

Cross-Border E-Commerce in Asia Pacific - Consideration from Japan

July 2019

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At the beginning...

This contributed presentation details the current business trends of cross-border e-commerce in Asia Pacific region.

The popularity of Japanese products in Asian Pacific region has been increasing with the recent strong growth of tourists visiting Japan. In addition that tourists purchase the products in Japan, the number of tourists purchasing Japanese products after returning home has been growing. Furthermore, based on word-of-mouth communications from friends and acquaintances who have visited Japan, the number of customers purchasing Japanese products before visiting Japan has been also increasing.

Needless to say, merchandise sales at cross-border e-commerce sites is an excellent sales means that enable Japanese companies to expand their trading area while minimizing initial investment required for overseas expansion. On the other hand, the reality is not all Japanese products are sold well at cross-border e-commerce sites. Japanese companies need to recognize their lack of resources and capabilities, and the shortage area might be required to closely cooperate with partners which deeply figure out the customer characteristics in Southeast Asian region.

Readership in this contributed presentation assumes...

- segments to expand sales of Japanese promising products in Asia Pacific region
 - person in charge of sales operations at overseas subsidiaries of Japanese company
 - person in charge of product procurement at retailer/ e-retailer/ distributor, etc.
- segments to support the overseas expansion for Japanese companies in Asia Pacific region
 - person working at marketing agency
 - person working at research companies
 - person working at logistics companies operating in Asia Pacific region, etc.

What is “Cross-Border E-Commerce”?

Definition

- Cross-border e-commerce is generally defined as follows in Japan.

Ministry of Economy, Trade and Industry (METI)

- Cross-border shopping is an electronic commerce between a consumer and a business with a nationality other than the country where the consumer resides

