



Retailing in Japan

EXECUTIVE SUMMARY

Consumers lifestyles impacting retailing

The Japanese retailing market maintained a trend of marginal current value growth in 2018.

Consumer confidence remains low despite a stable economic environment, as the outlook is affected by an aging and declining population. The younger generation is particularly pessimistic about Japan's economic outlook, and younger consumers tend to spend less than their middle-aged and senior counterparts. Furthermore, spending is shifting from material possessions to experiences and sharing, which is affecting sales through retail channels. The main growth drivers in retailing are those that are most compatible with evolving demographic and lifestyle trends in the market, including convenience stores and internet retailing. The rise of e-commerce is encouraging many store-based retailers to invest in the development of online retailing operations and building or enhancing multichannel business structures. This is set to be an ongoing trend and driver of growth during the forecast period.

Tourist spending remains key driver for retailers

The increasing number of inbound tourists is a key growth driver in Japanese retailing. The Japanese Government is aiming to increase the number of inbound tourists to 40 million by 2020 and 60 million by 2030, up from the 28 million tourists who visited the country in 2017. Retailing continues to benefit from a surge in the number of shopping tourists from China, although the explosion in spending slowed at the end of the review period for a number of reasons. These included a stronger yen, a regulation to limit the value of overseas withdrawals by China UnionPay customers imposed by the Chinese Government, the impact of natural disasters on tourist numbers, and the expansion of cross-border online transactions.

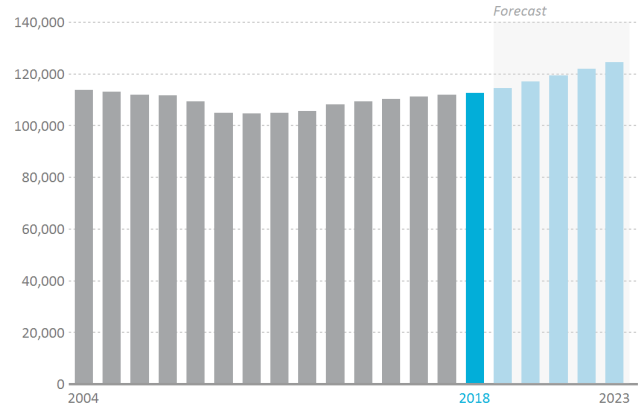
Growth drivers in grocery retailing

The development of grocery retailers is expected to reflect demographic changes in the country during the forecast period, with two factors set to be particularly prominent: the ageing of the population and the increasing number of women in the workforce. The population aged over 65 years old reached 28% of the total population in 2018, with the number of people aged over 75 overtaking those aged between 65 and 74 during the year. With elderly consumers tending to have lower levels of mobility, the ageing of the population is driving demand for grocery stores in small local trading areas. Moreover, with many people aged over 75 living alone and reluctant to cook from scratch, there is strong demand for ready meals. This is likely to lead to the expansion of the ready meal offer through grocery retailing channels in the forecast period. Government efforts to address demographic challenges by engaging more women in the workforce is driving demand for convenient shopping options that fit into the flow of everyday working

Sales of Retailing in Japan

Retail Value RSP excl Sales Tax - JPY billion - Current - 2004-2023

112,185



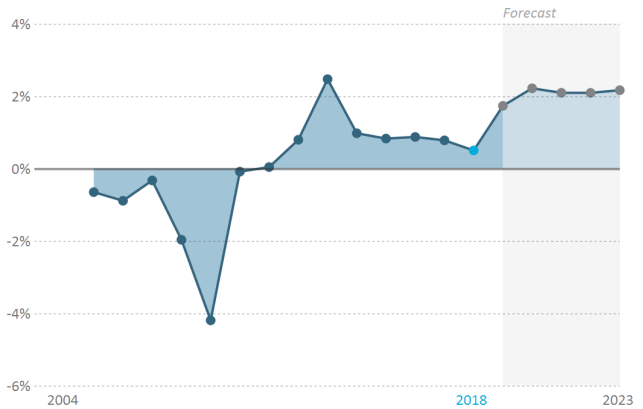
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Sales Performance of Retailing in Japan

% Y-O-Y Retail Value RSP excl Sales Tax Growth 2004-2023

0.5%



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life. Working female consumers tend to shop at convenience stores and supermarkets located on their commuting route. The increase in working women is also driving demand for convenient, time-saving products, encouraging grocery retailers to focus on providing ready-made meals and frozen meals known as Nakashoku. The expansion of e-commerce is also set to be a key growth area in grocery retailing during the forecast period. Online grocery retailers are looking to further enhance the convenience factor that is central to internet retailing's appeal by offering "meal kits" which include the right amount of meat, vegetables and other ingredients to cook for two or three people and leave no waste. Vegetables are often already cut and meats already immersed in sauce to speed up the cooking process. Meal kits are expected to become increasingly popular in the emerging online grocery retailing channel during the forecast period.

