

Business-To-Consumer E-Commerce In Japan: Implications For Marketers

Victoria Seitz, (Email: vseitz@csusb.edu), California State University, San Bernardino
Nabil Razzouk, (Email: nabil@razzouks.com), California State University, San Bernardino
Haruyoshi Takaoka, California State University, San Bernardino

ABSTRACT

The purpose of this study was to determine Japanese consumers' B2C e-commerce purchases, their attitudes toward e-commerce, and the attributes that affect their Internet patronage among Japanese e-commerce businesses. Findings from a survey among 112 Japanese respondents indicated that most had made online purchases in the past and intended to use e-commerce in the future. Respondents reported that convenience was the primary advantage of e-commerce, while security issues were the major disadvantages and affected Internet patronage among Japanese e-commerce businesses. Implications suggested that Japanese companies should improve convenience and security factors to attract consumers and increase their sales via e-commerce.

INTRODUCTION

According to the U.S. Census Bureau (2001), the volume of Business-to-Consumer (B2C) electronic commerce (e-commerce) in the US market in 2001 was 71 billion dollars with the percentage of total sales accounting for 6.66 percent. On the other hand, the Ministry of Economy, Trade and Industry of Japan ([METI], 2001) reported that the volume of B2C e-commerce in Japan in the same year was 13.5 billion dollars and that the percentage to total sales accounted for 4.19 percent.

The data indicates that the current utilization of B2C e-commerce in Japan is far below that in the USA. METI expected that the volume of e-commerce in Japan would increase to 148 million dollars by 2006 (METI, 2001). Although it is forecasted, e-commerce businesses should not rely on external factors such as growth of personal computers and the Internet, but should try to understand the attitudes of consumers and develop strategies to attract them (Fujitsu Research Institute, 2002). To play a major role in rapidly growing market, companies involved in and interested in e-commerce must consider how to grow their business.

To analyze the market in Japan and to develop successful marketing strategies, companies need to examine why the rate of adoption is much slower in Japan than that of the US. Some of the reasons why may be due to the infrastructure of personal computers and the Internet, Japanese consumers' attitudes toward e-commerce, and strategies employed by Japanese e-commerce businesses (Inoue, 2002). Companies interested in starting e-commerce businesses in Japan should consider consumers' behavior toward it and how they can attract consumers with their marketing strategies.

Hence, given the above, the purpose of the research was to examine the current situation of B2C e-commerce in Japan, consumers' online purchasing behavior and attributes affecting online purchases. Since many companies are interested in starting or have started B2C e-commerce businesses, this study would aid companies in developing marketing strategies that would grow their businesses and build loyalty among consumers. Specifically, the objectives of the study were as follows:

1. Determine Japanese consumers' B2C e-commerce purchases in the past year,
2. Determine Japanese consumers' attitudes toward e-commerce, and
3. Determine the attributes that affect Internet patronage among Japanese e-commerce businesses.

Although e-commerce has emerged as an important marketing channel, it has not been a popular one in the Japanese market as mentioned previously. Companies interested in starting B2C e-commerce businesses in Japan need to determine the most effective strategies that will improve their online businesses and grow the industry in the country.

LITERATURE REVIEW

Transition Of Business-To-Consumer Electronic Commerce

Since 1998, when METI started researching the Japanese e-commerce market, the volume of B2C e-commerce business increased rapidly, even though the growth rate had slowed. For example, in 1998, volume was 586 million dollars, while in 1999 it was three billion dollars, a growth rate of five times the prior year's figure. However, the volume in 2000 was 7.5 billion dollars, 2.5 times as much as it was in 1999. Finally, the volume in 2001 was 13.5 billion dollars, a growth rate of 1.8 times the 2000 figure (METI, 2002). METI expects that the volume of B2C e-commerce in Japan will be approximately 148 billion dollars in 5 years, or 5.8 percent of total e-commerce revenues (METI, 2002).

