Society 5.0 and the Japanese Consumer Behaviour

Konstantin Ivanov

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Abstract

The article addresses the behaviour of the Japanese consumer and the impact the country’s gradual shift to Society 5.0 will have on it. The publication is one part of the research conducted on Society 5.0 and its effect on the Japanese business sphere. The aim is to examine current Japanese consumer behaviour using data gathered from the World Bank and different consulting agencies and predict the changes that will occur as technology progresses. The research finds that companies in Japan can attract more customers by implementing virtual and augmented reality, artificial intelligence and other key aspects of Society 5.0. However, further research on the topic will need to be conducted in the following years as humanity has not yet entered Society 5.0 and all of the abovementioned innovations are still in their infant stage.

Keywords: Society 5.0, Japan, consumer behaviour, artificial intelligence (AI), virtual reality, augmented reality, online marketing, internationalization.

JEL: D15, D83, M31, M37

Introduction

Throughout the history of business, one of the biggest challenges companies have had to face is being able to accurately predict the behaviour of their current and potential consumers so as to better imprint their product or service on their minds. One of the most successful ways to achieve this goal is via the use of an adequate marketing strategy. Marketing was coined as a concept at the beginning of the 20th century, but its roots can be traced all the way back to ancient times. Over time, marketing has evolved alongside the economy and has adapted to the most popular media, from newspapers and radio to television. In the last two decades, most marketing campaigns have utilized the Internet
and other modern forms of communication to advertise their products as the vast majority of potential customers regularly enter cyberspace.

As with other developed nations, the Japanese market is no exception. Every day numerous companies compete to attract the attention of over 125 million potential customers in increasingly innovative ways. With the country’s gradual transition into Society 5.0, the methods which businesses will need to employ in order to stay ahead of their competition will drastically change and with them – the marketing sphere as a whole. The objective of this publication is to build a consumer profile of the Japanese market, showcase the specifics of Japanese consumer behaviour and propose ways in which it will change with the move to Society 5.0. This goal will be accomplished using data from the World Bank as well as several consulting agencies such as McKinsey & Company. The scope will encompass both the business-to-consumer (B2C) and consumer-to-consumer (C2C) markets and Society 5.0’s impact on them.

**Consumer profile of the Japanese business-to-consumer (B2C) market**

B2C, or business-to-consumer, refers to a market whose transactions occur between a business and an individual acting as the end consumer. As such, the businesses aim to market directly to the individual, leading to the path to purchase being somewhat linear: the consumer identifies a want or need of theirs which must be met, they consider a product or service which can satisfy it, evaluate the available options on the market and finally make a decision. Businesses can however aim to influence that purchase decision by developing a strategy, based on the identified consumer behaviour in the given market.

One of the key stages in identifying consumer behaviour and subsequently building a marketing strategy is analysing the potential consumers in the given market. Japan’s population ranks first in the world in terms of age, with the average age in 2020 being 48.4 years. According to data of the World Bank for the same year, only 12.6% of the population is under 14 years of age, 59.4% between 15 and 64 years of age, and as many as 28% are aged over 65. In addition to the aging population in the country, there is also a tendency towards population decrease and in 2019 the country saw a 0.3% decrease compared to the previous year. The number of people per household is also marked by a downward trend, reaching 2.3 in 2019, although experts are expecting the number of Japanese households to grow in the coming years. Single-person households are on the rise and presently account for almost 38% of all households, or 21.15 million households, noting a gradual shift from the nuclear family household (Statista/b, 2023).

The Japanese population consists of 51.2% women and 48.8% men (Statistics Bureau of Japan, 2019). The country is among the most densely populated and highly urbanized in the world – 91.8% of citizens live in cities. Some 36.4% of the total population is located in Tokyo, Kanagawa, Osaka, Aichi and Saitama. The average level of education is among the highest in the world, with almost everyone having graduated high school at least. According to the data from the 2019 census, some 62% of the 25-34-year-olds in Japan have a higher
education – significantly more than the OECD average of 45%. With a total labour force of 69 million people, Japan has an unemployment rate of only 2.8% - far lower than the unemployment rates of other major industrial countries (Gitnux, 2023).

As far as purchasing power of the population is concerned, in 2019 the Gross Domestic Product (GDP) per capita of Japan reached 43 235.72 USD (or 5 657 084 Japanese Yen). Despite the fact that Japan is a relatively high-income society, according to OECD data from 2019, the country ranks 19th in terms of average annual income (at $40 573 or approximately 4 479 259 yen), below the average level for all OECD countries ($46 686 or about 5 154 134 Yen). This is therefore reflected in the level of average net disposable income per capita of a household of $29 798, lower than the OECD average of $33 604 per year.

