

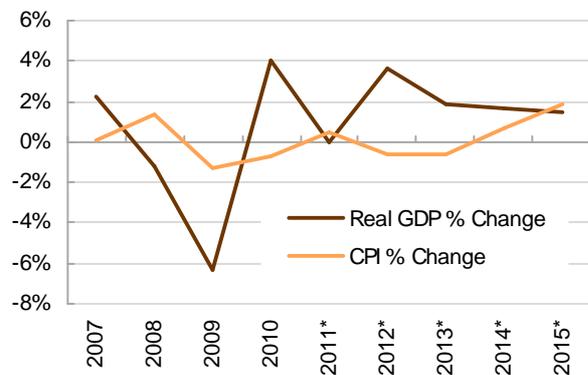
PwC Industry Analysis - Retail



Significant immediate impact, but it will not last long

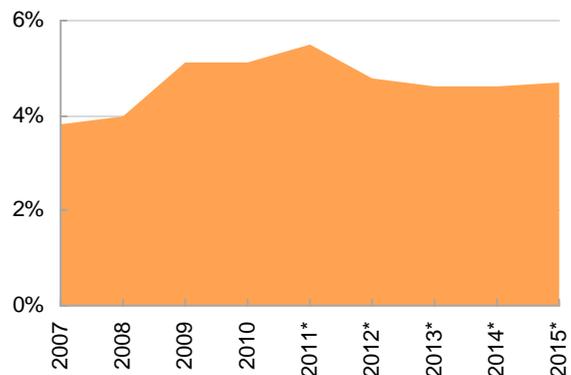
Retail industry in Japan experienced significant immediate impact from the earthquake and tsunami as consumers tried not to make purchases for non-essential items right after the disasters. But such impact is expected to be short-term and consumers would return after the situation is stabilized. However, certain consumer behaviors have already changed even before the disasters primarily due to the weak economy in Japan in the past two decades and emergence of young generation.

GDP and CPI in Japan
(% Change)



* Forecasts by IHS Global Insight
Source: IHS Global Insight, PwC Analysis

Unemployment Rate in Japan (%)



* Forecasts by IHS Global Insight
Source: IHS Global Insight, PwC Analysis

Retail is one of the hard hit industries by the disasters, but impact would not last long

The March earthquake, tsunami and nuclear disasters created significant immediate impacts on retail industry. Consumers stopped going out or making purchases for non-essential items right after the disasters. Number of tourists has decreased dramatically - travel in May break has dropped 30% as compared to previous year.

Japanese retail sales decreased 8.5% year over year in March, according to data by the trade ministry in Japan, which is the biggest year-on-year drop in retail in the past 13 years. However, such decrease in retail, especially in retail of grocery products, is expected to be temporary. Signs are showing that consumers already returned in May and started open their wallets to make purchase again.

Change in consumer behavior: moving to value products

Uncertainties around economic conditions and high unemployment rates in recent years, have changed consumer behaviors in Japan even before the disasters and consumers are focusing more on value.

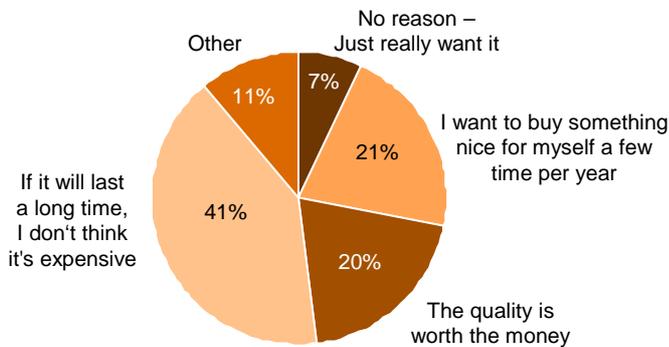
Affordable private label products have gained growing popularity in Japan. Although total sales of private label products in Japan is just 4%, which is much less than global average of 20%, there is ample space to grow. Japan's largest retailer, Seven & I, expects private label product sales to grow 60% this fiscal year.

Additionally, despite limited space at home, Japanese consumers start to buy in bulk in order to get deeper discounts. Wholesales stores such as Costco are performing better than most other retailers in Japan.

Even high end department stores start renting spaces to value retailers such as Uniqlo and Forever 21 to drive store traffic from value focus customers.

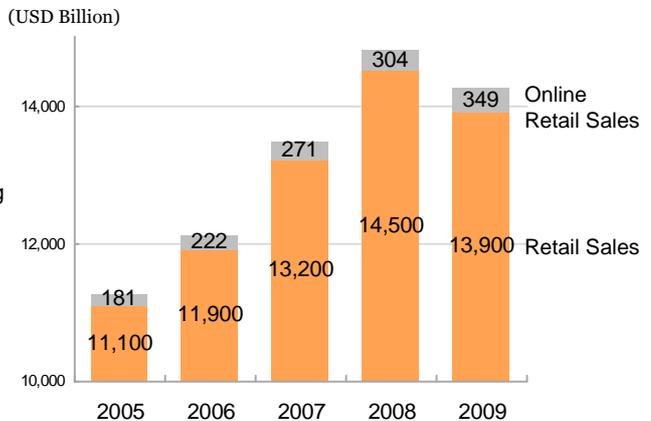
The reason to make the last luxury purchase

More than half of luxury purchasers need a reason to justify the purchase



Source: McKinsey Japan Luxury Consumer Survey 2011, PwC Analysis

Global Retail Sales



Source: IMAP, PwC Analysis

Japan continues to be one of the most robust luxury markets

Although the earthquake and tsunami in March had dramatic immediate impact on the sale of luxury products, these impacts would not last long and consumers start purchasing again after the situation has been stabilized. However, consumer behaviors around luxury products in Japan have changed in recent years as a result of economic downturn and consumers' move to value products.

A survey from McKinsey in 2011 indicated that most of luxury product purchasers in Japan now need a reason to justify the purchase, no matter it's quality or durability. And many consumers indicated that they bought the luxury products because there are discounts or they are cheaper.

Additionally, the younger generation in their 20s or early 30s in Japan seem to be more realistic than older generations as they have never experienced the booming periods in Japan. Many young consumers think buying luxury products is not cool. Instead of spending on luxury jewelries, leather products and accessories, they would rather buying newly developed consumer electronics such as iPhone, camera, etc..

Key business issues and opportunities

Online retail: With the increase popularity of online sales globally, building a significant on-line presences is a top priority for many retailers. The simple act of shipping merchandise and collecting payment directly to/from consumers has presented companies with a host of new logistical and operational challenges. Japan already lags its peers like US and UK in this space and has a lot to catch up in this area.

International expansion: Seeking growth away from saturated domestic markets, many retailers are expanding abroad to reach previously untapped markets, leading to M&A activities.

Foreign currency: Japanese Yen has appreciated against most of major currencies in the world. This could pose pressure on Japan's export and increase foreign currency risks.

Social media: In the last several years the evolution of e-commerce, smart phones, television recording devices (DVR, TiVo), and the popularity of social media sites have significantly changed the advertising landscape. To reach young generation, sometimes, social media is a must.

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<Contact>
PwC Japan
Email: pwcjppr@jp.pwc.com