METI (2002) noted that the percentage of automobile and real estate sales accounted for almost half of the total volume of B2C e-commerce revenue in 2001. On the other hand, in 2006, it is forecasted that the percentage of various services and travel online will increase and biased distribution of product segments will be balanced (METI, 2002).

Benefits, Motivations, And Obstacles Of Electronic Commerce

According to ECOM (1999), most consumers reported that the major benefits of e-commerce were purchasing from home and at any time. Windham and Orton (2000) found that convenience, time-savings, and information availability led the list of e-commerce benefits and consumers believed that shopping online was faster and saved more time.

Info Com Research, Inc. (2002) noted that the top motivation for purchasing online was price. Similarly, Strauss and Frost (1999) noted that price was one of the most important benefits of shopping online. Their study found that using shopping agents, users can find the lowest price on any product online. Very often this price will be significantly lower than the equivalent price in a neighborhood retail outlet. The reason that online retailers can charge less is because they are not renting and staffing expensive retail space (1999). Additionally, Windham and Orton (2000) noted that consumers perceived that products were cheaper online than in so called "brick and mortar" stores.

Although buying online has many benefits, Krantz (1998) found that consumers did not use the Internet for purchases primarily because of fear of hackers (21%). Additionally, the researcher (1998) found that lack of product assortments (16%), inability to see the actual product (15%), necessity to reveal personal information (13%), poorly designed sites (8%), company reputation (6%), and fear of money or merchandise getting lost (6%), were other reasons most cited for not purchasing online.

Windham and Orton (2000) found that even among veteran online shoppers-people who have shopped on many occasions and have at least one year's experience "under their belts" - are concerned about privacy. Similarly, ECOM (1999) found that the possibility of leaking private information and the possibility of a wrong charge led the list of consumers' anxiety regarding e-commerce purchases. Additionally, Windham and Orton (2000) found that only seven percent of consumers claimed that it didn't alter their behavior at all and that they were not worried about how e-commerce sites used personal, financial, or purchasing data.

Although credit cards provide an easy method of payment for products and services online (Windham and Orton, 1999), many consumers are reluctant to provide credit card and other information over the Internet (Strauss and Frost, 1999). Credit cards have become the dominant payment mechanism for most online retail transactions, but

using them can be risky because the Internet is an unsecured medium. As credit card numbers and expiration dates are routed from computer-to-computer, the propensity of security breaches increases (Raysman and Brown, 1997).

Strategies Used For Electronic Commerce

Product Strategy

Clemente (1998) claimed that products with successful online sales share attributes that make them particularly attractive to Internet shoppers. The important factors that contribute to successful e-commerce product strategies are nonperishability, high relative value, information intensity, and high-technology (Clemente, 1998). Additionally, products, such as personal computers, that have a high relative value, are purchased online, whereas, consumers are not likely to buy low-involvement or impulse items such as light bulbs or razors online. Information intensive products include those times that require research that can be conducted online. Finally, online shoppers have an interest in high-tech products. Strauss and Frost (1999) claimed that home furnishings, toys, tools, home repair, and apparel have low business opportunities because the products that consumers purchase online are those that they do not mind doing their own research for buying.

Hanson (2000) noted that "Product Assortment" was one of the fundamentals that drove buyers to buy online. The range of products online can be larger to better match buyers' desires without the operational costs of brick-and-mortar retailers. Moreover, online retailers can take advantage of centralized inventory savings to keep prices down while being cost-effective in stocking a much wider assortment of products (Hanson, 2000).

Pricing Strategy

The simplest reason to buy online is to save money and shoppers use the Internet to find bargains (Hanson, 2000). According to Strauss and Frost (1999), there are many forces driving prices down on the Internet. First, consumers can easily search nationwide or even worldwide for the lowest price on a given item. Second, all new Internet products are immediately visible to their competition. Third, many Internet companies' operational costs are often lower with this channel, which can result in higher profits and margins and lower prices for consumers. In this climate of downward price pressure, Strauss and Frost (1999) claimed that following three pricing strategies contributed to successful online selling; these were penetration pricing, price leadership, and pricing promotions. Penetration pricing is particularly effective in a price-sensitive market like the Internet. Price leadership strategies can be accomplished through Internet marketing cost efficiencies. Finally, many online retailers have turned to promotional pricing to encourage trial and repeat purchasing (Strauss and Frost, 1999).