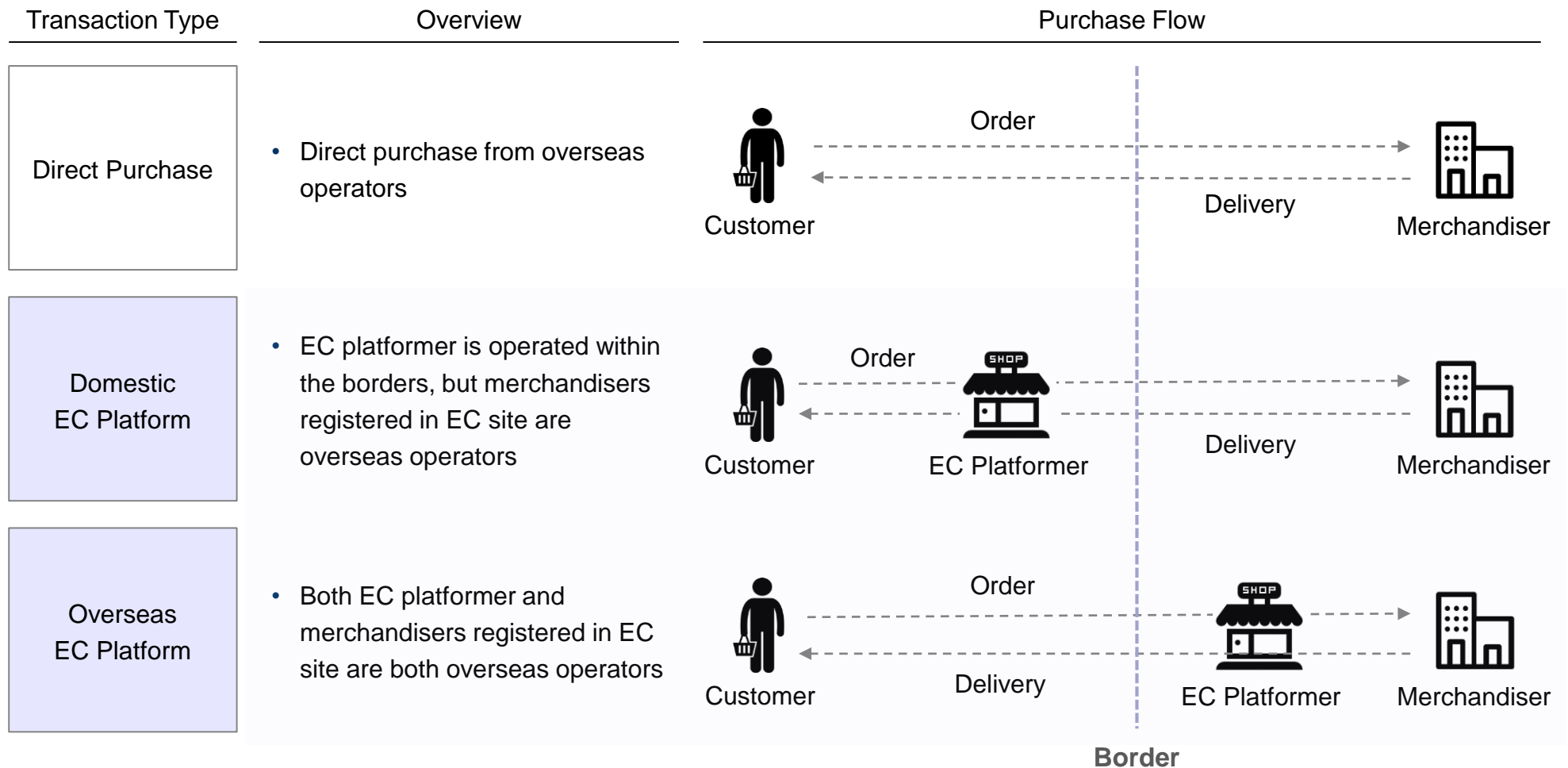
The European Commission

- According to “Consumer survey on cross-border transactions” published by European Commission, cross-border shopping is any purchase made by consumers from retailers or providers located in a country other than the country in which a particular consumer is resident. A purchase can be made either in person or via distance shopping.

What is “Cross-Border E-Commerce”?

