Volume V Issue No. 21 • November 2019

EUROMONITOR DIGEST


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Consumer Electronics in Japan

EXECUTIVE SUMMARY

Consumer electronics undergoing significant transformation

This is a time of potentially significant transition for the Japanese consumer electronics market. The end of the review period witnessed changes to legislation relating to the deals telecom operators are able to offer on tablets and mobile phones, as well as initial trialling of 5G networks, which are set to be rolled out nationwide in 2020. Meanwhile, shifts in consumer behavior, including the move towards streaming content rather than watching/listening to broadcast media or purchasing hard copies, and the increasing use of mobile payment continued to change the focus of demand in consumer electronics. This served to reinforce the central role of smartphones and apps in consumers' everyday lives, while rendering task-specific products such as in-car navigation, digital cameras and video players increasingly irrelevant, as well as posing challenges to products such as laptops and tablets. Televisions, however, proved resilient, benefiting from growing demand for 4K LCD TVs and OLED TVs as consumers looked to replace existing products and anticipated viewing the 2020 Tokyo Olympics. Television sales were also boosted by the commencement of 4K broadcasts in December 2018.

2019 sees a number of major developments for telecom operators

2019 saw some important developments that are likely to have a significant influence on the future of the Japanese consumer electronics market. The most notable of these affected the country's major telecom operators. The year saw the Ministry of Internal Affairs and Communications grant domestic e-commerce giant, Rakuten, a licence to operate as the market's fourth MVO alongside NTT Docomo, KDDI and Softbank. In addition, all four operators were awarded the 5G licences for which they applied, though these came with coverage and security obligations. Moreover, the operators conducted a number of trials of 5G networks in collaboration with numerous partners during the year. Furthermore, telecom operators' involvement in the smartphones market was dealt a potentially significant blow through the revisions to the Telecommunications Business Law, which removed their ability to attract consumers with heavily discounted devices subsidized by high data usage fees.

Competitive landscape may be on the verge of change

The competitive environment in consumer electronics is potentially on the cusp of significant change. While Apple Inc remained the leading player in 2019, it experienced a decline in volume share for the first time in the review period. In fact, Apple managed to increase its share in its core category, smartphones, as well as in portable players, though increasing competition undermined its performance in wearable electronics. However, the revisions to the Telecommunications Business Law made in the final year of the review period are set to undermine the foundation of the company's strength in smartphones, removing telecom operators' capacity to subsidize the purchase of high-end smartphones through high data usage fees.

Another change occurring in the market comes in the form of the waning significance ofJapanese brand identities. This is occurring for a number of reasons, including Huawei's effect on Japanese consumers' traditional view that Chinese brands are inexpensive and low-quality (though Huawei's own progress in the market may be adversely affected by concerns about cybersecurity). Another factor undermining the importance of Japanese brand identities is the fact that established Japanese brands are increasingly coming under foreign ownership, as with Chinese company, Lenovo Group's acquisition of a 51% stake in Fujitsu Client Computing Limited, and Taiwanese-owned Sharp's acquisition of an 80% stake in Toshiba Client Solutions Co Ltd.

Store-based specialists remain dominant despite growth in internet retailing

Electronics and appliance specialist retailers remained the dominant distribution channel in consumer electronics in volume terms in 2019, despite a slight erosion to its share. Specialist store-based retailers such as Yamada Denki and Yodobashi Denki benefit from the fact that consumers still like to experience consumer electronics products first-hand and receive advice from knowledgeable shop assistants before making purchases. Internet retailing continued to gain share as the review period progressed, as consumers increasingly appreciated its capacity to offer a broad product range, competitive pricing and easy comparison, as well as the convenience of purchasing anywhere and at any time and having

