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Opportunities for European Companies on the Japanese Furniture and Home Fashion Market

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Executive Summary

The aim of this report is to (a) to present an overview of trends and opportunities on the Japanese furniture and home fashion market and (b) to deliver strategic insight, tactical guidance and real-life examples of how to succeed in the market.

This report includes:

1. An overview of the Japanese furniture and home fashion market, including key industry players, current market trends and future direction of the market.
2. A critical discussion of distribution channels on the Japanese market and practical guidance on how to evaluate the different market entry options.
3. Presentation of new ways to rethink strategy and market entry on the Japanese furniture and interior market. Case studies and company examples are introduced to show novel approaches to market entry.
4. Introduction to relationship-based approaches to marketing in Japan.

This report has two main target groups: (1) European companies with an interest in entering the Japanese furniture and home fashion market, and (2) companies with an existing setup on the Japanese market but sending the need to rethink strategy: for example, by revitalising the company's sales and marketing activities in the market.

1. Introduction

Despite almost three decades of recession, Japan remains the third largest economy in the world. Close to 127 million sophisticated consumers with high purchasing power and discerning tastes make Japan the third largest consumer market in the world. No other country in the world is as concentrated a source of revenue for so many brands as Japan.

Despite the sheer size and power of the Japanese furniture and home fashion market, [1] there are many other reasons for European firms to consider market entry to Japan:

- Japan is the world's largest market for branded products, and this market is increasing rapidly.
- The construction of new hotels and various renovations for the 2020 Tokyo Olympics is currently booming.
- Japan has the highest number of millionaires in Asia.
- The Japanese luxury goods market is the only market in the world with two-digit growth rates.
- In December 2017, the EU finalised negotiations for a trade agreement with Japan.[2]
- Japan will soon have the highest proportion of elderly citizens in the world, hence creating a huge market for special furniture for the elderly.

Apart from the market size, demographics, and a relatively stable Japanese demand for furniture and home fashion over the last ten years, there is another very important reason for targeting the Japanese market.

In the 1960s there was a lot of talk about a Japanese model called 'the Flying Geese'. In this analogy, the Flying Geese model shows how one economy, like the first goose in a V-shaped formation, will lead other economies toward industrialization, passing older technologies down to the followers as its own incomes rise and it moves into newer technologies. Decades ago, Japan was the technological lead-goose in Asia. While this may have changed over time, Japan has developed to become the influential lead-goose in Asia in *new* areas like music, lifestyle, fashion, and other trends. This is also the case with the Japanese furniture and home fashion market.

When international brands, for example, discuss market entry to Korea, Taiwan, or the huge Chinese market with potential local distributors or partners, the first question is often: "Where do you sell in Tokyo, and what are the results?". Tokyo is very often the key reference for the large players on other Asian markets of interest to European firms, and if a brand succeeds in Japan it will automatically create demand from other markets in Asia. In other words, succeeding in the Japanese market is of strategic importance for European brands.

This report has two main target groups: (1) European companies with an interest in the Japanese furniture and home fashion market, and (2) companies with an existing setup on the Japanese market but sending the need to rethink strategy: for example, by revitalising the company's sales and marketing activities in the market.

[1] The home fashion market in this report consists of the following categories: bed linen/beddings; towel goods; nightwear/home wear; home-use furniture; interior fabrics; home-use lighting fixtures; kitchenware/tableware and interior accessories.
[2] See section 2.d. for details.

Most reports on the Japanese furniture and home fashion market focus on the overall development of the market and macro trends – or on the more technical aspects such as legislation and import regulations etc. that govern the market. While this may be very helpful for an initial and general orientation, the contribution of this particular report is a targeted focus on European SMEs and with lots of pragmatic advice on how to establish sales on the market. Rather than a presentation of data, regulations (e.g. labelling, tariffs, procedural requirements etc.)[3] and trends, this report aims to deliver strategic insight, tactical guidance and real-life examples of how to succeed in the Japanese furniture and home fashion market.

The report is structured as follows:

- Following the introduction, part 2 will present an overview of the Japanese furniture and home fashion market. This will include the overall development of the market, but also a closer look at the current trends and developments. This part also includes an overview of key players on the market.
- Part 3 will provide an overview and critical discussion of distribution channels on the Japanese market and, through a number of short company cases, offer detailed advice and practical guidance on how to evaluate the different market entry options.
- Part 4 will discuss and evaluate new ways to rethink strategy and market entry on the Japanese market. Also, in this part of the report, case studies and company examples will be introduced to show novel approaches to market entry.
- Part 5 will introduce relationship-based marketing as a way for European companies to revitalise their sales and marketing activities on the Japanese market.

Throughout the report, case studies of European SMEs on the Japanese furniture and home fashion market will be introduced. To complete this report, we have analysed publicly available data and industry reports, studied companies' annual reports, and interviewed a wide range of Japan executives at international furniture and home fashion companies and industry associations.

The exchange rate used throughout this report for converting Japanese yen into Euros is 0.77.

[3] Please see the website of The Japan External Trade Organization (JETRO) for information: www.jetro.co.jp

2. Overview of the Japanese furniture and home fashion market

In this part, we will present an overview of the Japanese furniture and home fashion market.[4] The discussion is structured as follows:

A. Overall development of the Japanese furniture and home fashion market
B. Current trends and future direction of the market
C. Key players in the market
D. Taxes, tariffs and the Economic Partnership Agreement

a. Overall development of the Japanese market

There are many ways to categorise the Japanese market for furniture and home fashion. In this report, we refer to 'furniture' as movable articles that are used to make a room or building suitable for living or working in, such as tables, chairs, or desks. The furniture category is divided into two main market segments: (1) home-use, and (2) contract. The latter category, contract, consists of the following two sub-categories: (A) furniture for office-use, and (B) furniture for institutional use, which implies furniture used in hotels, restaurants, clinics and other locations.

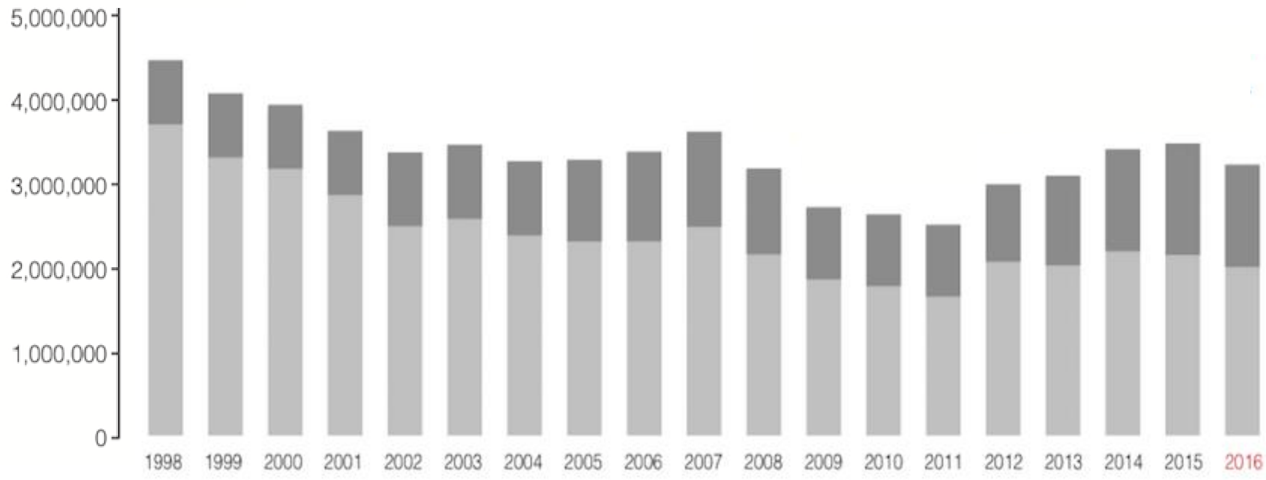
i. The home-use furniture market and contract sales

According to the leading Japanese business newspaper, *Nihon Keizai Shimbun*,[5] The total Japanese market for furniture had an estimated value of 3.2 trillion yen (24.5 billion Euro) in 2017. Japan's so-called bubble economy collapsed during the period 1986-1990. Yet in 1991 the Japanese furniture market reached an all-time record size of more than 6 trillion yen (46 billion Euro), but in recent years the market has been hovering around 3 trillion yen (23 billion Euro).

Among reasons related to deregulation and general economic slowdown, one of the main factors to influence the overall decline of the Japanese furniture market is the number of marriages and new housing starts. The latter has declined with 12% over the period (1998-2016).

[4] The main sources on the Japanese furniture and home fashion market are: Yano Research Institute (2017), annual reports of key industry players and industry organisations. See the appendix and list of references for details.
[5] Nihon Keizai Shimbun 17 August 2017 (in Japanese).

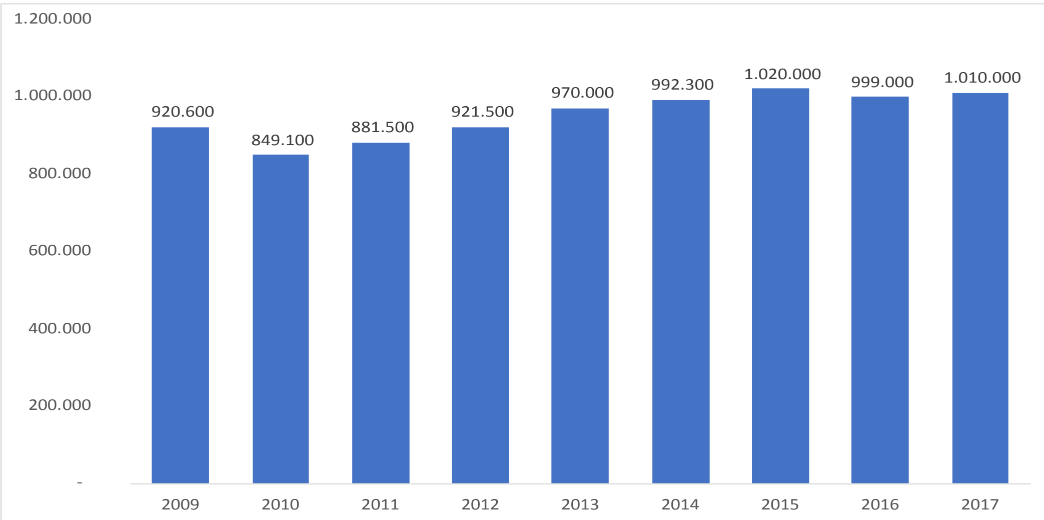
The total Japanese furniture market (million yen):



Sources: Based on Nihon Keizai Shimbun, annual reports of Otsuka Kagu and data from AIK Co. Ltd.[6]

The furniture market can be segmented in various ways. It is customary to distinguish between (1) home-use furniture and (2) contract sales. According to the Yano Research Institute (2017), the Japanese market for home-use furniture alone has an estimated value of 1 trillion (7.7 billion Euro). Home-use furniture thus makes up around one-third of the total furniture market, with contract sales accordingly representing two-thirds of the total market.[7]

The Japanese home-use furniture market (million yen):



Source: Yano Research Institute, 2017

[6] AIK Co. Ltd. specialises in the furniture market and publishes the industry magazine, Home Living: http://www.homeliving.co.jp
[7] With a total value of 214 billion yen (1.6 billion Euro) the market for office furniture represents around 20 % of the total contract market in Japan. Source: Japan Office Furniture Association http://www.joifa.or.jp

ii. The home fashion market

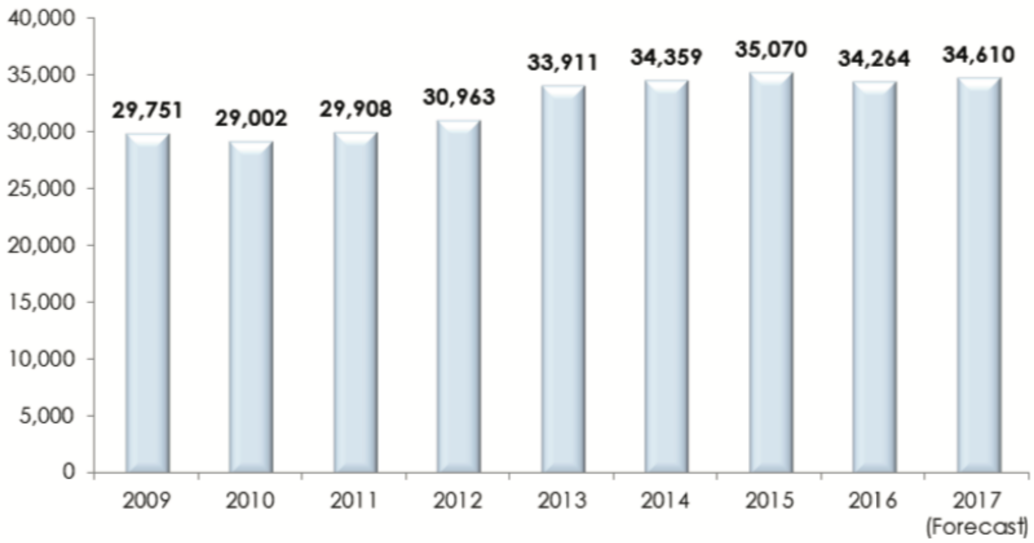
With companies like IKEA and Nitori gaining increasing momentum in Japan it is also important to look at the Japanese market from the perspective of total decoration for the home, often referred to as home fashion, interior accessories and home furnishings. While many categorisations exist, we will use the term 'home fashion' in this report and define the category as follows: Bed linen/beddings; towel goods; nightwear/home wear; home-use furniture; interior fabrics; home-use lighting fixtures; kitchenware/tableware and interior accessories.