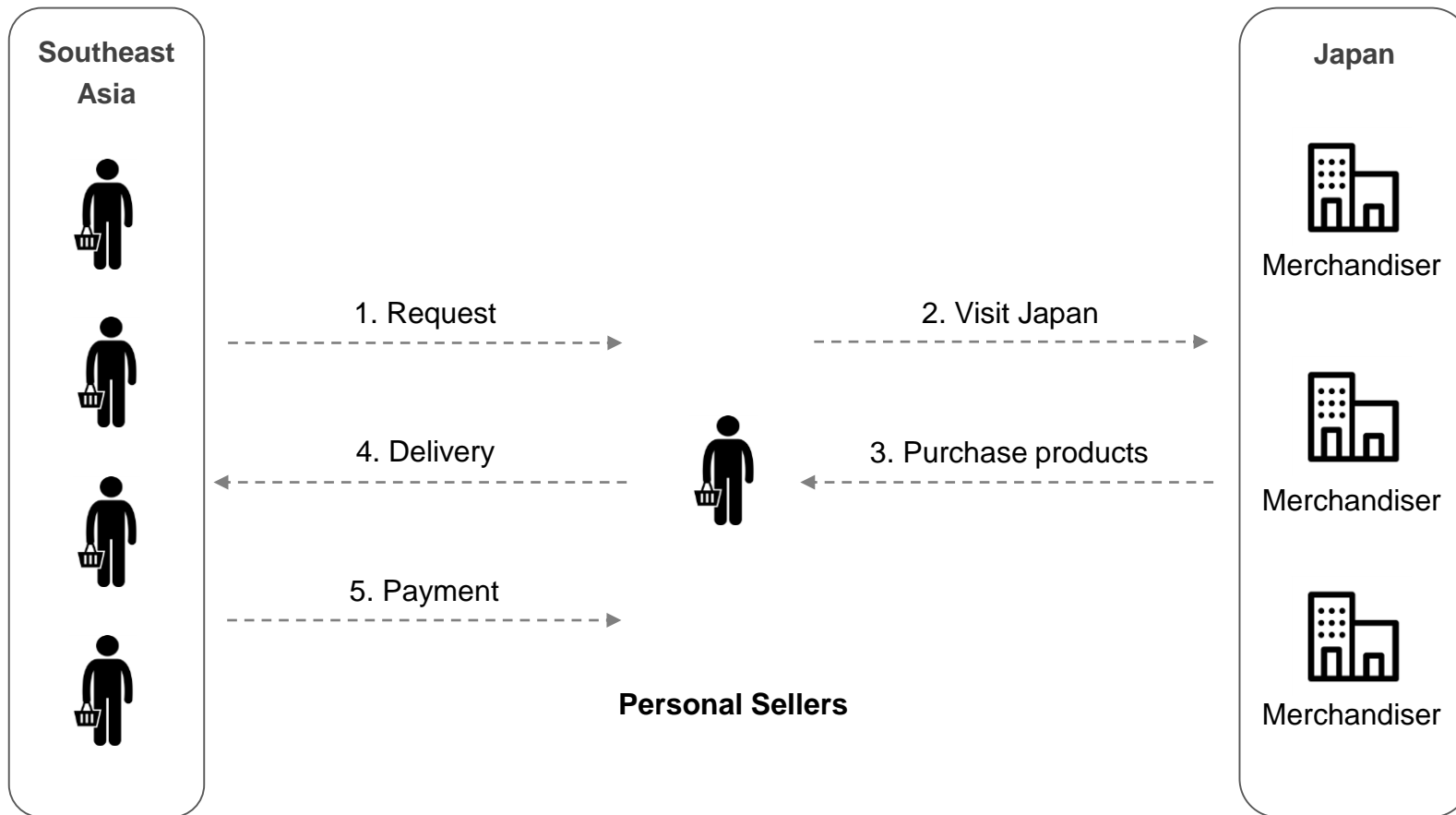
Typical transaction types

- Cross-border e-commerce can be broadly divided into 3 types, but basically, purchasing activities through e-commerce platformer is considered the mainstream.



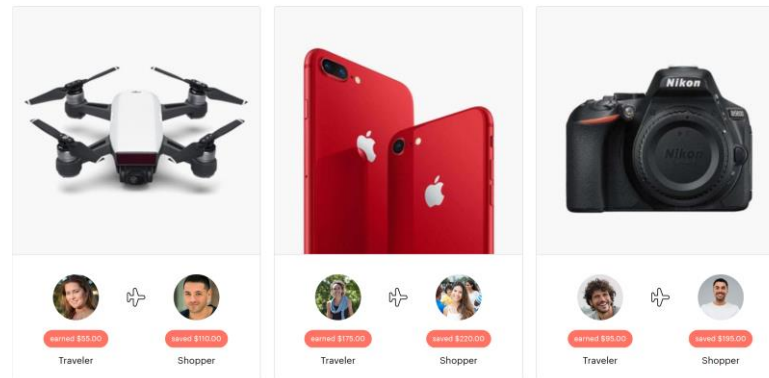
Reference 1) Unique cross-border transaction practice in Southeast Asia

- Personal sellers account for larger part of cross-border commerce, so consumers can ask friends or someone to purchase products which are much cheaper and faster than current cross-border e-commerce.



Reference 2) Unique cross-border transaction practice in Southeast Asia: Grabr

- “Grabr” has started to adopt the unique practices of Southeast Asia’s cross-border transaction as a new business.



1 Tell us about the item you are looking for

With Grabr, you can get any item from around the world. To get started, create an order for a product you want and include details such as where a traveler can buy it and how much it costs.



3 Agree on a monetary reward for your traveler

Grabr auto-calculates all applicable taxes and fees, including the monetary reward you agree to pay your traveler for delivering your item. If your traveler doesn't deliver your order for any reason, you will receive a full refund.