Distribution Strategy

As personal computers and the Internet have been emerging as major tools at home and at work, e-commerce has become a vital marketing channel (METI, 2002). Companies that do embrace electronic commerce must decide on the best distribution channel structure (Hanson, 2000). Strauss and Frost (1999) claimed that eliminating intermediaries should be done for appropriate distribution channels. Disintermediation has the potential to reduce costs since each intermediary must add their mark-up to make a profit. Taken to the extreme, disintermediation allows suppliers to transfer goods and services directly to the consumer in direct channels (Strauss and Frost, 1999).

On the other hand, channel conflict is one of the main concerns of companies as they add e-commerce channels to their distribution structure (Hanson, 2000). Traditional distribution channels are threatened by online e-commerce with threats coming from final customers asking for direct extranet links to manufacturers, manufacturers launching e-commerce sites, and online intermediaries that provide valuable information (Hanson, 2000).

Promotion Strategy

Strauss and Frost (1999) analyzed promotion strategies within three categories: Internet advertising, Internet public relations, and sales promotions. All paid for space on a Web site or in an email was considered advertising while online public relations was appropriate for diverse groups of stakeholders (Strauss and Frost, 1999).

Clemente (1998) reported that 95 percent of online shopper said that they were satisfied or very satisfied (48%) with their purchase experience. Further, consumers tended to become more satisfied as they made more purchases. Experts agreed that getting consumers to make the first purchase was the most important. This suggests that promotion strategies to enhance trial and retrial play a major role in B2C success.

METHODOLOGY

Population And Sample

The population for this study was Japanese consumers. A convenience sample of 50 Japanese students enrolled a southwestern university was employed. Additionally, a sample of Japanese consumers living in their home country were randomly selected and sent questionnaires via email for completion.

Instrument

A self-administered questionnaire was developed to determine Japanese consumers' B2C e-commerce purchases, their attitudes toward e-commerce, and the attributes that affected their Internet patronage behavior among Japanese e-commerce businesses.

The questionnaire was divided into four sections. In Section I, respondents were asked to provide their online purchase experiences in the past year. The questions included whether or not they made online purchases, how many times they purchased online, how much they spent, the products or services purchased, what payment methods used and whether or not they intended to buy online in the future. Products and services listed in the questionnaire were taken from the study by METI (2002). Additionally, questions regarding past online purchases were taken from a study of catalog patronage behavior by Seitz (1987).

Section II sought consumers' attitudes toward e-commerce businesses. Questions were designed to examine respondents' attitudes regarding the advantages and disadvantages of e-commerce businesses and were measured using a five point Likert scale ranging from strongly agree (5) to strongly disagree (1). Statements used were taken from the ECOM (1999) study and included advantages such as "Reasonable price," "Easy payment," and "Wide variety of items to select from." Statements regarding disadvantages included "Possibility of leaking private information", "Possibility of a wrong charge", and "Impossibility of a tangible selection".

Section III sought to determine attributes that affected Internet patronage among Japanese e-commerce businesses. A five point modified Likert scale ranging from very important (5) to very unimportant (1) was used to measure responses. The instrument was originally developed by Miyata (2001) in a study of e-commerce and consumer behavior. Statements included "Security", "Wide variety of goods ad services", and "Uniqueness of goods or services".

The last section of the questionnaire collected demographic information of respondents as well as their personal computer environment and Internet access. These characteristics were taken from the literature reviewed. Frequencies and cross tabulations were used to analyze the data.