Home fashion defined:

Major Categories	Major Items
Bed linen/beddings	Bed sheets, bedding-related covers, beddings, blankets, pillows, etc.
Towel goods	Towel products, toweling, etc.
Nightwear/home wear	Pajamas, night dresses, robes, lounge wears, etc.
Home-use furniture	Chests, chest of drawers, chairs, shelves, beds, sofas, dining tables, etc.
Home-use lighting fixtures	Installed, on-the-table, pendant-type, and other types of lighting fixtures
Interior fabrics	Curtains, blinds, screens, carpets, rugs, wallpapers, etc.
Kitchenware/tableware	Tableware, glasses, cutlery, kitchen tools, etc.

As shown with the model below, the total home fashion market in Japan is worth almost 3.5 trillion yen (26.5 billion Euro). Within the home fashion market, furniture accounts for nearly 30 % the market; bed linen/beddings 20 %; and interior fabrics 17 %.

The Japanese home fashion market (hundred million yen):



Source: Yano Research Institute, 2017

The Japanese home fashion market, total sales by category (hundred million yen):

Categories	2009	2010	2011	2012	2013	2014	2015	2016	2017
Bed linen/beddings	4,681	4,708	4,918	5,123	6,543	6,699	6,920	6,796	6,830
Towel goods	1,525	1,445	1,480	1,560	1,630	1,625	1,600	1,660	1,670
Nightwear/ home wear	1,417	1,445	1,517	1,482	1,586	1,625	1,650	1,470	1,500
Home-use furniture	9,206	8,491	8,815	9,215	9,700	9,923	10,200	9,990	10,100
Interior fabrics	5,368	5,404	5,458	5,566	5,782	5,822	5,840	5,828	5,860
Home-use lighting fixtures	3,879	3,840	3,975	4,125	4,340	4,400	4,440	4,370	4,400
Kitchenware/ tableware	3,675	3,669	3,745	3,892	4,330	4,265	4,420	4,150	4,250
Total market (Total)	29,751	29,002	29,908	30,963	33,911	34,359	35,070	34,264	34,610

Source: Yano Research Institute, 2017

The two dominant players in the Japanese home fashion market are IKEA and Japanese Nitori. Case studies and analysis of Nitori and IKEAs development on the Japanese market will follow in section 2.c, but first, let us take a closer look at the current market trends and future market development of the furniture and home fashion market.

b. Current market trends and future direction

As discussed in the previous sections about the Japanese furniture and home fashion market, the overall sales have decreased dramatically since 1991. For the last ten years, demand has, however, somewhat stabilised and a small overall increase of the market is expected by industry professionals and organisations. Based on interviews with a wide range of industry executives in Japan, a number of distinctive trends can be identified:

1. The overall number of industry players is decreasing. Data from Toyo Furniture Research Co., Ltd. shows that the number of leading furniture retailers has dropped from 643 in 1996 to 242 in 2016 and continues to decrease. The number of leading furniture wholesalers has also been decreasing, with 340 registered wholesalers in 1996 to a mere 128 in 2016.

2. There is a general shift from life stage-driven bulk purchases to lifestyle-driven single-purchase demand. In the past, Japanese consumers would buy furniture and home furnishings in large quantities and with relatively low frequency (on occasions such as home start, marriage, new housing, divorce etc.). The recent trend is, however, for consumers to make frequent – and far more fashion-oriented – purchases, but of considerably lower quantity. Put differently, fast fashion has entered – and changed - the industry.

3. Furniture and home fashion chains are shifting locations from suburbs to urban areas and opening small stores rather than large ones. While the market-leader in the home fashion segment, the Japanese Nitori Corporation, traditionally focused on large out-of-town flagship stores, the company is now aggressively opening smaller outlets in major cities, and with these stores targeting busy urban consumers.

4. Consumer focus is shifting from products to services and the overall buying experience. Key industry players now offer full room displays in their stores, and with these they offer inspiration to customers and encourage

impulse purchases. Many of the key industry players, like for instance the NAFCO Corporation[8] with 370 stores and sales of more than 229 billion yen (1.8 billion Euro) in Japan, are explicitly aiming to become 'lifestyle creators'. The industry giant, Nitori, declares its positioning as "a true lifestyle suggestion company".[9]

5. A fifth trend is the polarization of the market, with a strong demand in the value-for-money segment and - at the same time - in the high-end luxury part of the market. As the following sections will show, this current trend leaves very little room for traditional furniture shops, wholesalers and brands that get caught in in the middle (i.e. between the fast-moving and fashion-oriented value-for-money segment and the high-end luxury market with a strong focus on buying experience, service and storytelling about the brand).

6. The generation buying products based on online information is now reaching the age to make furniture purchases. Furniture and home fashion has long remained with the 'digital battleground' among products that are researched online, but primarily purchased in physical stores. This is, however, changing and the opening of IKEA's online shop in Japan 2017 clearly supports this trend. According to Inside Retail Asia,[10] IKEA Japan aims to have online sales account for half of its Japanese revenue in 10 years!

7. Closely connected to the increased focus on online sales, social media marketing and the role of 'influencers' is becoming increasingly important. Influencers are famous or high-profile people involved in the marketing of products. In Japan, influencers are meticulously positioned according to profile, taste and the like; often through popular platforms like Ameblo, which has more than 25 million unique users and has more than a stunning 30 billion page-views per month.[11] As previously discussed, Japanese consumers are becoming more likely to update their homes in line with changing fashion trends, and here influencers play an increasingly important role. In part 3, we will elaborate on how a European interior accessory brand succeeded with a strategy of online sales and influencer marketing on the Japanese market.

8. Distribution in Japan is notoriously known for the many intermediaries (importers, agents, distributors etc.) needed in order to put products on the shelves in Japanese retail shops and department stores and ultimately reach Japanese consumers. In recent years, this appears to be changing and Japanese shop owners, retail chains and department stores are increasingly involved in the direct import of e.g. European brands. This trend can be observed across a wide range of product categories, also including home fashion. The trend is especially strong in relatively fast-moving industries like fashion, costume jewellery and interior accessories where Japanese retailers are continuously on the look-out for new products, brands and concepts to diversify and position themselves in the increasing competition against online shopping.

[8] See the corporate website of NAFCO Corporation: http://www.nafco.tv/top/index.html
[9] See Nitoris corporate website: www.nitorihd.co.jp
[10] Inside Retail Asia, February 27, 2017: https://insideretail.asia/2017/02/27/ikea-japan-launching-online-store/
[11] Based on expert interviews. See also the website of Ameblo: https://www.ameba.jp

c. Key industry players in Japan

This section will introduce various rankings and analysis of key players on the Japanese home-use furniture and home fashion market[12], based on sales, market segment, design profile and strategic positioning. As shown with the table below, Nitori is by far the largest company in the industry with sales of more than 458 billion yen (3.5 billion Euro). Number two is Ryohin Keikaku, which is the company behind the chain store Muji, retailing for more than 307 billion yen (2.4 billion Euro) per year. Both companies belong to the home fashion market and sell a wide range of product categories under that segment. The share of furniture sales for Nitori is 45.8 % and for Muji it is only 15.6 %. A short case study of Nitoris development on the Japanese market will follow in section 2.c.i. below.

Key industry players:

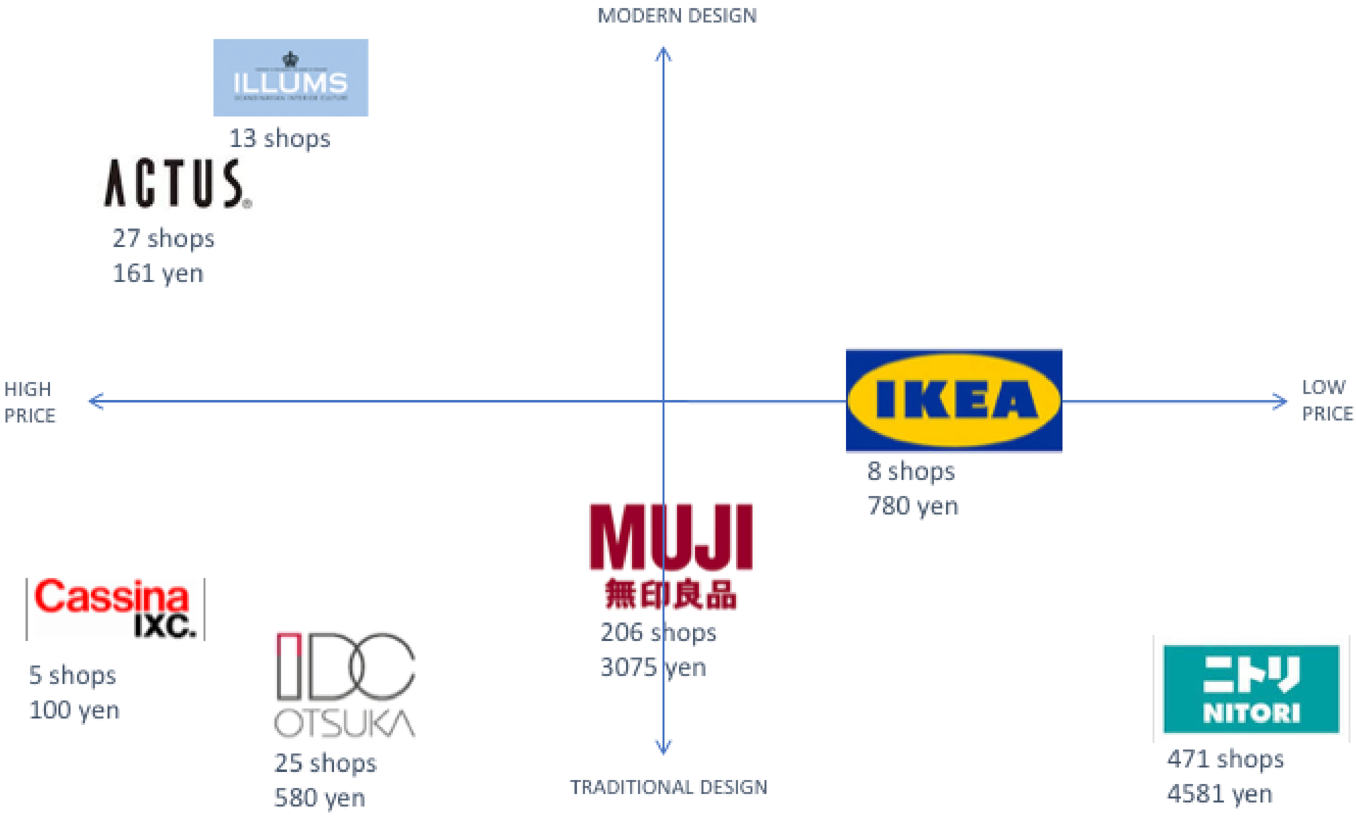
Company name	Sales in 2015 (100 million yen)	Furniture sales share	Furniture sales (100 million yen)
Otsuka Kagu,Ltd.	580	99.9%	579
CASSINA IXC. Ltd.	100	95.0%	95
ACTUS	161	70.0%	113
BALS CORPORATION	320	34.0%	109
Ryohin Keikaku Co., Ltd.	3,075	15.6%	480
Misawa & Co., Ltd.	80	75.0%	60
Shimachu Co., Ltd.	1,499	27.7%	415
NAFCO Corporation	2,299	22.6%	520
IKEA Japan	780	55.0%	429
Nitori Holdings Co., Ltd.	4,581	45.8%	2,098

Source: Estimated by Otsuka Kagu in their 2017 annual report,[13]
based on each company's financial statements

While the share of furniture sales remains relatively low for all the large Japanese industry players, Nitori (45.8%), Muji (15.6%), NAFCO (22.6%), and Shimachu (27.7%), the following companies are well-known furniture specialists in Japan: Otsuka Kagu, Actus and Cassina IXC. The model below depicts the strategic positioning of these brands, based on their design profile (traditional versus modern) and price positioning (high versus low).