Cross-channel collaboration and increasing consolidation in retailing

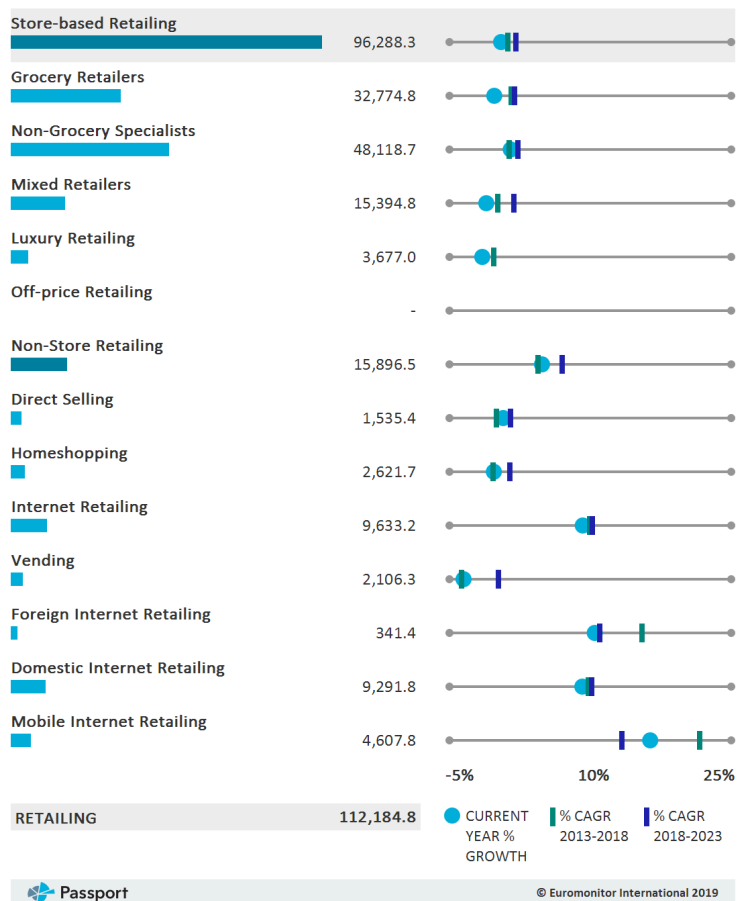
AEON Group retained the leading position in retailing in 2018 thanks to its strong presence across various retail channels, including supermarkets, mass merchandisers and internet retailing. While retailing remains fragmented in Japan, there are signs of collaboration between different retailers and consolidation through mergers and acquisitions in many retail channels. In the intensely competitive Japanese retailing environment, major retailers are striving to survive by diversifying their presence, strengthening their product development, and improving their supply chains. With ongoing urbanisation, the ageing of the population and a growing demand for convenient local shopping, urban areas are likely to see a significant intensification of competition. This is likely to lead major retailers to reach out to other players in and out of retailing for business tie-ups, as well as looking to acquire mid-sized and small retailers with local bases, to strengthen their reach across Japan. Such moves were already being witnessed in 2018, with mass merchandiser, Seiyu, and pure play internet retailer, Rakuten, joining forces to open an online grocery store, while variety stores operator, Don Quijote, acquired supermarkets player, Uny.

Implementing new digital technology

New digital technology, such as Virtual Reality (VR), Augmented Reality (AR) and Artificial Intelligence (AI), is playing an increasingly prominent role in the development of the Japanese retailing market, and this trend is set to accelerate over the forecast period. The end of the review period saw major retailers invest in the implementation of such technology in an effort to improve operational efficiency and enhance the consumer experience by tailoring it to individuals' needs. For example, major homewares and home furnishing operators are incorporating VR technology into their internet retailing sites to enable consumers to explore VR showrooms and purchase the products that

Sales of Retailing in Japan by Category

Retail Value RSP excl Sales Tax - JPY billion - Current - 2018 Growth Performance
Click on a Category to update Sales Chart



they see displayed. Consumers can also use VR goggles to select furniture and furnishings and see how they fit into their own rooms. Meanwhile, apparel and footwear retailers use AI to offer services tailored to each consumer, such as a size fitting service and fashion coordination. The increasing adoption of new digital technology is serving to blur the boundaries between online and offline retailing. For example, GU opened GU Style Studio in Harajuku, in which consumers cannot make physical purchases in-store but can try clothes or make an avatar that resembles them to try clothes of varying sizes, colours and designs. Consumers can then purchase products online which will be delivered to their homes, allowing GU to trim inventory in the outlet.

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