RESULTS

Demographic Characteristics Of Respondents

Of the 150 survey administered, 112 were returned yielding a 74.6 percent response rate. Over half (57.1%) of the respondents were male and the majority ranged in age from 21 to 29 years old (78.6%). Further, respondents were equally divided between living inside and outside of Japan. Full time workers (43.8%) and students (44.6%) were the two major groups regarding employment status and half (50.0%) of the respondents report incomes of \$10,000 or less. Moreover, 99.1 percent of respondents reported having access to personal computers and almost all (91.1%) had access to the Internet.

Electronic Commerce Experience

The first question asked respondents whether or not they had experience of online purchase in the past year. Approximately 79 percent had online purchase experience in the past year. Further, 78.1 percent of males and 79.2% females made online purchases in the past year. Moreover, 77 percent of respondents living in Japan and 80.4 percent of respondents living outside the country had purchased online in the past year.

Approximately 90 percent of respondents who had access to personal computers had purchased online, while those who had limited access to PC's had fewer online purchases. Additionally, almost 81 percent of respondents who had Internet access all day had purchased online while 50 percent with limited Internet access did. Nearly half of the respondents (54.5%) made purchase online four or more times in the past year. In fact, almost 39 percent made six or more online purchases. Based on research by Seitz (1984), heavy users were defined as those that reported purchasing online four or more times. Regarding how much spent online in the past year, almost half (48.9%) of experienced respondents spent \$400 dollars or less, while almost 30 percent spent more than \$1,000 dollars in the past year. Regarding products and services purchased in the past year "Travel Services," was purchased by 53 percent of respondents, followed by "books and music" (16.1%) and "entertainment" (15.3%).

The most frequently used payment method online was credit cards (44.7%). Approximately 15 percent reported using "payment on delivery" and 13.8 percent used "transfers through banks in advance". Regarding respondents' future use of the Internet for online purchases, approximately 94 percent of respondents reported that they would make purchase in the future.

Attitudes Toward Electronic Commerce And Purchasing

Results showed that quick delivery was not considered a strong motive (Mean = 2.96), while the ability to purchase at home (Mean = 4.57) at any time (Mean = 4.50) were rated the strongest advantages for online purchasing. Regarding disadvantages, "impossibility of a tangible selection" (Mean = 4.42) and "possibility of leaking private information" (Mean = 4.33) were reported the most by respondents. Further, respondents somewhat disagreed with the statement, "anxiety with the purchasing process" (Mean = 2.17) as a disadvantage. Respondents rated "security" (Mean = 4.60), "confidence of the company or website" (Mean = 4.47), and "accessibility to information" (Mean = 4.23) as the most important attributes for online purchasing.

CONCLUSIONS AND IMPLICATIONS

Travel, books, and music, and entertainment led the list of the products and services respondents purchase most often. According to the research by METI (2002), the top three categories were automobiles, real estate, and personal computers. The difference between the present study and METI's findings is that their findings were based on reported sales volume rather than consumer responses. On frequency, the most frequently purchased products and services were relatively inexpensive compared to the top three categories in METI's results. Clements (1998) suggested that travel, books and music and entertainment, are nonperishable goods that have a high relative value and would be purchased online more frequently in the future.

Credit cards were dominant payment method among e-commerce users. Although credit cards were dominant among payment methods, other methods are also used because of the risk adverse nature of Japanese people (Fujitsu Research Institute, 2002). It can be said that these alternative payment methods would be good to add for Japanese e-commerce businesses.

Almost all online consumers and three-fourths of non-users had intention to use e-commerce in the future. Hence, e-commerce is emerging as a regularly used shopping vehicle for Japanese consumers and companies currently involved in or are interested in it will need to further develop strategies to capitalize on this window of opportunity.

Results indicated that most respondents consider purchasing at home and at any time advantageous to making purchases online. This finding is consistent with those of ECOM (1999) that found Japanese people used the Internet primarily for convenience.