Strategic positioning of key industry players in Japan (figures in 100 million yen):

[12] For information about companies and wholesalers in the contract sales segment (office furniture and institutional furniture) please refer to the appendix.
[13] http://www.idc-otsuka.jp/company/e-ir/data/e_annual_report_2017.pdf



Source: Own model

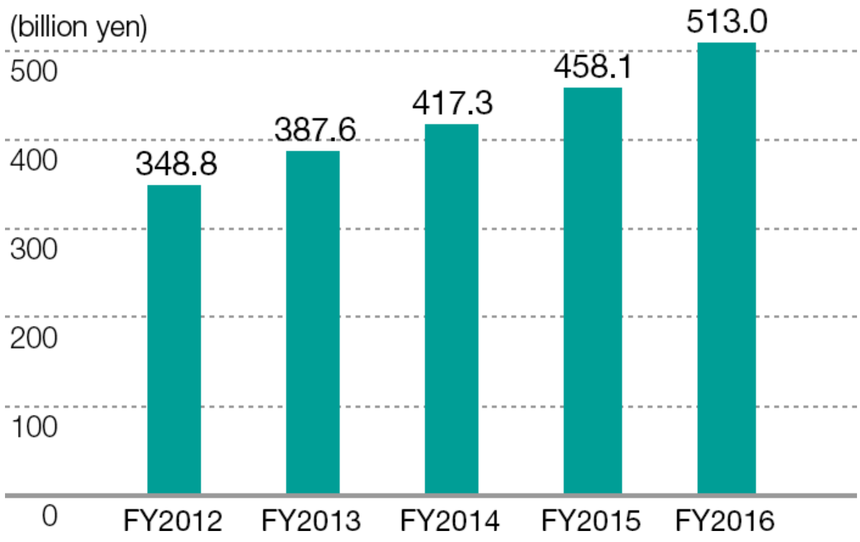
While the model above presents a subjective and crude overall mapping of the companies design profile and positioning regarding price, a more tangible example might help clarify the differences: When checking the retail price for three very similar products – in this case a simple ironing board - in IKEA, Muji and Nitori, the latter comes out as by far the cheapest: Retail prices inclusive tax, Nitori 1,500 yen (11.5 Euro), IKEA 1,699 yen (13 Euro), Muji 5,800 yen (44.4 Euro).

i. Case study: Nitori

Nitori is the biggest company in the Japanese furniture and home fashion industry.[14] Nitori has increased its revenue and profit for 30 consecutive years, reaching total sales of 513 billion yen (3.9 billion Euro) in the financial year 2016.

Nitori net sales 2012 – 2016 (billion yen):

[14] This case study is primarily based on annual reports of Nitori, the corporate website www.nitorihd.co.jp and interviews with industry professionals.



Source: http://www.nitorihd.co.jp/en/ir/performance/indicator.html

In March 2018, Nitori opened its store number 430 in Japan. In addition to the 430 stores in Japan, Nitori currently operates 27 shops in Taiwan, 11 in China and 5 in the United States. Traditionally, Nitori has followed a strategy of operating large stores in Japanese suburbs, but the company is currently expanding aggressively in urban areas with smaller lifestyle stores. Since opening the first urban store in 2015 in the fashionable central shopping district of Tokyo, Ginza, Nitori has been opening outlets in new locations such as department stores in Shinjuku and Ikebukuro and continues to open new stores every year. According to Nitori website, "there is a heavy emphasis on in-store coordination and, and with the most fashionable products being carefully selected from our regular Nitori product range we are developing a sales floor with a fresh, new lifestyle approach (…) total home coordination".

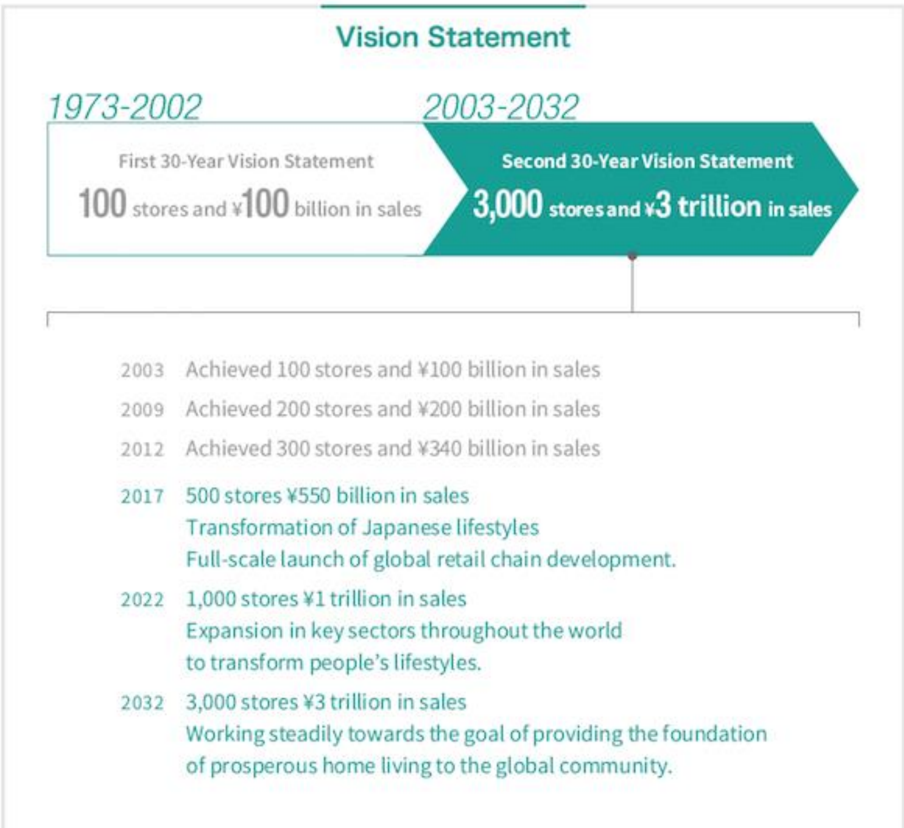
Nitori urban outlet:

Nitori Deco Home store

As part of the store and development strategy, Nitori has recently created a new store format called Deco Home, and the company is currently advancing into new market segments with Deco Home. According to Nitori, "Deco Home is our home fashion model which carries frequently purchased everyday goods. This represents a brand-new concept in product assortment and store design, as well as in the operation of the stores”. The reason for launching Deco Home, is to encourage Japanese customers to visit stores more frequently, - and for this to succeed, Nitori identified a need to create a new and smaller store format that would work for targeted areas with smaller populations (200,000 – 400,000 people).

As a central element of the overall strategy, Nitori owns and controls all operations throughout the value chain: from product planning, procurement and production to distribution, retail and advertising. The company aims to achieve a total of 1,000 stores and 1 trillion yen (7.7 billion Euro) by 2022 and increasing to 3,000 stores and 3 trillion yen (23 billion Euros) in sales by 2032.

Nitori vision statement:



Source: Nitori corporate website www.nitorihd.co.jp

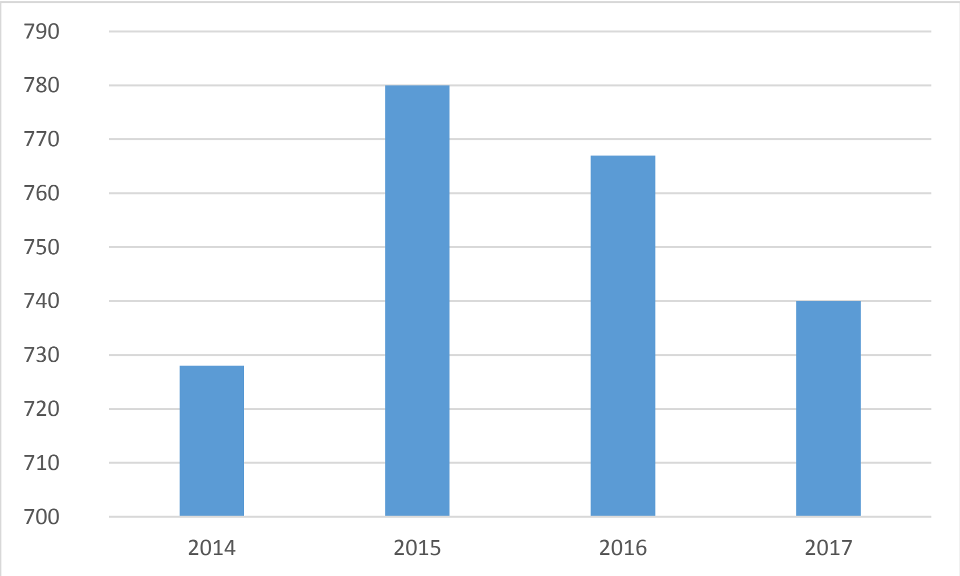
ii. Case study: IKEA Japan

In 2006, the world's largest furniture retailer, IKEA, re-entered the Japanese market after an unsuccessful 12-year attempt to gain a foothold in the Japanese market between 1974 and 1986. In an interview with Japan Times,[15] IKEA Japan President and CEO at the time, Tommy Kullberg, said the company has learned from its past mistakes, conducting extensive market research aimed at meeting the needs of its customers. IKEA had concluded that size is the key: "We saw hundreds of houses to figure out how you take a bath, how you cook, how you sleep and how you store things," Kullberg said. "We drew a conclusion that our contribution will help Japan when it comes to sizes."

According to IKEA Japan's retail manager, Lars Petersson, IKEA Japan has selected 7,500 items out of its 10,000-product lineup suited to cramped Japanese homes,. In all the stores, Scandinavian touches are included. Near the exit is a bistro that sells 100 yen (0.77 Euro) hot dogs and a Swedish food market.

In October 2017, IKEA opened its 10th store in Japan, and total sales for Japan in the financial year 2017 reached 74 billion yen (566 million Euro). Sales have, however, declined 5% over the last two years, and it is thus questionable whether IKEA can reach the company's original (and continuously proclaimed) target of 14 stores and a total revenue of 140 billion yen (1.1 billion Euro) in 2020.

IKEA sales in Japan (hundred million yen):



Source: Own model based on IKEA Japan annual reports

[15] Japan Times, 25 April 2006

In 2015, the President and CEO of IKEA Japan (2014-2016), Peter List, was interviewed by JETRO (the Japan External Trade Organization) about the company's view on its business in Japan. The following section is largely based on the original interview.[16]

Interviewer's question: What are the benefits of operating the IKEA business in Japan?

Mr. List: *"Japan is the second biggest retail market in the world. It also has the third largest GDP in the world. These two factors alone make it very appealing. Also, there is very high literacy level in Japan as well. In addition, many people live in small spaces in Japan and we have a lot of business experiences for areas with small space living like Japan, for example, New York, Paris, London, and so we have opportunities to apply that know-how that we acquired in other countries into Japan".*

Interviewer's question: Are there any difficulties when localizing products or services to meet Japanese market demand? Any examples of products or services developed in Japan and sold in the markets of other countries?

Mr. List: *"The Japanese consumers value service, so we had to think about how we offer low-priced products to them but at the same time, how we also add service. And we introduced something called the "Tebura de box." This is a box where you could post all your products and then we would send it to your home. We introduced this service because many people come by public transport to an Ikea store. We really tailored that to the Japanese consumers who come to an Ikea store by train or bus, and that actually now has been copied around the world. Another one is that we have unique Ikea products relevant in the Japanese market. For example, we used to make our sofas in the same size around the world, but we made them smaller so that they fit life at home in Japan. I have visited homes across Japan so that we can develop our product range that is unique but relevant for Japan, based on their life styles and opinions. And it's a trend, and people like to have these sorts of products anywhere in the world. Not only sofas but also chopsticks and firmer mattresses, and cooling products developed in Japan are sold around the world. The Japanese market plays an important role in growing Ikea globally. So we can say that it's been a win-win relationship".*

Interviewer's question: Any difficulties you had when entering the Japanese market?

Mr. List: *"When entering the Japanese market, we have issues such as restrictions on the acquisition of land for large-scale retail stores, regulations on product certification and labeling introduced only in Japan, and restrictions on the importation of food products that we offer at our restaurants. If we can see more mutual recognition and relaxation of regulations in the future, that would bring a great benefit not only to the company, but also to the Japanese consumers."*

Interviewer's question: Reasons for and benefits of opening stores in regional cities?

Mr. List: *"In order to create a better everyday life for the many people, we have opened our stores across Japan. In addition to the four stores in the Kanto region, we have stores in Kobe City in Hyogo, Osaka City in Osaka, Kasuya-gun in Fukuoka and Sendai City in Miyagi. We are very careful where we place our stores. Regarding IKEA Fukuoka Shingu, we selected the place which is next to a train station and we could also have lots of parking spaces. Among our stores in regional cities, IKEA Sendai, that's a bit of a unique decision we made. We had been discussing opening a store in Sendai and planned to do so sometime after 2020, but after the Great East Japan Earthquake in 2011, we decided to really support the region, and brought that store forward by about 10 years, because good neighbors are a very important part of Ikea's concept. Maybe they don't want to buy anything today, and that's okay, but if they come and visit us, it's a fun day out, and they get ideas and inspiration. They eat in a restaurant and just maybe they might buy*

[16] https://www.jetro.go.jp/en/invest/success_stories/ikea_japan.html

something small to take home with them. But when they think of furniture, the next time they need a bed or a sofa, then they have Ikea in their mind and that's what we want to do to help provide a better everyday life.

We are planning to open more stores in the regional markets such as Hiroshima and Maebashi in Gunma. We also place importance on the Nagoya suburbs, which is one of the mega markets, and are developing a plan to open our first store in the Chubu region".

Interviewer's question: Did you ask the authorities for help when opening stores in regional cities?

Mr. List: *"We want to build a relationship with the local community, and that is not only when we open a new store. Opening a new store creates a lot of visitation and traffic, so working in harmony with the local community as well as the authorities is important. When building a relationship, we explain what Ikea is and make sure that any concerns from the community are listened to so we are a true neighbor and a good partner, which takes a long time. We actually are very lucky. We've been approached by many authorities saying please bring Ikea to us. But our business model is a store of 20,000 square meters plus. So we need a big piece of land, and then also we need a lot of people to live in the area to bring an Ikea store there, so it takes time to make a decision. On the other hand, I feel very lucky that our vision and our business idea is something they want in their areas, and we have lots of good relationships with the authorities in areas where we have already opened a store, as well as with those in areas where we are planning to move into."*

Interviewer's question: What are your plans for future business development?