2 Wait for travelers to make delivery offers

Once you publish your order, we'll share it with our entire traveler community. Then, travelers heading to your city will bid to deliver it by making an offer.



4 Meet with your traveler and receive your item

Coordinate a time and public place to meet your traveler. When you receive your item, make sure to confirm delivery so that your traveler gets paid.



Source: Grabr website

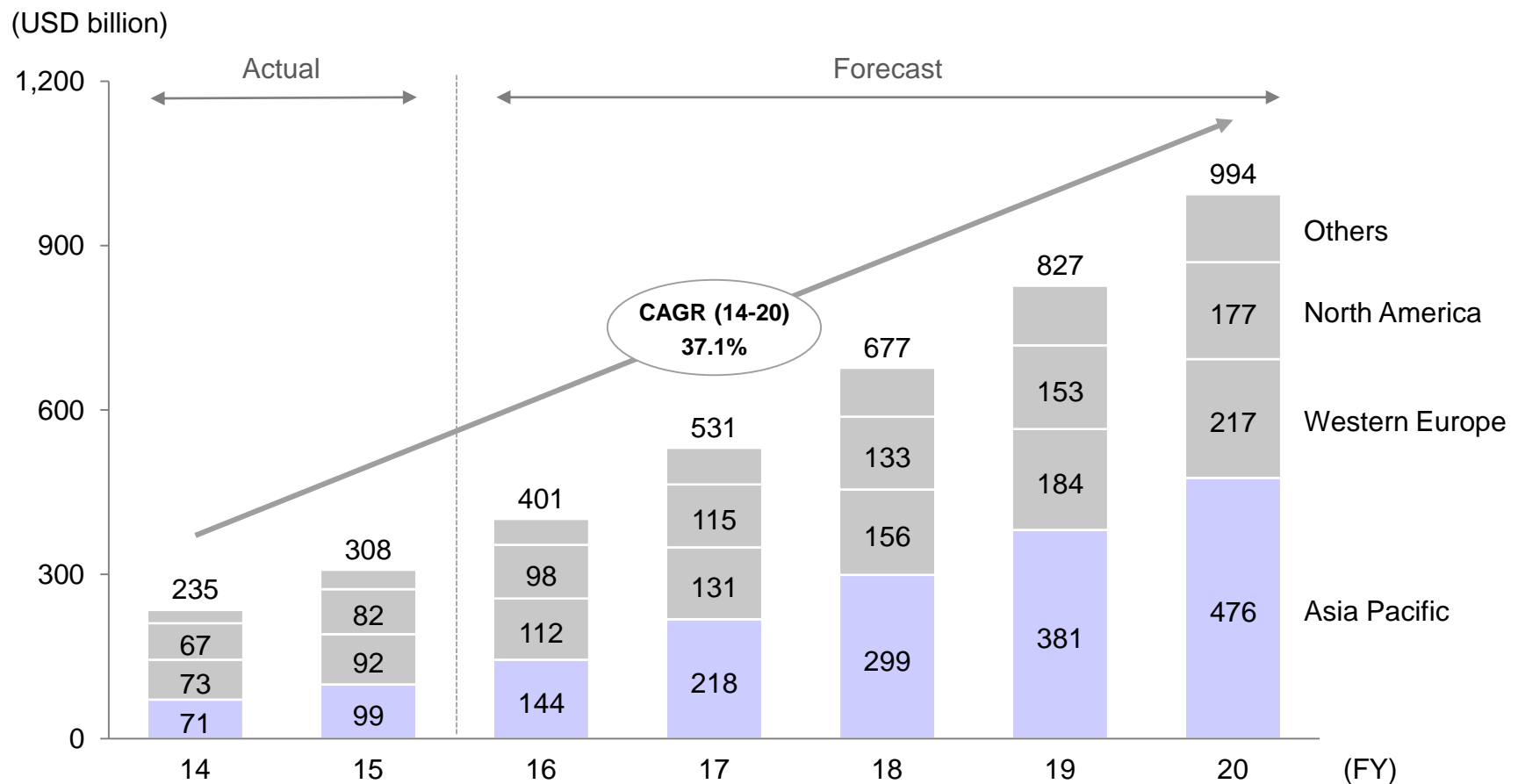
Market Circumstances

Market Circumstances

Market volume from FY2014-FY2020

- Cross-border e-commerce market in Asia Pacific region has a higher growth potential and would be expected to jump into the largest market from FY15 upward.