To attract consumers, Japanese, e-commerce businesses should consider "accessibility from distant places" that in the present study was rated highly as an online advantage because Japanese desire to purchase goods from their home country. Or further, Japanese e-commerce businesses might offer products from around the world for consumers to choose from. Moreover, offering wide variety of products or services should be considered since operational costs are considerably lower than brick and mortar stores in Japan.

On the other hand, disadvantages of e-commerce included the impossibility of tangible sections, the possibility of leaking private information, and the possibility of a wrong charge. Given that consumers cannot touch or feel the products, Japanese e-commerce businesses may consider providing sample fabric swatches, more liberal return policies, and intensive product/service information on their website to reduce the perceived disadvantages. Moreover, like American consumers, Japanese are concerned about privacy and security. For example, to reduce consumers' anxiety about a wrong charge, e-commerce businesses can offer alternative methods such as cash on delivery (COD) or allow consumers to pay at convenience stores.

Results indicated that "security" and "confidence in the company or website" were two of the most important attributes reported by respondents. Given this, Japanese e-commerce businesses should provide not only extensive information about the products and services offered but also detailed information about the company.

The most frequently purchased products or services were travel, books, music and entertainment. Given this, Japanese e-commerce businesses should consider strengthening these and other products and services that are nonperishable and have a high relative value. Further, although automobiles and real estate were the top two categories in sales volume (METI, 2002), the survey results indicated that only four respondents purchased from these categories through e-commerce. Because of their inherent high price tag, frequency of purchases was low.

REFERENCES

1. Clemente, P. (1998). *The State of the Net: The New Frontier*. New York: McGraw-Hill.
2. Electronic Commerce Promotion Council of Japan (ECOM) (1999). Survey Results about E-Commerce. Retrieved March 10, 2004 from the World Wide Web: <http://www.ecom.jp/qecom/seika/press/970917enquete/kekka.pdf>
3. Electronic Commerce Promotion Council of Japan (ECOM) (2001). Current Situation and Success Factors of E-Commerce. Retrieved March 10, 2004 from the World Wide Web: <http://www.ecom.jp/ecit/tenji/bs2001/hirai.pdf>.
4. Fujitsu Research Institute. (2002). Internet Shopping Research. Retrieved March 10, 2004 from the World Wide Web: [http://www.fri.fujitsu.com/hypertext/fri/cyber/rep01/internet shopping.pdf](http://www.fri.fujitsu.com/hypertext/fri/cyber/rep01/internet%20shopping.pdf)
5. Hanson, W. (2000). *Principles of Internet Marketing*. Cincinnati: South-Western College Publishing.
6. Info Com Research, Inc. (2002). Internet Shopping. Retrieved March 31, 2004 from the World Wide Web: <http://www.icr.co.jp/info/press/press20020708.pdf>.

7. Krantz, M. (1998). Click till You Drop. Retrieved March 31, 2004 from the World Wide Web: http://www.time.com/time/archive/preview/from_newsfile/0,10987,1101980720-139582,00.html.
8. Ministry of Economy, Trade and Industry of Japan (METI) (2002). The Research of the Market Volume Related to E-commerce. Retrieved March 3, 2004 from the World Wide Web: <http://www.meti.go.jp/kohosys/press/0002379/0/020218ec.pdf>
9. Miyata, M. (2001). E-commerce and Consumer Behavior. Retrieved March 9, 2004 from the World Wide Web: <http://www.hannan-u.ac.jp/~miyata/eshopping2001.pdf>
10. Raysman, R and P. Brown. (1997). The Changes Coming With Electronic Banking: The New York Law Journal. Retrieved March 30,2004 from the World Wide Web: <http://www.ljx.comsecurity/ent/articles/0513ebank.html>.
11. Seitz, Victoria A. (1987). Patronage behavior of nonusers, users and heavy users of catalogs for clothing purchases. Stillwater: Oklahoma State University.
12. Stauss, J. and R. D. Frost. (1999). *Marketing on the Internet: Principles of Online Marketing*, Upper Saddle River: Prentice Hall, Inc.

NOTES