Mr. List: *"Ikea wants to become accessible for many people, and today, we have eight stores across Japan, but we would like to have 14 stores by 2020. After 2020, we would like to have more stores and launch an e-commerce business as well, to be able to offer items at even more affordable prices."*

d. Taxes, tariffs and the Economic Partnership Agreement

Furniture and home fashion is generally classified under Tariff Chapter 94, which covers the following main categories: Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings not elsewhere specified or included; illuminated signs, illuminated name-plates and the like; prefabricated buildings. For a full and updated list including details of product categories and tariffs for the furniture and home fashion industry, please use the Market Access Database, which provides detailed information to companies exporting from the EU about import conditions in third country markets:
http://madb.europa.eu/madb/indexPubli.htm

Import of furniture and home fashion to Japan (under the categories mentioned above) is generally duty free if originating in WTO member states. Currently, the only major exemptions are mattresses (3.2 % duty), sleeping bags (3.8 % duty) and various parts of leather, which is subject to 3.8 % duty. The Japan Customs and Tariff Bureau, and Ministry of Finance will consult with you for any questions and taxation issues. The sales tax (or consumption tax) for furniture and home fashion in Japan is currently 8 %. A sales tax increase to 10 % from the current 8 % was supposed take place in 2017, but Japan has delayed plans to raise the sales tax.

On 8 December 2017, the negotiations between the EU and Japan on the Economic Partnership Agreement (the EPA) were finalised. According to The European Commission,[17] the Economic Partnership Agreement will remove the vast majority of the 1 billion Euros of duties paid annually by EU companies exporting to Japan, as well as a number of long-standing regulatory barriers. The agreement will also open up the Japanese market to key EU exports and will increase EU export opportunities in a range of sectors. The key EU exports identified to particularly benefit from the agreement are: Agri-food products, electrical machinery, pharmaceuticals, medical devices such as X-ray machines and pacemakers, motor vehicles, transport equipment, textiles and clothing, footwear and leather products, forestry products.

The next step in the process towards implementation of the agreement is for the EU and Japan to start the legal verification of the text. Although the texts may undergo further modifications following the process of legal revision, the texts have been published online (for information purposes only) in late December 2017. The texts can be found via the following link: http://trade.ec.europa.eu/doclib/press/index.cfm?id=1684

Once the legal verification of the text is completed, the English text of the agreement will be translated into the other 23 official languages of the EU. The European Commission will then submit the agreement for the approval of the European Parliament and EU Member States, aiming for its entry into force before the end of 2019. As the import of furniture and home fashion to is already duty free for most categories (excluding mattresses currently with 3.2% duty, sleeping bags with 3.2% duty and leather parts of furniture with 3.8%) the EPA will fundamentally not affect the furniture and home-fashion market.

3. Distribution channels

This part will present an overview of the main distribution channels for furniture and home fashion in Japan. In the following sections, we will introduce, analyse and evaluate the different sales channels and main distribution options available for European SMEs on the Japanese market:

1. Department stores
2. Select shops and retail chains
3. Specialised wholesalers
4. Own concept stores
5. Non-store retailing

Apart from providing an overview of the different distribution options, the following sections will also include a critical discussion of pros and cons for each of the options. In the following part 4, we will discuss how to create (or perhaps rethink) market strategy for Japan based on the current discussion of distribution channels. The aim is to present European SMEs with insights to evaluate the different options as well as a new set of ideas with which to create novel strategies for the company's sales and marketing activities in Japan.

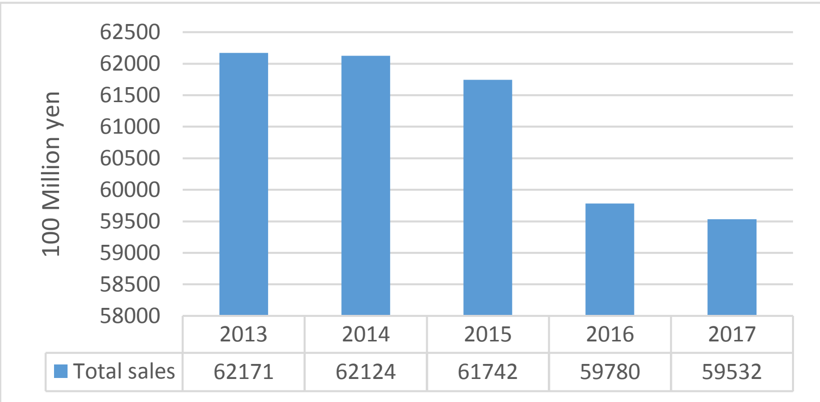
[17] http://ec.europa.eu/

a. Department stores

Department stores account for 6.2 % of the total furniture sales in Japan (note: only furniture, not including items of the home fashion categories). Although not representing the largest sales channel for furniture in Japan, department stores will nevertheless be given considerable attention in this part of the report. The reason for this is that, although directly-managed concept stores and retail chains represent the largest distribution channel in the market, opening and managing the company's own concept stores in Japan requires an exceptionally high investment. So, second to this option, department stores represent one of the best ways to start building sales and brand awareness in Japan; on the way to perhaps opening the company's own concept stores in the future.

The data in this section are based on the Japan Department Store Association[18] and a wide range of interviews with industry experts, Japanese department store buyers and company executives from European SMEs successfully selling furniture and home fashion in Japanese department stores. On 28 February 2018 the Japan Department Store Association[19] released detailed data showing an overall drop in total department store sales from 62 trillion yen (474.3 billion Euros) in 2013 to 59.5 trillion yen (455.2 billion Euro) in 2017.

Total department store sales in Japan 2013-2017 (hundred million yen):



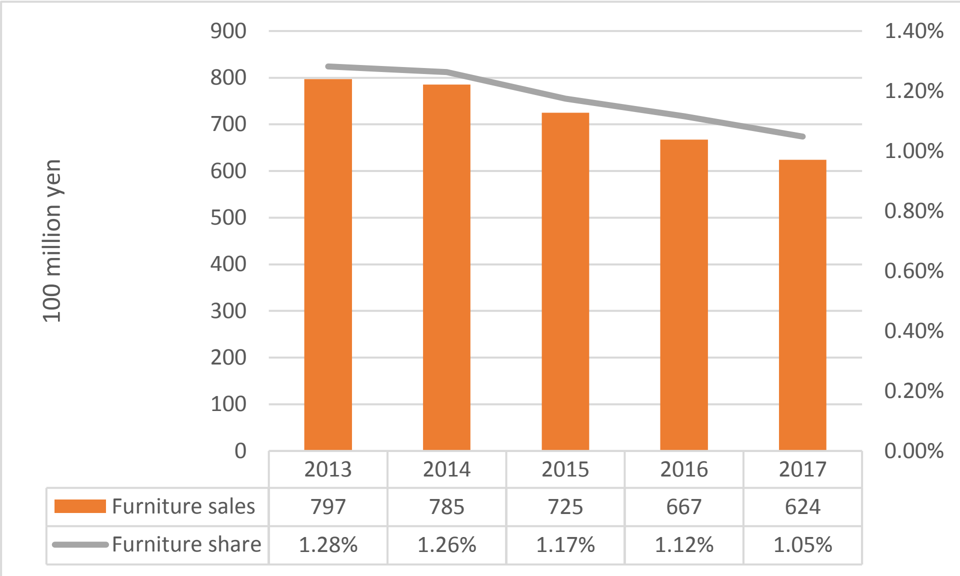
Source: Own model based on data from the Japan Department Store Association

The share of furniture sales in department stores has been declining more than the overall sales in department stores during the period 2013-2017. As depicted with the model below, the share of furniture sales in department stores has been dropping with more than 1 % every year since 2013. Even so, the sale of furniture (excluding home fashion items) in department stores still represents 6.2 % of the total home-use furniture market in Japan and compared to furniture sales (in isolation, not including home fashion), the sales of furniture in department stores still exceed the total furniture sales of e.g. IKEA (42.9 billion yen (328.2 million Euro) and the furniture giant Otsuka Kagu (58 billion yen (443.7 million Euro).

Total Furniture sales and share of furniture sales in Japanese department stores (hundred million yen):

[18] http://www.depart.or.jp (In Japanese)

[19] For detailed categorized data regarding department store sales please see the website of The Japan Department Store Association (www.depart.or.jp). In Japanese.



Source: Own model based on data from the Japan Department Store Association

In the following three sub-sections below, we will:

(1) introduce the key department stores on the Japanese market
(2) describe in some detail how to establish sales of high-end furniture in department stores
(3) outline how to establish sales of home fashion items in department stores.

i. Top department stores in Japan

The total number of department stores in Japan is close to 250. The stores are spread throughout Japan, but almost 50 % of total department store sales in Japan takes place in three major cities: Tokyo, Osaka and Nagoya. The table below lists the top 50 department stores in Japan, including location and total sales. The category 'S' refers to department stores of with high perceived value and strategic importance.

Top 50 department stores in Japan (2016):

	Place	Name of Store	Group or Company name	Sales 2016 (100M.Yen)	vs Last Year %	Category
1	Tokyo	Isetan Shinjuku	Mitsukoshi Isetan G.	2.685	-1,4	S
2	Osaka	Hankyu Umeda	Hankyu Hansin G.	2.205	1,0	S
3	Tokyo	Seibu Ikebukuro	Sogo Seibu G.	1.865	-1,8	S
4	Tokyo	Mitsukoshi Nihonbashi	Mitsukoshi Isetan G.	1.651	-1,9	S
5	Tokyo	Nihonbashi Takashimaya	Takashimaya G.	1.329	-2,7	S
6	Osaka	Nanba Takashimaya	Takashimaya G.	1.299	1,8	S
7	Kanagawa	Yokohama Takashimaya	Takashimaya G.	1.294	-2,0	S
8	Aichi	JR Nagoya Takashimaya	JR Tokai Takashimaya	1.286	-1,1	S
9	Aichi	Nagoya Matsuzakaya	J Front G.	1.206	-3,3	S

10	Kanagawa	Sogo Yokohama	Sogo Seibu G.	1.096	-4,0	S
11	Osaka	Abeno Kintetsu	Kintetsu D.S.	1.023	-0,3	S
12	Tokyo	Ikebukuro Tobu	Tobu D.S.	987	-3,1	A
13	Tokyo	Shibuya Tokyu Honten	Tokyu D.S.	918	-0,1	A
14	Tokyo	Shinjuku Odakyu	Odakyu D.S.	914	-3,7	A
15	Kyoto	Kyoto Takashimaya	Takashimaya G.	848	-1,3	A
16	Hyogo	Kobe Daimaru	J Front G.	824	-3,1	A
17	Tokyo	Ginza Mitsukoshi	Mitsukoshi Isetan G.	810	-5,0	A
18	Tokyo	Shinjuku Keio	Keio D.S.	770	-2,2	A
19	Kyoto	JR Kyoto Isetan	JR Nishinihon Isetan	752	-6,2	A
20	Tokyo	Daimaru Tokyo	J Front G.	748	2,2	A
21	Osaka	Shinsaibashi Daimaru	J Front G.	739	-18,8	A
22	Aichi	Nagoya Mitsukoshi	Nagoya Mitsukoshi D.S.	737	-6,8	A
23	Fukuoka	Iwataya Honten	Iwataya Mitsukoshi D.S.	735	-0,6	A
24	Tokyo	Shinjuku Takashimaya	Takashimaya G.	708	0,6	A
25	Tokyo	Matsuya Ginza	Matsuya D.S.	705	-7,7	A
26	Kyoto	Kyoto Daimaru	J Front G.	673	-3,8	A
27	Osaka	Daimaru Umeda	J Front G.	637	-2,3	A
28	Hokkaido	Sapporo Daimaru	J Front G.	622	-0,7	A
29	Chiba	Sogo Chiba	Sogo Seibu G.	614	-9,7	A
30	Oita	Tokiwa Honten	Tokiwa D.S.	605	-1,7	A
31	Kumamoto	Kumamoto Tsuruya	Tsuruya D.S.	571	-0,7	B
32	Osaka	Hanshin Umeda	Hankyu Hansin G.	558	-5,2	B
33	Fukuoka	Hakata Daimaru	Hakata Daimaru D.S.	539	-5,0	B
34	Hiroshima	Fukuya Honten	Fukuya D.S.	512	-0,5	B
35	Osaka	Moriguchi Keihan	Keihan D.S.	494	-3,0	B
36	Okayama	Okayama Tenmaya	Tenmaya D.S.	456	-2,1	B
37	Aichi	Meitetsu Honten	Meitetsu D.S.	455	-1,4	B
38	Fukuoka	Izutsuya Honten	Izutsuya D.S.	455	-0,3	B
39	Hyogo	Kobe Sogo	Sogo Seibu G.	451	-3,3	B
40	Fukuoka	Hakata Hankyu	Hankyu Hansin G.	444	1,4	B
41	Kagoshima	Kagoshima Yamagataya	Yamagataya D.S.	432	-3,1	B
42	Tokyo	Tamagawa Takashimaya	Takashimaya G.	430	0,4	B
43	Miyagi	Sendai Fujisaki	Fujisaki D.S.	425	-1,5	B
44	Tokyo	Seibu Shibuya	Sogo Seibu G.	417	-1,4	B
45	Hiroshima	Sogo Hiroshima	Sogo Seibu G.	414	-3,9	B
46	Tokyo	Ueno Matsuzakaya	J Front G.	408	-1,7	B
47	Saitama	Isetan Urawa	Mitsukoshi Isetan G.	403	-3,7	B
48	Kanagawa	Keikyu Department Store	Keikyu D.S.	387	1,0	B
49	Chiba	Funabashi Tobu	Tobu D.S.	386	-3,7	B
50	Hokkaido	Maruiimai Sapporo Honten	Sapporo Marui Mitsukoshi D.S.	370	-0,4	B

Source: Own model based on industry organisations and corporate websites

The experience of European furniture and home fashion brands clearly shows two main traits: first, location matters. Regional branches of even the most prestigious department store chains have been shown to produce markedly lower results than equivalent stores in the cities of Tokyo, Osaka and Nagoya. We therefore recommend a focus on one of the key department stores in either Tokyo, Osaka or Nagoya.