The difference between these two factors and Japan’s GDP per capita is due to the significant gap between the richest and poorest strata of Japanese society. The top 20% of the Japanese population earn almost seven times more than what the bottom 20% make. Unfortunately, numerous inequalities can be found in the country, including the ones between the sexes. Despite a gradually narrowing wage gap over the past 15 years, women in Japan still earn on average about 24.5% less than men, and the country ranks third in terms of inequality in the OECD rankings. The lower paid Japanese residents are those under the age of 20. In terms of sustainability awareness, a 2022 study revealed that about half of the consumers in the country believe they are more environmentally conscious in their shopping than they were a year before, but many are still unwilling to pay more for sustainably grown “organic” products (Mertanti and Sanica, 2022).

**Consumer behaviour on the Japanese market**

Before a local or foreign company can consider and subsequently implement a marketing strategy, it is necessary to analyse Japanese consumer behaviour and buyer preferences in the Japanese market. As was previously mentioned, Japanese consumers tend to gravitate towards higher quality products as opposed to mass-market ones. However, Japan’s economic slowdown in the late 2000s and its exacerbation after the Covid-19 pandemic forced some consumers, especially those with a lower level of disposable income, to resort to lower-quality products offered at lower prices. This is especially true for the so-called Yutori generation (the Japanese equivalent of the Western “Millennials”). They, like their Western counterparts, frequent malls and specialty stores, offering a pleasant shopping environment for affordably-priced goods. As a direct result of the recession, discount stores and no-name brands which previously struggled to attract consumers are gaining popularity. It should be noted, however, that this newfound penchant for cheaper goods does not come at the expense of quality. Japanese consumers still prioritize product durability and highly value a greater level of service. Despite the ever-dwindling resources, the average Japanese consumer still spends more per month than their Western equivalent (McKinsey & Company, 2022).
Due to the deteriorating economic situation in Japan as well as the entire world as a whole, the trust of the Japanese consumer towards brands is waning. Online shopping in the country is gaining popularity with sites such as Amazon Japan and Rakuten, but despite this fact, e-commerce still has not reached the level of the US, Canada or Western Europe. Japanese consumers express an equal propensity to purchase consumables and similar goods from Japanese and foreign manufacturers. When it comes to specialized and luxury goods, however, the Japanese gravitate towards countries which are considered leaders in the area – French wines, Swiss watches, etc. Japan is the largest market for luxury goods in the world. Bvlgari, Salvatore Ferragamo and Gucci derive around 27% of their global revenue from the country alone, and Louis Vuitton earns half of its annual profits from its 60 stores in the Land of the Rising Sun (McKinsey & Company, 2022).

Japanese consumers express a strong sense of brand loyalty, with this trend being more pronounced among the older generations rather than the younger ones. While there is still a strong desire for a consumer to try new products from their favourite brand, said loyalty has been on the decline since 2018. About half of the population uses social networks on a daily basis. Japanese consumers showcase a preference for video platforms such as YouTube, TikTok and Niconico, a local video site. The average user of the top performing streaming video website – YouTube, spends 21.4 hours a month on the site or its corresponding mobile app (AsiaPac, 2021). In terms of targeted ads and search engine optimization, search engines are the top channel through which Internet users, aged 16 to 64, discover new brands or products at 42.3%. Search engines are followed by TV advertisements (34%) and product placement within TV shows or films (29%) (AsiaPac, 2021). It is therefore important for a company to conduct a keyword research and optimize their strategy so as to reach their target audience.

As was already mentioned, since the economic downturn, many Japanese customers are shifting towards the consumption of lower-priced products. A study found that since the start of the pandemic, the percentage of consumers who prefer to pay more in order to save some time has declined in favour of those who would rather spend more of their time in order to save money (McKinsey & Company, 2022). This trend can also be observed in the shift in diet of the Japanese citizens – an increasingly larger part of the population now prefers to cook meals at home rather than eat out or order food via delivery apps. In addition, despite the fact that among developed countries Japan still ranks among the last in amount of time spent at home, primarily due to long working hours, the pandemic predictably caused an upward trend in the factor, as increasingly more people are working from home. Last but not least, as far as environmental awareness is concerned, more than half of Japan’s population cares about conservation and this is reflected in the impeccable levels of upkeep and cleanliness even in the big cities. That being said, very few consumers are willing to spend more on purchasing “green” and environmentally-friendly products – a factor potentially underlying the comparative failure of companies which rely on collaborative economy such as Airbnb, Uber and Lyft.
Behaviour of the Japanese online consumer

As far as e-commerce is concerned, Japan marks an interesting trend. The consumers making the highest dollar online purchases in Japan are the ones between the ages of 30 and 59. Furthermore, older consumers show a higher propensity to shop online rather than in person than the younger ones. Over the last year, around 76% of women aged 20-29 purchased something online. In the age range of 40-49, however, that number reaches the impressive 93%. To put this into perspective, the monthly consumption expenditure of customers in their 50s is estimated to be around $2 700 whereas customers in their 20s spend only around $1 570. Furthermore, the online Japanese retailer Rakuten saw an impressive 29.8 times increase in users aged 60-90 in the period 2018-2021 and their transaction rate has already become 128% higher than customers in their teens and 20s (Mertanti and Sanica, 2022).