➤ China is said to be the leading force in Asia Pacific cross-border e-commerce market.



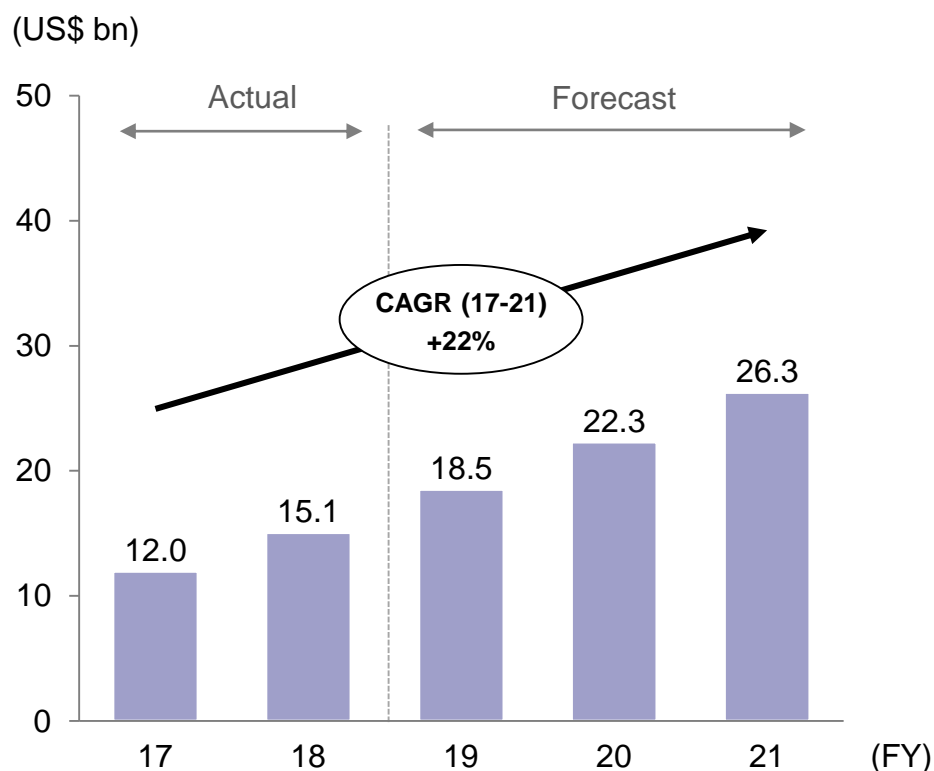
Source: Accenture「Global Cross Border E-Commerce Market 2020(2015/06)」