General top ranking of department stores by European brands in Japan:

1. Shinjuku Isetan (Tokyo)
2. Matsuya Ginza (Tokyo)
3. Nagoya Matsuzakaya (Nagoya)
4. Nihombashi Takashimaya (Tokyo)
5. Hankyu Umeda (Osaka)
6. JR Nagoya Takashimaya (Nagoya)

Source: Executive interviews.

The top top-ranking department store, Shinjuku Isetan, is part of the Isetan Mitsukoshi Group. This is the largest department store group in Japan with annual group sales of more than 1.2 trillion yen (9.2 billion Euro) and more than 200 million annual store visits.[20] Image-wise, Shinjuku Isetan is commonly perceived to be the top department store in Japan for and the generation of future trends. In a similar vein, and as discussed with the metaphor of the Flying Geese in Part One, succeeding in Shinjuku Isetan will automatically generate attention and inquiries from other department stores and retail chains in Japan. As the following two sections, however, will show, establishing contact and passing the pop-up store test for later opening a permanent shop-in-shop in Shinjuku Isetan is not very easy at all.

In department stores, there is a somewhat clear and general distinction between high-end furniture and lower priced home fashion products:

A. High-end furniture belongs to the furniture and home furnishings floor of the department store.
B. Home fashion products will typically be displayed and sold at designated event spaces.

The important point here is that the way in which the products are sold and marketed differs widely according to this classification. First, let us take a closer look at the first category: high-end furniture.

ii. How to sell high-end furniture in Japanese department stores

As in most other countries, high-end furniture is typically sold at the designated furniture and home furnishings floor in the department store. The furniture and home furnishings floor does not enjoy as much traffic as the ground floor, but as we will show, high-end furniture in Japanese department stores is often sold through designated salespeople, mainly men, who act as a kind of personal shopper, whose choice of furniture for a client is often decisive and accepted

[20] For more information, see the website of Isetan Mitsukoshi Holdings: http://www.imhds.co.jp/english/

by Japanese end consumers without demur. In Japanese, these salespeople are called *gaishō*, which is something of a mysterious word in that its literal translation is 'foreign merchant'[21].

In 2012, *Nihon Keizai Shimbun*, the main Japanese business newspaper, estimated that an average of 20-30 % of all department store sales are made through *gaishō* and the numbers are increasing.[22] The role of the *gaishō* dates back to the origin of Japanese department stores as kimono shops. Here, the role of the *gaishō* was to visit important and influential customers in their own homes. The essential role of the modern-day *gaishō* remains largely the same. VIP customers of a department are likely to have an associated *gaishō* who will ensure that the customer receives invitations to exclusive events, to which they are often personally guided by the *gaishō*.

The president of one of the biggest distributors in Japan explained that the expensive displays and high-end shop-in-shops you see in department stores are in reality little more than mere showrooms. You should not expect customers to walk in and make a purchase. Rather, as he explained, up to 50 % of all high-end sales in the department stores are made through *gaishō*, or at promotional events called *tenjikai* in Japanese. *Tenjikai* can be translated as 'exhibition' or 'exhibitions', according to context, but this has a rather neutral connotation, considering what happens at them.

First, let us consider the *tenjikai*. Throughout Japan, numerous *tenjikai* take place every year. They are essentially events by invitation only. To outsiders, *tenjikai* may look like big bazaars, where the ubiquitous *gaishō* can be seen to be pushy, foisting their recommendations on the clients. Over the years, several European furniture companies have years teamed up with importers to sell their products through *gaishō* at *tenjikais*, but they all speak of problems with too high pricing and too low profitability due to the many intermediaries: importers, organisers, and department stores who invite customers, not to mention the *gaishō*. All this implies too many kick-back fees and a profit structure not fit for, say, a company manufacturing – or even handcrafting - its furniture in high-cost countries in Europe. As a reference, it is customary for Japanese importers to demand an *Ex Works purchasing price for the product equivalent to 20 – 28 % of the retail price excluding tax* - in the home country.

To sell high-end furniture in the department stores and at the associated *tenjikai* sales events typically requires involvement of a top-end distributor of high-end furniture in Japan. Alternatively, this can be facilitated through the establishment of a local legal entity (not a representative office, but a separate legal entity or full-fledged subsidiary) in Japan, but here - apart from having a very strong, sharply differentiated and well-established brand of high quality - you will need to build trust with the department store first and then subsequently establish a *kōza,*[23] which may take a very long time – if possible at all.

Despite the fact that *gaishō* and *tenjikai* still constitutes a relevant sales channel for high-end furniture in Japan and are the traditional mainstream way for department stores to sell expensive furniture in Japan, hardly any information about the concept and process is available on the Internet – not even in Japanese.

[21] The word *gaishō* is made up of '*gai*', meaning external, foreign, and '*shō*', meaning trade or commerce.
[22] Nihon Keizai Shimbun, 2 February 2012 (in Japanese)
[23] A *kōza* is an account (with e.g. a department store). Far more than a simple bank account is, however, implied with the notion of *kōza* (trust, relationship, time etc.). It is hard, if not impossible, for foreign companies to establish a *kōza* with a Japanese department store – let alone open a simple bank account in Japan.

iii. How to establish sales of home fashion in department stores

As noted earlier, home fashion is typically spread out and sold in separate sections or as a total brand at designated event spaces in Japanese department stores. Each department store typically has a designated promotional space where new brands are offered the opportunity to open a pop-up shop and test the market potential. The duration of a pop-up shop varies from one to two weeks and requires up to six month in-advance planning.

All costs associated with establishment and operation of the pop-up have to be covered by the company. This also implies that the company has to provide stock in consignment. Typically, the department store does not buy the stock. *Department store will merely provide the space - and in return - expect a kick-back on sales between 25 - 37 % of the retail price excluding 8 % sales tax.* The company will have to arrange for and compensate their own sales staff.

iv. Mini case: Frederica Furniture

Usually, the sales to department stores and the processes described above are handled by local market intermediaries such as importers, distributors and wholesalers. Since 1960 and up to the collapse of the bubble economy in 1991, Japanese department stores occasionally travelled on missions to Europe with the intention of filling one or two large containers with a mix of new brands and products from Europe. Often, however, these ended up being one-off orders and did not necessarily lead the way to long-term success on the Japanese market for European companies.

An example of how one of these visits, however, help spark the long-term interest in the Japanese market is the manufacturer of Danish design classics, Fredericia Furniture.[24] In the early 1960s Fredericia Furniture received a visit from Matsuya Department store. The department store selected and ordered furniture from the company and stowed these into containers together with products from other famous Danish designers like Arne Jacobsen and Poul Henningsen. Despite the initial order from Matsuya department store, more than twenty years had to pass before Fredericia Furnitures started to approach retail chains and other segments in the market. The company hired a sales director, who stayed on for twenty years and expanded the brand into other department stores and into the retail chain Actus.[25] Over the years Fredericia Furniture ended up dealing with totally 3-5 department stores, a number for select shops[26] and the select retail chain Actus. As the sales director, however, reckons the 4-5 local market intermediaries needed to sell to department stores made the furniture very expensive - and eroded profitability at the same time.

Fredericia Furniture later established a local showroom in 2005 and the sales director would visit Japan 3-4 times a year to support sales and market activities. As he recalls, the main – but often implicit - purpose of his many trips was to “build trust”. Upon leaving the company in 2011, the Japanese market accounted for approximately 10 % of the company’s total sales. Looking back at his 20 years of dealing with Japan and establishing sales for Fredericia Furniture on the Japanese market, the sales director offers the following advice to European companies considering market entry to Japan: “If you have exceptionally high quality and design to offer – then focus on Japan! But make sure to use time to properly research the market and prepare. It is very hard to change track (partners) in the process”.

[24] The mini case on Fredericia Furniture in Japan is based on an interview with sales director of the company through almost 20 years (1992-2011), Mr. Ole Bjerg.
[25] See section, 3.c. for more information about Actus.
[26] See the following section, 2.b. about select shops and retail chains.

b. Select shops and retail chains

A select shop is typically an individually owned and operated retail shop with a product assortment ranging from furniture and interior accessories to tableware, interior fabrics and lighting fixtures etc. For a European company with no representation in Japan to provide customer service and after-care (by Japanese standards, that is), selling directly to a wide number of individually operated select shops can, however, be daunting task.

Select shop owners are often active buyers at international trade fairs in Europe (e.g. Frankfurt, Cologne, Paris, Milan). They typically buy (with no right to return or exchange products) directly from overseas companies and thereby skip the costly intermediaries in the shape of importers, distributors, wholesalers and the like. So, the resulting profitability for all parties involved is comparatively high. A select shop typically buys directly from the manufacturer at 40 – 55 % of the retail price excluding sales tax. While this may to some extent seem attractive, multiple experiences from European SMEs show that starting business directly with Japanese select shops typically results in: (1) on-off orders with only very few (if any) reorders, and (2) the so-called 80-20 principle, which states that roughly 80 % of the sales will come from 20 % of the customers. There is currently no record of European furniture, interior accessories or home fashion brands that have truly gained a foothold in the Japanese market through only selling directly to select shops.

Another - more interesting - category of select shops exist: The retail chains. Essentially, the retail chains carry more or less in the same product categories as the individually owned select shops. The main difference, however, is (1) the size of the chains, and (2) a centralized purchasing function. These two characteristics will theoretically ensure the expandability of your business in Japan, but in reality, this rarely happens. Let us explain.

Over the years, many European brands have been approached by Japanese chain stores such as FrancFranc, United Arrows, Afternoon Tea Living, and especially during trade fairs. When they realise that these chains have up to hundreds of directly managed stores in their network, the business potential seems interesting. But as all cases (so far) have shown, the chain store will typically place an order for only a carefully selected and very limited range of items. While this may not be enough to duly represent the brand and the brand universe, it corresponds well with the (often not so explicit) target of the retail chain: namely, to introduce new and interesting products and concepts from abroad which can help reel in customers, to whom the retail chains ideally want to sell original items under the chain store's own brand label. Private label products, from which the retail chains clearly (and understandably) generate their profit, often represent between 60 – 80 % of the total sales in retail chains.

As mentioned, European companies are often approached by individual or chain-based Japanese select shop buyers at trade fairs all around the world. If this is your strategy, the easiest way to be 'discovered' by Japanese select shop buyers is to exhibit at international trade shows in Europe and the US. This is where the buyers travel to. Products and new international retail concepts are rarely sought after by select shop buyers at the local trade fairs in Japan.

Another way to secure business with (and provide the all-important after-sales service to) a network of individual select shops is to team up with a Japanese distributor. The distributor will typically handle the import, business operation, development and after-sales service in Japan, but as the number of market intermediaries the will increase, the Japan distributor will typically expect to buy products at a price corresponding to 20 – 28 % of the retail price excluding tax (in the home country of the brand). Due diligence is important in choosing a Japanese distributor. Some distributors specialise in Scandinavian brands, for example, whilst others may specialise more generally in fashion across a wide variety of product categories. The existing network of the distributor is obviously a key factor in determining where the products are sold. So, if, for example, you want your products to be sold United Arrows, we suggest directly asking the representatives of the retail chains who they prefer as their distributor.

Teaming up with a Japanese distributor is the market entry option chosen by many European SMEs. The resulting examples and experiences of European brands working with Japanese distributors are, however, that (1) the annual sales to the distributor begin to stagnate very quickly and rarely continue to develop. Also, (2) the companies interviewed speak of difficulties in communicating the brand value and brand image through their distributors.[27]

c. Specialised wholesalers

Lists of furniture importers and wholesalers:

- Yoshikei http://www.yoshikei-interior.co.jp/company/
- Smile Corporation http://www.smilecorp.co.jp/english/company.html
- Fuji Boeki http://www.fujiboeki.jp/
- Seki Furniture http://www.sekikagu.co.jp/english/
- Simmons http://www.simmons.co.jp/
- Daiya Living http://daiya.com/
- Yamazen http://www.yamazen.co.jp/
- Actus Corporation http://www.actus-interior.com/

List of contract/office furniture companies with direct import:

- Okamura Corp http://www.okamura.jp/
- Itoki https://www.itoki.jp/
- Sumisho Interior International http://www.interior-i.jp/
- Oliver Corporation http://www.oliverinc.co.jp/english/
- Kokuyo Furniture http://www.kokuyo-furniture.co.jp/
- Inter Office https://www.interoffice.co.jp/
- Adal Co., Ltd https://www.adal.co.jp/company/

As shown with the case study of Frederica Furniture in section 3.a.iv, the company ended up working with a number of different wholesalers who would help the company facilitate sales in Japanese department stores and retail chains – and later on in the contract market. One of the retail chains, was a specialised furniture and home fashion player in the market and this company, Actus Corporation, and this company soon became pivotal in the establishment of sales for Fredericia Furniture in the contract market and wholesale to other retail chains in Japan. The following mini case study of the Actus Corporation,[28] is based on interviews with key company executives and various company material.