In terms of time of year, online purchases see a spike in the summer months as that is the time when most Japanese companies hand out large yearly bonuses. The average summer bonus of a Japanese worker is around $3 000 with most of that being spent towards luxury goods, travel, and leisure activities. Other times of year when online spending witnesses an upward trend are holidays such as Valentine’s Day, White Day, Christmas, and New Year. Black Friday is not as celebrated in Japan as it is in the US but over the last decade increasingly more brands have put out special sales and coupon codes during the end of November.

The leading digital payment method at 65% of all transactions, or over $97.6 billion in sales, is cards. This category includes not only debit and credit cards linked to electronic money systems, but also prepaid cards such as Mint, Nanaco and BitCash, usually used by locals, and Suica, a short-term prepaid card favoured by tourists and usually used for the country’s transportation. Credit cards are preferred to debit cards when it comes to completing an online transaction, as very few debit cards in Japan have e-commerce usage enabled – only 0.07 per capita. The second most widespread online payment method at 14% of total sales are bank transfers, also called furikomi. Furthermore, PayEasy, a favoured domestic bank transfer service, allows consumers to pay at banks, teller machines and post offices (McKinsey & Company, 2022).

In terms of social media usage, the most popular one in Japan by far is the messaging app LINE, with over 80 million users in the country. The app is followed by Twitter (45 million), Instagram (33 million), Facebook (28 million) and TikTok (9.5 million) (Statista, 2023/a). Social media is relatively widespread with over half the population using some form of it regularly. As was mentioned above, most social media use is video-oriented with the population regularly consuming influencer-related media.

A key distinction between the Japanese market and the Western ones is that the price for a product varies drastically depending on whether it is purchased online or in a store. Unlike in other countries, which do not have a noticeable gap in price for offline and online shopping, a good can be found in a Japanese online retailer for a lower price almost half of the time. This is due to the fact that online shopping is not a widespread shopping method
in Japan. However, this has led to Japanese consumers becoming increasingly aware of the prices of goods. A lot of Japanese customers utilize the services of price comparison websites such as Kakaku in order to find the cheapest possible option, causing producers and retailers to become a lot more competitive over the last several years.

The increase in online shopping has also led to the rise of C2C (or Customer-to-Customer) markets – online platforms such as second-hand marketplaces, markets for hand-made products and online auction sites. These websites, the most famous of which being eBay and Etsy, present consumers with the option of selling their goods to other consumers, therefore allowing for both parties to benefit from the transaction and eliminating the need for a retailer. In 2018 the size of the Japanese second-hand C2C market was estimated to be $5.9 billion. The current second-hand market leader is Mercari – a local mobile app which allows for second-hand commerce on the go, but foreign websites are slowly catching up to it. On the other hand, the online auction market was valued at $9.34 billion in 2018, with the leader being the American multinational e-commerce company eBay (Statista, 2022).

Last but not least, the pandemic has drastically altered Japanese consumers’ sentiment. Many Japanese residents are hesitant or outright pessimistic whether a full and speedy economic recovery for the country is on the horizon, which has led to consumers remaining cautious with their spending. Some 32% of customers have changed their shopping behaviour since the Covid-19 pandemic began, including giving new stores and brands a try. Over 50% of consumers state that their reasons for trying out new stores are better convenience and better value such as a lower price, a lower delivery cost and larger package sizes. The unpredictable economic situation in Japan is causing increasingly more consumers to change their money spending habits so these numbers are still tentative.

**Entering the Japanese Online Market**

There are numerous factors which make entering the Japanese online market a lucrative undertaking – a uniform language, a well-developed economy, urban density, and a high level of technical understanding in customers. Furthermore, the country’s small size in combination with the highly developed channels of distribution make product shipping and delivery easier, faster, and cheaper in comparison to other countries.

Despite these upsides, there are several glaring pitfalls that companies seeking to penetrate the market need to manoeuvre around. While the fact that Japan operates under a single uniform language can be seen as an upside, Japanese itself is incredibly complex and could pose a challenge in the e-commerce market. A single *kanji*, a Japanese character from the *kanji* writing system which oftentimes corresponds to an entire word, could have multiple meanings and pronunciations, so companies need to be careful in conveying their keywords and overall message. What is more, the language differentiates between regular speech and different levels of politeness (*keigo*, *sonkeigo*, *kenjogo*, etc.). For foreign companies entering the Japanese market it is recommended to work with a
native speaker with a deep understanding of the Japanese language in order to carefully pick the appropriate words and phrases.