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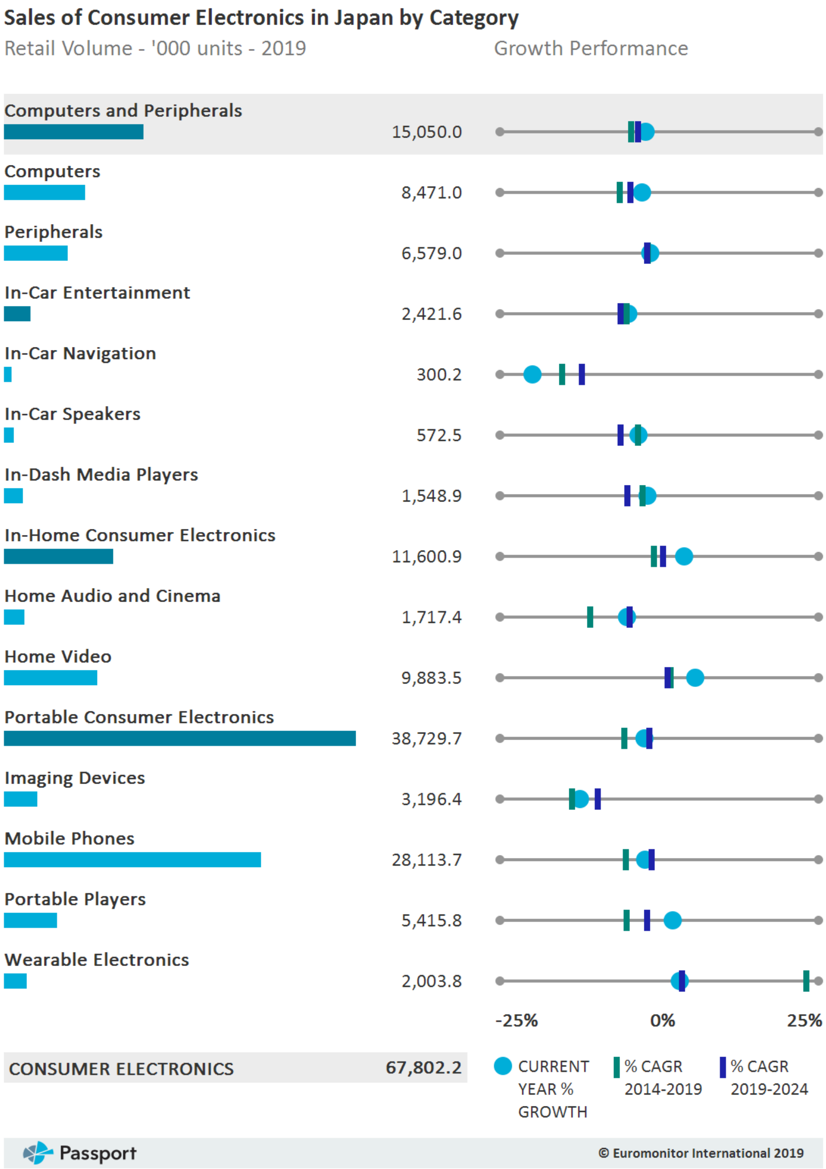
products delivered to their homes. Electronics and appliance specialist retailers offer internet retailing, in addition to pureplay internet retailers, and have the advantage of being able to appeal to both consumers' fondness for first-hand experience of products and the convenience of ecommerce. Meanwhile, within in-car entertainment, car parts specialist retailers account for a high share of volume sales.

Changing consumer behavior and 5G roll-out to present new opportunities

A shrinking potential consumer base due to the contraction of the population and maturity across a number of key areas are expected to contribute to decline in consumer electronics volumes in Japan over 2019-2024. Indeed, most categories are set to see volumes fall over the forecast period, with some, such as in-car navigation, DVD players and digital cameras, set to see particularly marked declines as they are rendered obsolete by the ubiquity and multi-functionality of smartphones and changing consumer consumption of entertainment. Changing consumer behaviors, in relation to both leisure and work, are, however, presenting opportunities for development in some categories, boosting sales of monitors, smart TVs, wireless speakers and smart wearables. Moreover, the landscape of potential development is set to be changed significantly in the early part of the forecast period with the nationwide roll-out of 5G. The advent of 5G has the potential to enhance the connectivity between devices and appliances, thereby significantly accelerating and deepening the development of the Internet of Things (IoT). This could further consolidate the central role of smartphones in consumers' everyday lives an create opportunities for the development of a far wider range of smart devices. Moreover, 5G has the capacity to boost sales across a range of connected devices, as consumers look to upgrade to products that are capable of taking full advantage of the network's potential.■



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