[27] Based on interviews with three European interior accessory companies during 2010-2015.
[28] http://www.actus-interior.com

The Actus Corporation specialises in European high-end furniture and home fashion. The company directly manages and operates a network of 27 stores in Japan and have a total revenue of 16.1 billion yen (123.2 million Euro). While the Actus shops also sell home fashion and various interior accessories, furniture sales account for 70 % of the total sales. Apart from selling in their own stores, Actus is also active in the contract market and the wholesale market in Japan.

Key executives from the corporate office of Actus offer the following advice to European companies wanting to enter the Japanese market:

- *"Sizes: Living spaces in Japan are very different from Europe. They are much smaller, so the size of furniture is generally very important in order to succeed on the Japanese market".*
- *"Wall-mounted furniture: This tends to be avoided in Japan so leave out these from your product selection for the Japanese market".*
- *"Delivery and installation system: For high-end furniture it is essential to facilitate not only delivery but also the unpacking and assembly of products and final installation for the customer. This is customary in Japan".*
- *"Branding and promotion: Communicating with local media and to launch shops and sales in only high-end areas is essential to sell high-end furniture in Japan".*

d. Own concept stores

Opening a stand-alone showroom or flagship store in Tokyo may be dream of many international furniture brands. The costs associated with opening a shop in Tokyo are, however, extremely high compared to most top-locations in European cities. Ginza and the Omotesandō area in Aoyama are among the most popular areas in Tokyo for international brands. Recent price per square meter for a good location in the Omotesandō area is 30,000 - 90,000 yen (230 – 689 Euro). In Ginza, the price is from 45,000 to 120,000 yen (344 – 918 Euro) per square meter. On top of a deposit, non-refundable 'gratitude money' (*reikin* in Japanese) is customary in Japan. To operate a 50 square meter stand-alone concept store in a central Tokyo location, staff costs of around 15 million yen (114,755 Euro) should be expected.

e. Non-store retailing

Although still representing a relatively small part of the market, non-store retailing is currently gaining momentum in Japan. Non-store retailing refers to selling that takes place outside of a physical store. This includes for example catalogue sales, TV shopping and Internet sales. In Japan, TV shopping is still a very strong and popular sales channel. A key player in the industry is Jupiter Shop Channel.[29] In fiscal 2016, the revenue of Jupiter Shop Channel amounted to approximately 155 billion yen (1.2 billion Euro), up from 133 billion yen (1 billion Euro) in fiscal year 2013.

Brands are usually allotted a 50-minute TV show to present their brand and a limited selection of around 10 products. As it often is, the presenter will have to be a famous or influential Japanese person. Home fashion appears regularly

[29] See the website of Jupiter Shop Channel: https://www.shopch.jp/ (in Japanese)

on Jupiter Shop Channel and the target sales for 50-minute show is typically 20 million yen (153,008 Euro) - during the 50-minute show that is.

Catalogue sales also remain popular in Japan, although much of the sales have shifted to online platforms. One of the main differences between TV shopping and catalogue sales is that products and stock for TV shopping events very often are consignment-based, whereas catalogue sales typically are *kaitori*, which means ‘purchased with no right of return’.

Online sales in Japan are currently increasing for many categories. Furniture and home fashion has long remained products that are researched online, but primarily purchased in physical stores. As the generation buying products based on online information is now reaching the age to make furniture purchases this is, however, changing rapidly these days. Among furniture and home fashion brands it is noteworthy that the key industry players, IKEA and Nitro, both are investing massively in boosting online sales. According to Nikkei Asian Review[30] IKEA Japan has made a a full-fledged entry into internet sales, offering nearly all store items through a dedicated website which was launched in April 2017. Plans call for selling 9,000 or so products online, excluding food and plants. Until now, customers in certain regions could place orders via e-mail, but the company did not operate an official online store.

IKEA Japan has tested the new service in southwestern Japan's Kyushu and Yamaguchi Prefecture since late January, charging a minimum of 3,990 yen (31 Euro) for shipping and handling. This may be reduced, depending on the delivery destination and the items bought. IKEA Japan has a logistics center in Yatomi, Aichi Prefecture. The facilities, spanning 54,000 sq. meters, opened in 2008. A new 31,000-sq.-meter section dedicated to online shopping will be added and begin operations in 2018. As previously mentioned, IKEA Japan very ambitiously aims to have online sales account for half of its revenue in 10 years.

For small and medium sized furniture and home fashion brands, online sales in Japan are typically handled by the brand itself or through a local third-party operator, who takes care of all technicalities regarding the web shop, pick-n-pack, delivery and invoicing etc. A start-up fee for the setup of the web shop, photo shooting and the like, is typically required. Operations are often paid for by means of a kick-back fee from the brand to the operator (often 10-15 % of the actual sales, based on retail price excluding 8 % sales tax). Handling and distribution are often billed separately.

Opening an online store does, however, not guarantee sales. In fact, an extraordinary effort has to be made in order to facilitate sales from a newly started webs hop. This is where bloggers and influencers come into the picture. Influencers are famous or high-profile people involved in the marketing of products. In Japan, influencers are very specifically positioned according to profile and taste by means of popular platforms like Ameblo, which has more than 25 million unique users and more than 30 billion page-views per month.[31] Influencers are typically remunerated with a kick-back fee representing a fixed percentage of the actual sales. This can be as high as 10 – 15 % of the retail price. Some influencers additionally require a fixed monthly fee for their promotional activities. In part 4 and 5, we will elaborate on how two European SMEs succeeded with online sales and influencer marketing on the Japanese market.

[30] February 24, 2017

[31] Based on expert interviews. See also the website of Ameblo: https://www.ameba.jp

4. Rethinking strategy for Japan

For decades, Japan has ranked as a market of unusual complexity. As discussed, the distribution system permanently baffles; choosing market intermediaries is an art in itself, while securing a business foothold and market presence entails massive costs. Prescriptions for how to do business in many Japanese sectors are largely the same that dominated Western thinking in three decades ago, as if Japan has not moved on. Many companies that apply the conventional thinking have floundered.

Based on interviews and case studies of four European furniture and interior accessory brands entering the Japanese market,[32] a clear picture emerges that the conventional 'push strategy' does not work well in the market. Push strategy will be explained and exemplified in the following section.

After (1) discussing push strategy and evaluating which other options that European SMEs have to re-position themselves on the market, we will (2) suggest and introduce a new approach to market entry. Lastly, (3) we will suggest ways to rethink marketing for the Japanese market.

a. From push to pull

A push strategy implies that the foreign brand assigns a Japanese partner who will then 'push' the company's products through all the market intermediaries needed to reach the end-customers in Japan.

Typical push strategy:

i. Case example: push strategy

Managers of the case companies mention that their Japanese market entry basically started with an order from Japanese select shops[33] or retail chains during interior trade shows in Europe. The common story from the managers of all our case studies is that the direct business with the select shops, however, never really developed according to their plans and expectations. As discussed in section 3.b, this is probably due to the fact that buyers of especially the retail chains conventionally visit the fashion fairs in Europe and aggressively look for new brands to introduce in a couple of the retail chain's stores. Contrary to the expectations of the European managers, products were not re-ordered and only used for promotional activities during one or two seasons in a selected number of stores. In other words, new brands and products are primarily used to attract customers to visit the stores, and ultimately buy products manufactured and owned by retail chain itself.

[32] Case material pertains to the period 2001-2017.
[33] See section 3.b. for information about select shops.

So, after a very short time, the case companies were back at square one. Having been 'spotted' and selected by one of the top retail chains can, however, lead to new business opportunities. Many of the importers and wholesalers of interior accessory and furniture keep an open eye on what is being launched in the top select shops, and often approach the brands afterwards to secure the exclusive distribution rights in Japan. This is what happed in the case of the company, ArchitectMade.[34]

Mini case: ArchitectMade

ArchitectMade is a company producing a wide range of products from famous designers and architects. The product category ranges from serving trays and decorative figures to chairs, clocks and porcelain. For the past couple of years ArchitectMade has successfully built a business in Japan based on direct business with around 40-50 of the top select shops in Japan. While the company hired Japanese speaking staff to customer service in Denmark, ArchitectMade , however, experienced difficulties securing re-orders from the Japanese customers. So, after a couple of years, ArchitectMade accepted a collaboration proposal from a Japanese distributor and agreed to let them handle and develop the business in Japan. But sales to the distributor turned out to be *lower* than the sales that ArchitectMade could facilitate themselves by servicing select shops directly from the headquarters in Denmark. After terminating the distribution agreement and signing up with another distributor in Japan, the company, however, experienced the very same thing: Sales were ranking below what to company could generate by contacting select shops directly from Denmark and all-together skipping the distributors, wholesalers and other market intermediaries.

When dealing through the distributors, ArchitectMade was left with a huge challenge of *pushing* the products – and ultimately the brand – through all the intermediaries in the market. Needless to say, communication of the brand profile and stories quite often get diluted along the way, whilst including too many market intermediaries in the process inevitably means lower profitability *and* higher shop prices too. The case study of ArchitectMade will continue in the section on pull strategy below.

ii. Case example: pull strategy

A pull strategy takes a point of departure in creating demand directly with Japanese consumers. With the growing importance of social media and marketing via influencers in Japan, it is becoming much easier for European brands to communicate directly with end customers in Japan.

Pull strategy:

[34] See the company website for more information about ArchitectMade: http://architectmade.com

As shown with the model above, the point of departure for a pull strategy is the end consumer. In other words, the starting point is to create a source (or multiple sources) through which the brand can communicate directly with end consumers. Having created brand awareness and demand directly among Japanese consumers, the next steps of finding the right retailers and perhaps later a wholesaler or importer becomes a significantly easier task.

Let us revert to the case study of ArchitectMade (see under section 4.a.i. above) to show the effects of a pull strategy. While ArchitectMade has a wide and extensive product range, the first step in creating a pull strategy was for the company to decide on a spearhead product for Japan. The company decided on a small handcrafted wooden statuette of a duckling, designed by the famous architect Hans Bølling in the 1960s. Its 'cuteness' resonated well with the Japanese preference for cute characters and the product was chosen as the spearhead product to represent the ArchitectMade brand in Japan. As opposed to creating awareness and brand recognition based on the – often very generic – profile and characteristics of an overall brand (e.g. high quality, design, handcrafted etc.) it proved to be much easier for ArchitectMade to create awareness and recognition based on a single product.

The company contacted a wide range of influencers with a profile suitable for promoting the duckling, - and later the overall brand name. Also, through the use of network and relations in Japan, ArchitectMade also succeeded in placing the duckling in various physical settings spanning industry borders. Soon, this generated numerous inquiries and orders of the duckling, and the number of individual select shops that wanted to carry the duckling (and successively many of the company's other products!) quickly amounted to more 50 top-end select shops in Japan. As this case clearly shows, a pull strategy where the company starts out communicating directly with end consumers in the market can be a very effective way for European SMEs to enter the Japanese market:

- First of all because the fixed costs remain very low, whilst most of the costs (kick back fees, shipping costs etc.) are fundamentally variable costs, in the sense that they only occur once a product sale is made.
- Second, the company will get valuable information and knowledge from the direct interaction with end consumers which can later be used in marketing and product development.
- Third, the company – very importantly – does not get sucked into the complexities of working with a wholesaler to push products through the long chain of intermediaries. Rather, with a pull strategy, the company retains the flexibility to freely navigate and pursue the best opportunities that may arise from the promotional activities among end consumers.
- Fourth, the company is in full control (or at least in as much control as possible) to handle and influence the communication of the brand and the successive brand building activities in Japan.

b. Partner network strategy

Traditionally, market entry to Japan has been a question of choosing 'the right partner', - often an importer or wholesaler of furniture and interior accessories. Rather than choosing 'the right partner' this section introduces a case study of a novel approach to market entry where the company Rosendahl[35] - instead of one partner – decided to work with a whole *network of partners*. As the case study will show, Rosendahl would *co-create* the market with its network