One of the most important steps to entering the Japanese online market sphere is choosing the appropriate marketing strategy. Some of the most popular and effective strategies currently used by successful companies in Japan are:

• “Content” marketing – Content marketing transcends simple advertisements like website banners, rather constructing a large network around the products or services of the company. Examples of content marketing would be promotional games which offer customers the chance to win coupons and advertising campaigns which utilize augmented reality. The goal of content marketing strategies is to garner interest in the products through an interactive and immersive experience. One of the most successful examples of content marketing in the Western markets is Apple’s “Shot on iPhone” campaign – a promotion where iPhone users can send in their photos or videos taken with the device for a chance to be featured in upcoming video advertisements (DeVries et al., 2012).

• Omnichannel marketing – Omnichannel marketing refers to the common business practice of using multiple ways of reaching your customers. Some companies fall into the trap of relying only on a homepage and banner ads which redirect to it. However, by utilizing multiple inter-integrated web pages for advertising, alongside other forms of digital marketing, a company can successfully reach a larger and more heterogeneous potential consumer base (Scharl et al., 2005).

• Video marketing – Last but not least, with the aforementioned growing popularity of online video sharing platforms such as YouTube, TikTok, Niconico and Instagram, many companies utilize them to upload their advertisements onto the Internet. According to data from Wyzowl, video marketing is the third largest reason why Japanese residents choose to enter cyberspace and around 85% of all Japanese businesses use video sharing platforms to reach their audience (Rodriguez, 2018).

Changes in the Japanese Consumer Behaviour in Society 5.0

As the country of Japan begins the transition from the information-driven Society 4.0 to the human-cantered Society 5.0, many aspects of Japanese life are expected to experience a drastic change. As one might surmise, the behaviour of the Japanese consumer is no exception. As technological innovations arise in the following decade, the way in which the consumer acquires the information will also change. Targeted advertisements will now be sent to the optimal consumer base as artificial intelligence will aid with data analysis. Furthermore, with the combination of the physical and digital spaces that Society 5.0 entails, consumers may be exposed to advertisements twice as often. Companies need to reconsider their marketing strategies, however, as excessive and redundant advertising of the same product has been shown to lead to consumer apathy or even disdain towards it.
Companies in the future will be able to utilize the technology of Society 5.0 in order to influence consumer behaviour in the three most important factors:

- **Cultural factor** – Consumers are more likely to make a purchase of a given product if it falls in line with a special moment celebration – birthdays, Christmas, Easter, etc. As such, AI data analysis will be able to pinpoint the particular products which will be bestsellers during these times and offer consumers promotional codes for that extra needed stimulation.

- **Personal factor** – The purchase motivation of a consumer is oftentimes influenced by numerous factors, as is outlined in the traditional consumer behaviour models (Learning model, Psychoanalytical model, Sociological model, and Economic model). The Sociological Model in particular states that a consumer’s behaviour is influenced by their place within different groups. A key method of communication in present day and Society 5.0 is social media. Many customers would purchase a product if it is associated with a social media trend, so they can post about it and create content for their friends and followers. With the upcoming innovations in the field of augmented reality, these social media posts would extend beyond being merely photos or videos but will become fully interactive and immersive experiences, further increasing the satisfaction of purchasing the product (Fukuyama, 2018).

- **Psychological factor** – Consumer behaviour can also be influenced on a psychological level. While some see the practice as immoral, many companies seek to influence and hasten their customer’s purchasing decisions by making use of their fear of missing out (or FOMO). Promotions such as limited products or short-lasting flash sales provide consumers with a sense of urgency and may lead to them making an impulse purchase. In Society 5.0 data collected and analysed by artificial intelligence will be able to assess consumer behaviour and tailor such promotions to individuals in order to increase sales of certain products (Putra and Setiawan, 2022).

**Conclusion**

Over the last few decades, Japan’s market has shown itself to be starkly different than the Western ones in several aspects. Part of it is the noticeable differences in consumer behaviour between the two markets – from the elderly’s preference for online shopping, to the customers’ penchant for local everyday brands but foreign luxury goods. This contrast will potentially be further exacerbated with the country’s transition to Society 5.0 and the widespread usage of artificial intelligence, virtual and augmented reality and more – technological innovations which can be utilized by businesses to attract more potential customers.

Further research on the topic, however, will need to be conducted as Society 5.0 is still in its early years with some of its specifics being mere concepts. As time goes on and technology progresses, we will undoubtedly begin to witness changes in the markets, consumer behaviour and society as a whole.
Bibliography