Market Circumstances

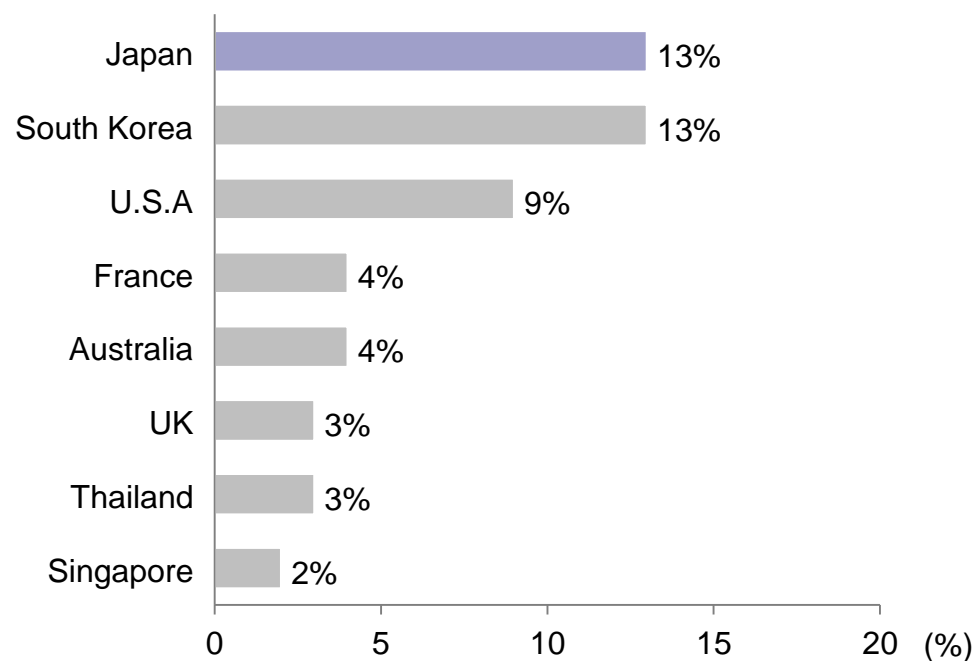
Market volume from China, the largest cross-border e-commerce market, to Japan

- As Japan accounts for larger presence in China, the largest cross-border e-commerce market, purchase amounts from Japan have continued to grow in response to the whole market growth in China.

Cross-border EC transaction volume from China to Japan



Top countries: where to purchase in China



* IUSD: 108.5JPY (as of 2019/06/17)

Source: Ministry of Economy, Trade and Industry 「Market Research on E-commerce (2017/04)」, PayPal and Ipsos「PayPal Cross-Border Consumer Research 2016」

Market Circumstances

Reasons behind growth of Japanese products at cross-border e-commerce sites

- Cross-border EC market has been rapidly expanding in Japan since there are benefits for both consumers and merchandisers' side.

Consumers' perspective

Higher internet penetration

- With the spread of smartphones (Internet), many people in Asian region have access to information around the world. They can easily access to cross-border EC sites, and buy high-quality and genuine products while comparing them with products sold in their county.

Repeat purchase of tourists visiting Japan

- There are many cases in which foreigners visiting Japan purchase home appliances, hygiene products, food products, clothes, etc. in Japan and love to use them after returning home and purchase repeatedly using cross border EC site.
- In addition, word-of-mouth from foreigners visiting Japan has great.