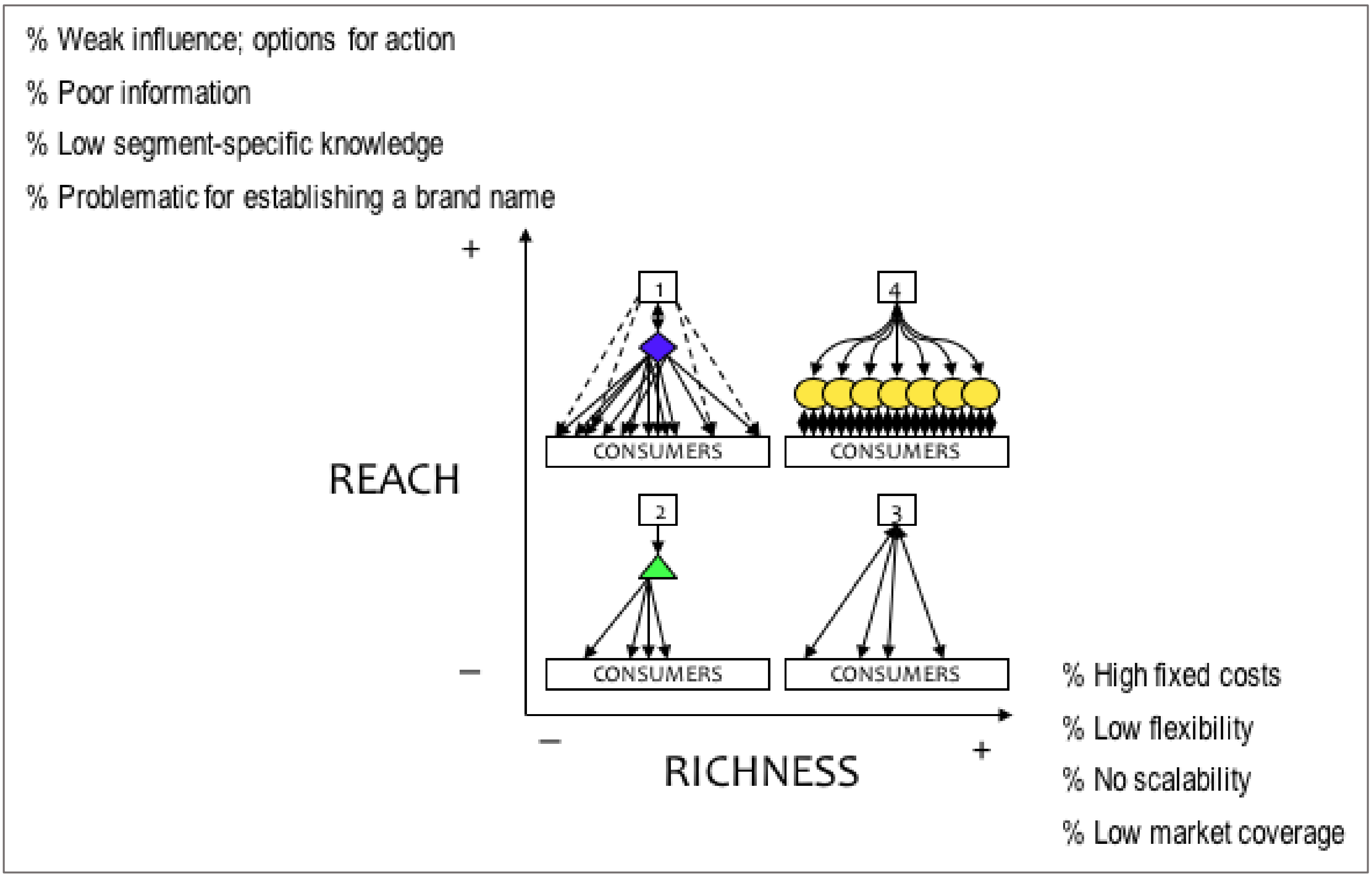
[35] For information about the Rosendahl Group see: https://www.rosendahldesigngroup.com/ This case study is based on interviews and a case study published by the author of this report: M. Glisby & N. Holden (2005): Applying knowledge management concepts to the supply chain: How a Danish firm achieved a remarkable breakthrough in Japan. The Academy of Management Executive. Special issue: The Global Transfer of Management Knowledge.

of Japanese business partners through a synergistic process of knowledge sharing. The company, Rosendahl, is a medium-sized Danish manufacturer of home fashion and accessories with seven different brands in the portfolio. Products range from vases and kitchen accessories to porcelain and home-use textiles etc.

We all know that knowledge, network and personal relations are exceedingly important in Japan. So why is it that so many companies rush to surrender exclusive distribution rights to a partner in Japan? Put differently, why do so many companies 'outsource' the all-important relationship building, brand communication, knowledge sharing and so forth to an external partner? Obviously, most European SMEs cannot invest time and money in establishing and operating their own company in Japan, so the challenge is to how to secure a strong market presence this without incurring exceptionally high costs. This is made possible through what we call, partner network strategy.

Let us begin with a model that summarises and exemplifies the overall distribution choices available when considering market entry to Japan.

The traditional trade-off between 'reach' and 'richness':



Source: Own model

As shown with the model above, there is a fundamental trade-off between 'reach', meaning how many customers you can potentially reach, and 'richness', which refers to the richness of information, knowledge and experiences that a company can provide to potential customers. The small numbered boxes represent four overall options available to companies in reaching the end consumers.

The first option (1) illustrates a traditional sales agent, marked with purple colour in the model. While the number of general sales agents in Japan is declining, a sales agent (not carrying stock or handling distribution) is, in theory at least, able to reach a high number of customers. Typically, however, a sales agent will carry many different (and often competing) brands, so this option is basically problematic for building a brand in the Japanese market. As the agent has the network and all contact to the customers, information and knowledge about customers are often not shared. In all respects, 'richness' is low.

The lower left-hand corner of the model marked with green colour (2) illustrates importers, wholesalers and also the retail chains introduced in section 3.c. In all cases, the company is not selling directly to consumers nor communicating directly in the market. Also, in these cases, aiming to establish a brand name in the market can be problematic. The main difference between option 1 and 2, however, is that 'reach' is lower for importers, wholesalers and retail chains because the Japanese partner will have to handle the physical distribution (import, distribution, stock keeping etc.) which will fundamentally limit the expandability of the business and potentially result in a lower market coverage. On the positive side, time and money needed for investment in the market are relatively low.

The lower right-hand corner of the model (3) shows the option where a company opens and operates its own concept stores, or shop-in-shops in department stores. This strategy will provide much better options for communicating the multifaceted 'richness' of the brand and there will be ample opportunities for direct communication with end consumers in the market. The main challenges with this option (which are stronger for stand-alone concept stores than department store shop-in-shops), however, are that the required investment in time and money are high. Also, the size of the investment will put a natural limit to the expandability of the business and market coverage for the brand.

Traditionally, non-store retailing, in the shape of online sales, for example, would be one of the only the options positioned in the attractive upper right-hand corner of the model. Here, a unique combination of both 'reach' and 'richness' is made possible as the company can communicate directly with a very large number of end-consumers while at the same time providing deep information about the brand. Even though this is made possible through the company's website, the all-important tacit elements of the brand cannot be communicated online. By tacit elements, we refer to elusive, emotional and situational knowledge that can only be shared through context and social interaction. To add the all-important tacit knowledge to the customer experience (and thereby the brand-building process), there *has* to be a physical context (i.e. a physical retail store, promotional event or other forms of socialisation with customers) where end consumers can experience the brand universe in its entirety (including all the senses not transmissible online).

The case study below is to show Rosendahl broke the traditional trade-off between 'reach' and 'richness' and thereby positioned itself in the attractive upper right-hand side of the model. We will refer to the novel market approach of this company as 'partner network strategy'.[36]

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[36] For more information about partner network strategy, see: M. Glisby & N. Holden (2005): Applying knowledge management concepts to the supply chain: How a Danish firm achieved a remarkable breakthrough in Japan. The Academy of Management Executive. Special issue: The Global Transfer of Management Knowledge.

Rosendahl's first attempts to market its products using conventional approaches (importers, distributors and agents) in Japan were neither a success nor a failure but were sufficient to show that there was singular potential in the market and that a radically different market approach was called for. The challenge was to tap this potential without incurring too high costs. The company could not afford to establish and operate a local representative office or legal entity in Japan, nor did it want to try again to operate through intermediaries such as local agents, importers, or wholesalers who would inevitably limit the directly communication and brand building opportunities for the company in Japan. So, the company consequently made the strategic choice of bypassing all intermediaries in the market and establishing its own Japan office, not in Tokyo, but in the company headquarters in Europe.

Here, the company employed native Japanese staff to facilitate direct interaction and knowledge sharing processes with the company's Japanese customers such as department stores, TV-shopping companies, retail chains and select shops. Not only did this make good sense financially, it also brought the company closer to the market: indeed, even closer than some competitors with local offices in Japan. The company's Japan office staff would travel frequently to Japan to visit customers and to take strong and substantially forceful actions such as pushing through meetings, urging decisions, and introducing deadlines for action. Had the company operated in this way as a resident company in Japan, it would probably have encountered resistance and antagonism. But the company quickly got impressive results. In less than six months the company was able to conclude business agreements with some of Japan's largest and most renowned department stores.

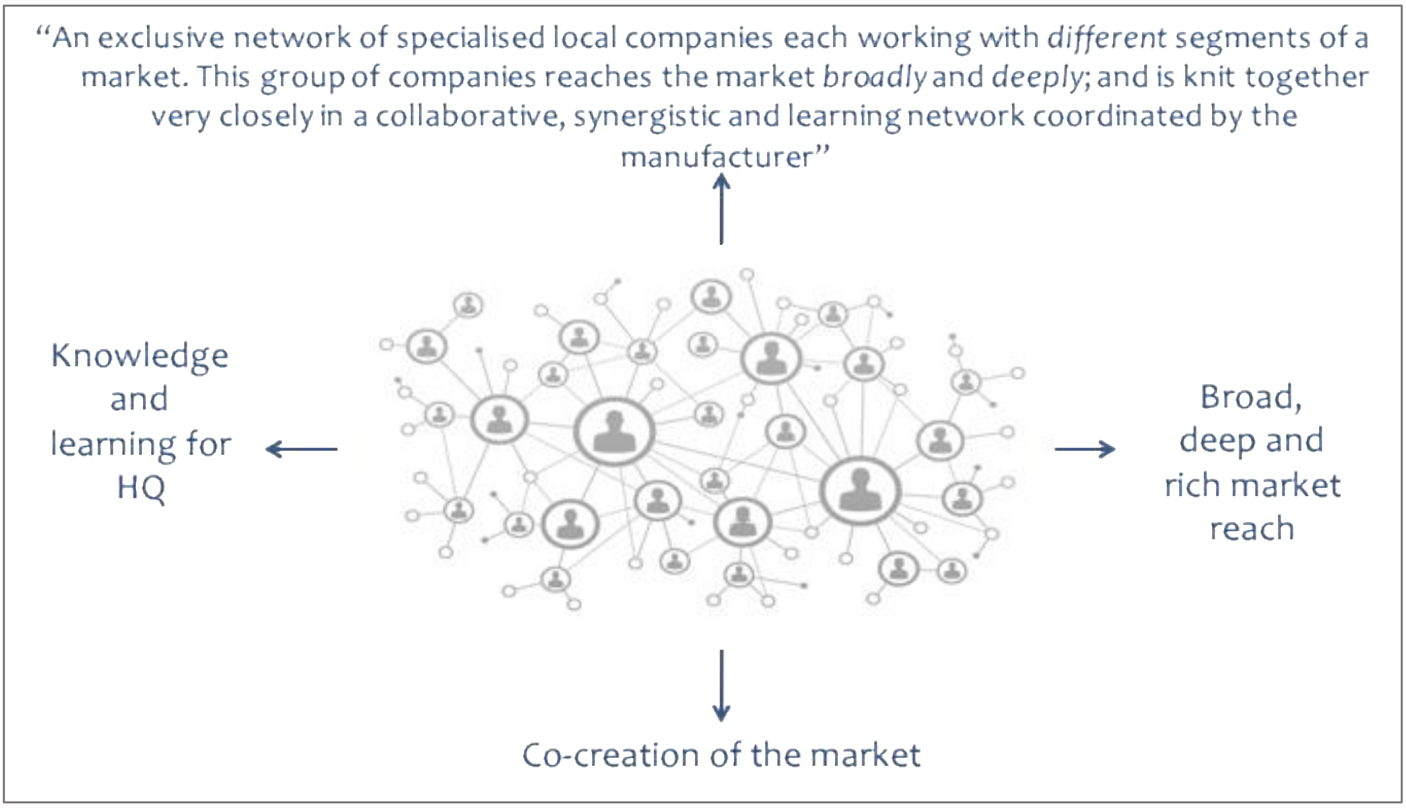
It is important to grasp what the company did. They actively engaged in knowledge-sharing activities and socialisation with the Japanese partners. A major tool was socialisation, especially in non-business settings. The casual non-business conversations generated insights into segments of the market that the company previously knew nothing about, and more importantly, how these segments were interconnected through business networks. The company for example discovered that physical stores are needed in order to generate online sales, and that department stores and other influential retailers send representatives to the homes of influential people.

Based on this knowledge, the company created a strategy where it would select a business partner for each segment in the market. Not surrendering exclusive rights to one partner or only working with one segment in the market, but rather selecting the number one partner for each of the following business segments in the market: Department store shop-in-shops, TV-shopping, select shops, and retail chains.

Specifically, what the company did was to consciously build strong relationships with a carefully selected group of companies on the basis of their distinctive strengths, motivation, and networks within particular segments of the Japanese home fashion market. The company also discovered that the company's various Japanese business partners also began to share knowledge with each other and share the overall promotion of our brand. European brand thus became the centre of a hub of strong relationships, which the business partners actually reinforced. Not only that: any benchmarks the company established with one particular business partner for actions and results would become a formal or at least an informal benchmark for all the others. In other words, a self-controlling mechanism for promoting the company's brand in Japan in a benefitting way.

In sum, the emphasis on creating strong relationships with different and specialised business partners across various segments in the Japanese home fashion and interior accessory market provided the company with information and knowledge of an unprecedented depth and richness. Through the network of business partners, the company could expand both the scale and the scope of the business in ways it had never imagined. As an example of scale, the company soon received corporate gift inquiries from one of the largest Japanese electronics manufacturers.

