten and Yahoo! Shopping and automatically fulfilled by FBA. This streamlined approach allows brands to get started quickly with little risk, while leveraging local expertise.



Amazon's Gateway

Amazon represents a convenient gateway into Japan: many brands already have experience selling on Amazon in other markets, the set up is relatively easy and the platform is available in English. Amazon Japan does require that all sellers offer customer support in Japanese, and technical and account issues are easier to resolve in Japanese, but overall the hurdles are much lower compared to the other major marketplaces.

One clear advantage of selling on Amazon for foreign companies is that they can register their own seller account, rather than selling through an intermediary. Whereas Rakuten currently only offers this to US companies, Amazon is open to sellers from all over the world. Particularly for companies that already have an Amazon seller account on another marketplace, Amazon represents the easiest way to get a foothold in the market.

FBA - Crucial to a 'minimum viable launch'?

Fulfilment by Amazon, Amazon's fulfilment service for sellers, is equally easy to get started with, particularly for brands that are already familiar with it in other markets. There are some hurdles: companies need to have a Japanese company act as an importer of record (IoR) and deal with customs, however there are many affordable IoR services available.

Given the low barrier of entry, the low starting costs and the competitive fulfilment costs, selling on Amazon with FBA is a low risk way to test the market. However there is no need to limit this test to just Amazon, brands can expand to selling on their own e-commerce site, Rakuten and Yahoo! Shopping and have their orders shipped automatically via FBA using various domestic solutions. **This allows brands to run a large scale test on all the major marketplaces and their own ecommerce site with little additional cost and human resources.**

Context: Japanese Keywords - Why Google Translate doesn't suffice

An important feature of digital marketing in Japan is how keywords are handled. In short, Japanese has three different writing systems in addition to the roman alphabet. As a result, keywords can be written in a number of different ways and the combinations are further increased by variations in spaces and word order. This is in addition to the typical variation introduced by synonyms.

As an example, the word bag or *kaban* in Japanese can be written in a number of different ways in addition to the loanword "bag".

鞆 (Kanji), かばん (Hiragana), カバン (Katakana), バッグ (Katakana loanword)

Generally, one or two of the variations tends to be more common, which varies for each word. Understanding which keywords to use, the appropriate word order and writing system requires native speakers with cultural understanding, but makes a big difference in terms of results.



Own Site E-commerce

A common concern we hear from brands is that they are worried about being overly dependent on marketplaces, especially as competition and costs keep increasing. They want to strengthen their brand and see their own e-commerce site as key to this. However doing this in a foreign market can seem daunting.

While marketplaces are incredibly strong, smaller e-commerce sites can flourish in Japan given they engender enough trust. A key component here is localisation, branding and customer service. There is no shortage of badly translated e-commerce stores targeting Japanese customers and consumers see straight through it.

As mentioned in the web design section, brands need to create long detailed product listings to convert skeptical consumers, this is particularly true for new, unestablished brands. E-commerce sites also need to conform to certain expectations that customers have on company transparency with most sites in Japan giving detailed company information on their about pages.

How automation services can streamline

Despite the challenges listed to the left, it is still possible to meet these demands while keeping a streamlined approach using automation.

Setting up a localised store on a Japanese domain with a Japanese payment gateway is just a start. Fulfilment, customer service and returns all require resources and considerable setup. This has obvious benefits in terms of long term cost but has more up front costs and commitment.

A more streamlined approach involves connecting your store to **Amazon FBA with inventory sync and order automation**. The whole process is automated. This allows companies to start fulfilling orders within hours of setting up their store and offers competitive scalable pricing and virtually no up front costs. For companies and brands that want to test the Japanese market before making larger investments, this approach strikes a good balance between cost, convenience and customer satisfaction.



Context: Digital Advertising in Japan

The Japanese digital advertising market is the fifth largest in the world.¹ In addition to global players like Google and Facebook, there is strong domestic competition from Yahoo Japan.

The Yahoo! Japan portal is among the most visited sites in Japan with 62.7 million monthly mobile users alone (about 90% of the mobile user in Japan²) and offers Yahoo Search powered by Google. As a result, Yahoo Japan doesn't require any special SEO efforts, however Google Ads do not display on Yahoo. So showing ads to Yahoo's millions of users requires using Yahoo! Ads, Yahoo Japan's PPC service.

Generally, Japanese brands and agencies focus more on search and display ads with product feeds and shopping ads left to the marketplaces. Rakuten, Yahoo! Shopping and Amazon dominate the Google Shopping results and it is difficult for new entrants to perform strongly in Shopping compared to other markets.

¹ <https://www.statista.com/outlook/216/121/digital-advertising/japan>

² Nielsen NetView/Mobile NetView Custom Data Feed

Changing Landscape

The Japanese market is currently undergoing a shakeup. Yahoo Japan, a subsidiary of SoftBank, has purchased a controlling stake in fashion site Zozotown and has launched a new marketplace, PayPay Mall, to catch up with Rakuten and Amazon. SoftBank and Naver announced in 2019 that Yahoo Japan and Line Corp would be merged. The details and lasting effects of this merger are still unclear.

Rakuten has invested heavily in its newly rebranded fashion platform and is working more closely with brands to launch new features. In addition Rakuten is pushing the Rakuten mobile service in direct competition with both Yahoo Mobile and SoftBank. Yahoo and Rakuten in particular are increasingly trying to strengthen their ecosystem to cover every aspect of their customers' lives including banking, cell phones, digital payments, marketplaces and more.



What does this mean for my company?

There is no single approach to entering the Japanese market that works for every company regardless of size or resources. However the emergence of automation services, primarily targeted at domestic companies, have significantly lowered the barriers to entry and made low-risk, low-cost large-scale market tests possible. Previously entering the Japanese market required large up-front investment and commitment, now with the right approach it is no more difficult than any other market with an Amazon presence.

Due to the maturity of the market there are established, streamlined channels for bringing your products to the widest possible audience through marketplaces and e-commerce. Being able to take advantage of automation and the expertise and resources of local sellers on unfamiliar marketplaces means that companies can focus their resources on the marketing efforts that are generating the best traction or ROI.

It has never been easier for overseas brands to test the Japanese e-commerce market, establish a foothold and then invest more heavily once interest has been established.

About Sophola

SOPHOLA, Inc. is a digital marketing consulting & outsourcing firm bringing state-of-the-art marketing technology from global firms to clients in Japan and APAC. We have partnered exclusively with AdScale and Longtail UX among others to bring their innovative AI martech solutions to the Japanese market.

In 2019, we launched the JME (Japan Market Entry) service to help global companies enter the Japanese market and flourish post-launch. As part of our market launch support we offer a portfolio of best-in-class martech and automation solutions in addition to consulting, customer support, tax, customs and accounting services and much more to ensure that clients get off to a positive start.

Reach out to explore what approach to entering the Japanese market works for your company.

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