Merchandisers' perspective

Lower entry barrier

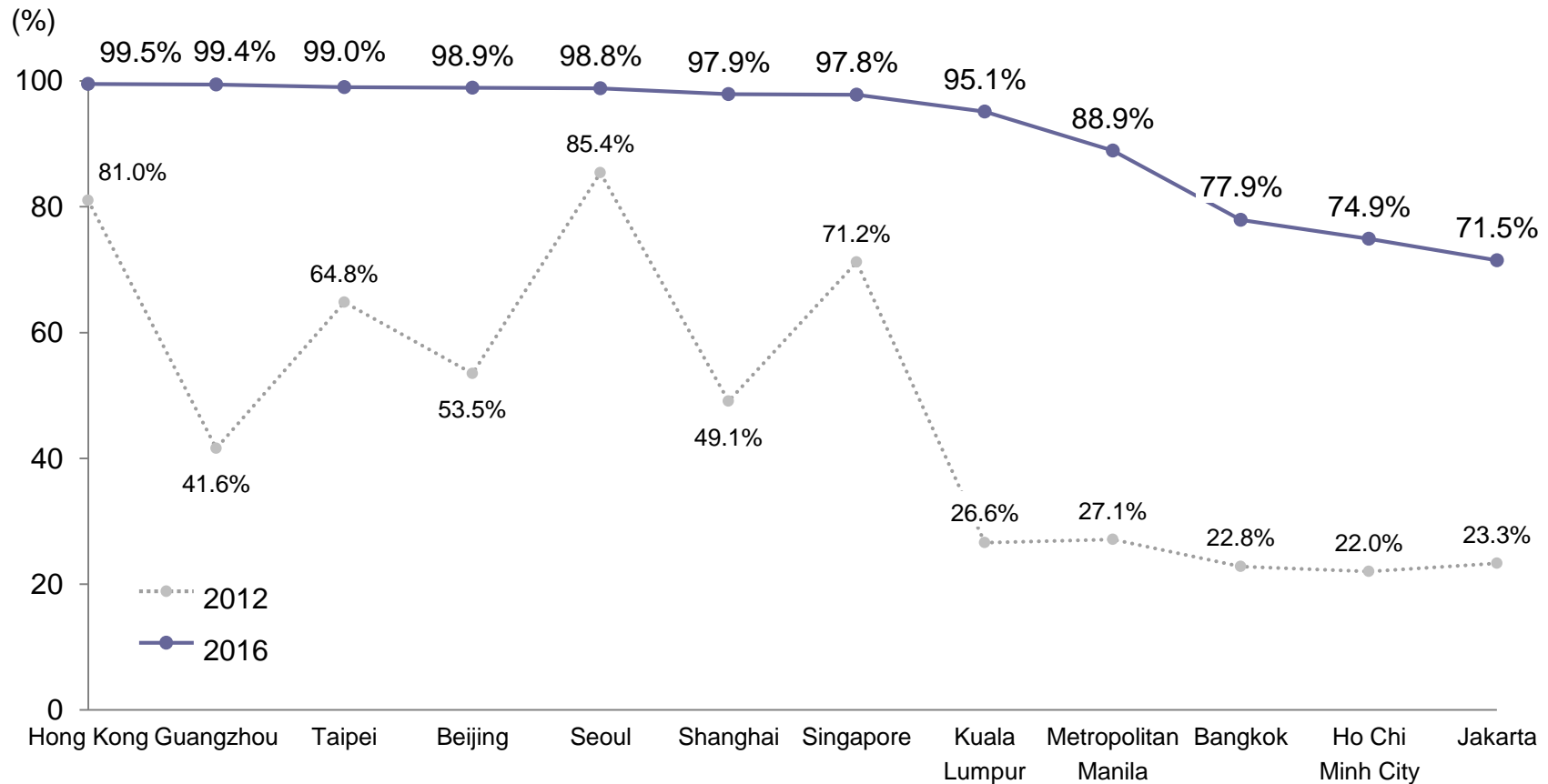
- The overseas expansion through cross-border EC would not have to establish a physical sales company or develop store network in Asia.
- In addition, the merchandisers can sell the almost same products through cross-border EC sites.

Expansion of trade area

- Future consumption in Japan has been expected to decline for reasons of population decline, etc. Cross-border EC makes it easy for whole ranges of the Japanese companies to expand the trade area.

Reference (1): Spread of smartphones in Asian region

- The higher penetration rate of smartphones in major Asian cities has accelerated the environment to purchase products through cross-border EC sites.