Partner network strategy:



Source: Own model

As shown with the model above, the company's 'partner network strategy' contained many novel aspects by developing an approach that

- reached the market with unprecedented reach and richness
- side-stepped the need for market intermediaries and co-created the market with a selected group of business partners based on their specialisation, motivation and network within particular segments of the Japanese market
- provided valuable knowledge and key learnings among the business partners and for the headquarters in Europe.

5. Rethinking marketing in Japan

Everyone knows that marketing in Japan is expensive. For European SMEs this often means that marketing, PR and promotional activities are left in the hands of a local partner, - often the wholesaler. The long-term interest in building a strong brand name in Japan is, however, questionable in the absence of brand ownership, an exclusive and long-term contract, or other forms of commitments or arrangements.

Upon determining, designing and establishing the platform for distribution in Japan (see part 3 and 4), the key for many European brands is to implement strong marketing activities to support the sales. The section below will not discuss the conventional (and costly) options of advertising and involvement of PR agencies. Rather, the section below will introduce a short case study to exemplify the power of a network and relationship-based marketing.

a. Case example: relationship-based marketing in Japan

As previously discussed, network and personal relations are important in Japan. As a short case study in this section will show, a focus on building trust and personal relations in Japan can create interesting marketing opportunities, yielding results beyond all expectations.

Let us begin with the word 'networking'. First, the Japanese concept of a network is quite distinct from the general European one. But let us start with European notions. The English word 'network' and its equivalent in European languages calls to mind a set of contacts who are linked by straight lines. In the Japanese language the indigenous word for network, *jinmyaku*, immediately brings to mind the human element. The word is a combination of *jin*, meaning person, human being, and *myaku*, which has various meanings such as vein of ore, blood vessel, and by extension, pulse and pulsation. In everyday Japanese business life the word *jinmyaku* brings forth a vivid picture of pulsating human interaction. There is no place in Japanese business for networks as 'mechanistic' abstractions of straight lines.

To the Japanese a network is first and foremost a human creation, in which people are exceptionally important, but the quality of the relationships among them is actually even more important. Accordingly, networking is a good deal more than 'mere' contact making. In everyday business practice networking plays out as a vastly sophisticated – and ritualistic - activity that touches into some of Japan's deepest cultural roots. In the Japanese context, the activity of networking requires social skills of a very high order indeed, which it might be said – in exaggeration to make the point – are reflected in every inflection of the Japanese language, in every crafted gesture, and in the almost imperceptible narrowing of the eyes.

The point to grasp is that in essence the purpose of Japanese networking is not only to extend and exploit business contacts, but also to ensure that the resulting network is replete with people with diverse experience and knowledge of business sectors, markets, foreign language know-how, and so forth. But what is sought is the *quality* of the relationship with these network players. This presupposes two things: that the network players bring valuable and shareable tacit knowledge into the relationships and that they are deemed to be trustworthy. The upshot is a powerful form of human bonding that the English word network fails to imply.

As will surely be evident by now, the notion of network and personal relations in the Japanese business context differs widely from European assumptions. Let us introduce a short case study to show the dynamics – and unexpected results – of a European company's commitment to networking and relationship-building 'the Japanese way'.

The following case study relates to the company, Rosendahl, which was introduced in section 4.b. Before entering the Japanese market, Rosendahl (as most other companies) carefully researched and analysed the Japanese market before delineating the marketing plan. While the market potential for well-known brands in Japan is enormous, the company's brand name was completely new to the market and with costs exceeding 6 million yen (45,902 Euro) for just a proper advertisement in one of the best magazines, there was only very little hope of becoming one of the big and well-known brand names of the industry. Most business practitioners probably recognize this situation, but what they will also recognize (if pressed and honest with themselves) is that business success is seldom a direct product of a preconceived grand strategy plan. This was also the case for Rosendahl in Japan. Here is the story, which is essentially a prelude the 'partner network strategy' and hence describes the very first steps for the company on the Japanese market.

As for the distribution channel, market analysis pointed the company in the direction of two main department stores in Tokyo. But, as often is the case, the department stores simply refused to take in Rosendahl as a new and completely unknown brand; and especially one with a limited budget for advertising and promotion. One day, however, the breakthrough came. This is what it happened.

On his first trip to Japan, the export manager of Rosendahl, who happened to have a good command of the Japanese language, met a young Japanese male who owned a small shop in Tokyo. The shop itself was extremely small and located in the basement of a building far away from the attractive shopping areas of central Tokyo. The owner, Shiraishi-san, invited the export manager out for dinner one evening and knowing Japanese culture – and with nothing else to do that evening – the latter accepted the invitation. A good deal of foreign business people would probably not have accepted the invitation, and they would probably also have refused to have their products displayed in that particular shop.

The following day, Shiraishi-san ordered three wooden monkey statuettes from Rosendahl and even though this order was way below the minimum requirements, the export manager began to like and trust Shiraishi-san and decided to overrule the marketing plan and ship the items. He stayed in touch with Shiraishi-san over a couple of months and as the dialogue intensified, he one day received an email from Shiraishi-san asking for permission to lend out one his monkeys to a friend of his working with TV commercials. Reluctantly (but luckily), Rosendahl finally accepted to let the monkey appear in the commercial.

What they, however, did not know was that the monkey soon ended up in a photo sitting in-between, Rei Kikukawa, a famous Japanese actress, and the new mobile phone from the (then) Japanese telecommunications giant, KDDI. The photo was used in a very aggressive launch of KDDI's new mobile phone and the company decided to have the picture posted in *all* trains in major cities all over Japan for two full weeks. There were no other advertisements on the train except for the one from KDDI with the Rosendahl monkey in it. Within days Rosendahl reached the top-three list of famous Scandinavian interior brands in Japan and the company was flooded with inquiries.

What the example above shows is that more attention should be given to small and perhaps seemingly insignificant details. We all know that personal relations and networks are important in Japan, but what tends to be missed in that connection is that it is often not really about the people in the network, but about the relationship *between* the people in the network. What is important is the quality of the relationship, the context, the tacit dimension of knowledge and the way in which this dynamic form of knowledge can be *co-created* with local business partners to form a competitive advantage.

6. Conclusions, advice and recommendations

The purpose of this report has been (a) to present an overview of trends and opportunities on the Japanese furniture and home fashion market, and (b) to deliver strategic insight, tactical guidance and real-life examples of how to succeed in the Japanese market.

Despite decades of severe recession, Japan remains the third consumer market in the world. Although the furniture market has been decreasing since reaching the peak with an all-time record market size of 6 trillion yen (46 billion Euro) in 1991, the Japanese demand for furniture has been relatively stable over the last ten years, hovering around 3 trillion yen (23 billion Euro). It is customary to distinguish between (1) home-use furniture and (2) contract sales. With an estimated value of 1 trillion (7.7 billion Euro) home-use furniture makes up around one-third of the total furniture market, with contract sales accordingly representing two-thirds of the total market.

With companies like IKEA and Nitori gaining increasing momentum in Japan, it is important also to look at the Japanese market from the perspective of total decoration for the home, often referred to as home fashion. The total home fashion market in Japan has an estimated value of almost 3.5 trillion yen (26.5 billion Euro).

Despite the sheer size of the total Japanese furniture and home fashion market, there are many other reasons for European firms to consider market entry to Japan:

- Japan is the world's largest market for branded products, and this market is increasing rapidly.
- The construction of new hotels and various renovations for the 2020 Tokyo Olympics is currently booming.
- Japan will soon have the highest proportion of elderly citizens in the world, hence creating a huge market for special furniture for the elderly.

Current market trends and future direction

A couple of strong overall trends can be identified in the Japanese furniture and home fashion market:

- The overall number of industry players (both retailers and wholesalers) is decreasing.
- There is a general shift from life stage-driven bulk purchases to lifestyle-driven single-purchase demand.

- Furniture and home fashion chains are shifting locations from suburbs to urban areas and opening small stores rather than large ones.
- Consumer focus is shifting from products to services and the overall buying experience.
- The market is becoming increasingly polarized, with a strong demand and growth in the value-for-money segment and - at the same time - in the high-end luxury part of the market.
- The generation buying products based on online information is now reaching the age to make furniture purchases.
- Influencer marketing play an increasingly important role in creating sales and brand awareness.
- Japanese retailers are increasingly involved in the direct import of international brands.

Distribution and sales channels

Part 3 of this report provided an overview of the different distribution channels.

Department stores account for 6.2 % of the total furniture sales in Japan. Although not representing the largest sales channel for furniture in Japan, department stores has nevertheless been given considerable attention in this part of the report. The reason for this is that, although directly-managed concept stores and retail chains represent the largest distribution channel in the market, opening and managing the company's own concept stores in Japan requires an exceptionally high investment. So, second to this option, department stores represent one of the best ways to start building sales and brand awareness in Japan; on the way to perhaps opening the company's own concept stores or showroom in the future.

Regional branches of even the most prestigious department store chains have been shown to produce markedly lower results than equivalent stores in the cities of Tokyo, Osaka and Nagoya. We therefore recommend a focus on one of the key department stores in either Tokyo, Osaka or Nagoya. Top ranking of department stores by European brands in Japan:

1. Shinjuku Isetan (Tokyo)
2. Matsuya Ginza (Tokyo)
3. Nagoya Matsuzakaya (Nagoya)
4. Nihombashi Takashimaya (Tokyo)
5. Hankyu Umeda (Osaka)
6. JR Nagoya Takashimaya (Nagoya)

Another important sales channel for furniture and home fashion in Japan are the so-called select shops. Most are individually owned and operated, but others are part of large chains such as FrancFranc and United Arrows.

The select shops sell a mix of furniture, interior accessors, tableware, interior fabrics and lighting fixtures etc. Select shop owners are often active buyers at international trade fairs in Europe. They typically buy (with no right to return or exchange products) directly from overseas companies and thereby skip the costly intermediaries in the shape of importers, distributors, wholesalers and the like. The resulting profitability for all parties involved is comparatively high. A select shop typically buys directly from the manufacturer at 40 – 55 % of the retail price excluding sales tax.

While this may to some extent seem attractive, multiple experiences from European SMEs show that starting business directly with Japanese select shops typically results in: (1) on-off orders with only very few (if any) reorders, and (2) the so-called 80-20 principle, which states that roughly 80 % of the sales will come from come from 20 % of the customers.

Although still representing a relatively small part of the market, non-store retailing is currently gaining momentum in Japan. Non-store retailing refers to selling that takes place outside of a physical store. This includes for example catalogue sales, TV shopping and Internet sales. TV shopping is still a very strong and popular sales channel. Home fashion items appear regularly on TV shopping programs and the target sales for 50-minute show is typically 20 million yen (153,008 Euro) - during the 50-minute show that is.

Opening an online store is another option. This, however, does not guarantee sales. In fact, an extraordinary effort has to be made in order to facilitate sales from a newly started online shop. This is where bloggers and influencers come into the picture. Influencers are famous or high-profile people involved in the marketing of products. In Japan, influencers are very specifically positioned according to profile and taste by means of popular platforms like Ameblo, which has more than 25 million unique users and more than 30 billion page views per month. Influencers are typically remunerated with a kick-back fee representing a fixed percentage of the actual sales. This can be as high as 10 – 15 % of the retail price. Industry giant, IKEA, started online sales in Japan in 2017 and aims to have online sales account for half of its Japanese revenue in 10 years!

Rethinking strategy for Japan

Prescriptions for how to do business in the Japanese furniture sector are largely the same that dominated Western thinking three decades ago, as if Japan has not moved on. Based on case studies of European brands entering the Japanese market, a clear picture emerged that the conventional 'push strategy' does not work well in the market. A push strategy implies that the foreign brand assigns a Japanese partner (typically an importer or wholesaler) who will then 'push' the company's products through all the market intermediaries needed to reach the end-customers in Japan. With a push strategy, the communication of the brand profile and stories quite often get diluted along the way, whilst including too many market intermediaries in the process inevitably means lower profitability - and higher shop prices too.

A pull strategy takes a different point of departure: namely, in creating demand directly with Japanese consumers. With the growing importance of social media and marketing via influencers in Japan, it is becoming much easier for European brands to communicate directly with end customers in Japan. In part 4 we discussed a company cases to introduce pull strategy as a very effective way for European SMEs to enter the Japanese furniture and home fashion market. The advantages of a pull strategy are that:

- the fixed costs remain very low
- the company will get valuable information and knowledge from the direct interaction with end consumers
- the company – very importantly – does not get sucked into the complexities of working with a wholesaler to push products through the long chain of intermediaries. Rather, with a pull strategy, the company retains the

flexibility to freely navigate and pursue the best opportunities that may arise from the promotional activities among end consumers
- the company is in full control (or at least in as much control as possible) to handle and influence the communication of the brand and the successive brand building activities in Japan.

In part 4 we also introduced another approach to market entry: partner network strategy. Instead of surrendering exclusive rights to one partner or only working with one segment in the market, the case study showed a novel approach where a European company side-stepped the need for market intermediaries and co-created the market with a selected group of business partners based on their specialisation, motivation and network within particular segments of the market. Obviously, most European SMEs cannot invest time and money in establishing and operating their own company in Japan, so the challenge is to how to secure a strong market presence this without incurring exceptionally high costs. This is made possible through push strategies and what we call, partner network strategy.

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