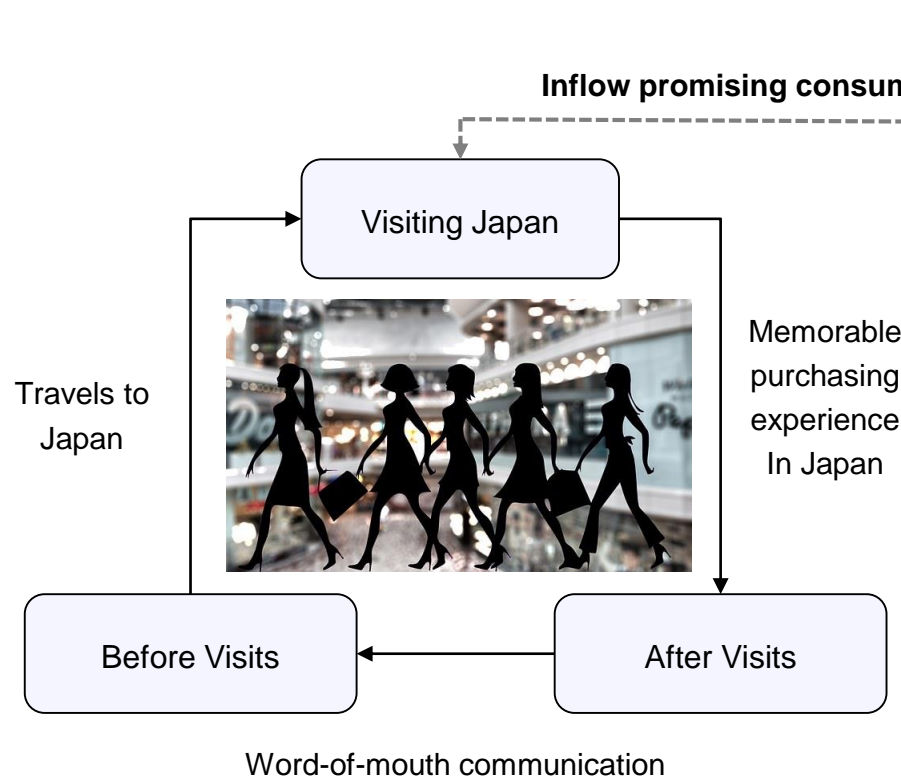


Reference (2): Repeat purchase of foreigners visiting Japan

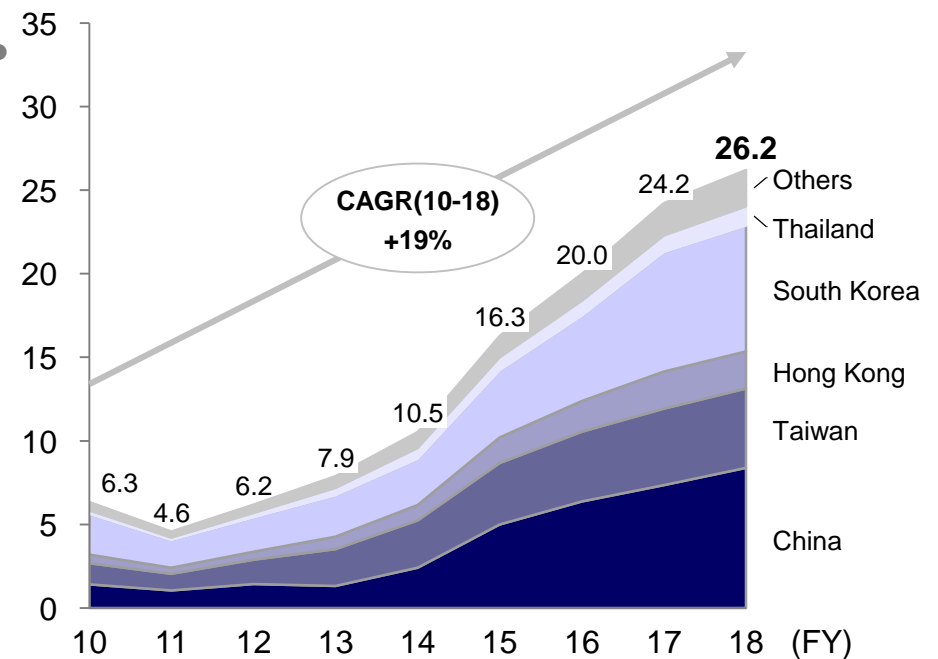
- The increasing number of tourists visiting Japan enjoy a shopping spree and then clearly has a positive impacts on the purchase phase of “after visits” and “before visits”.

Good cycle of purchasing Japanese products

Increase of tourists in Asian region visiting Japan

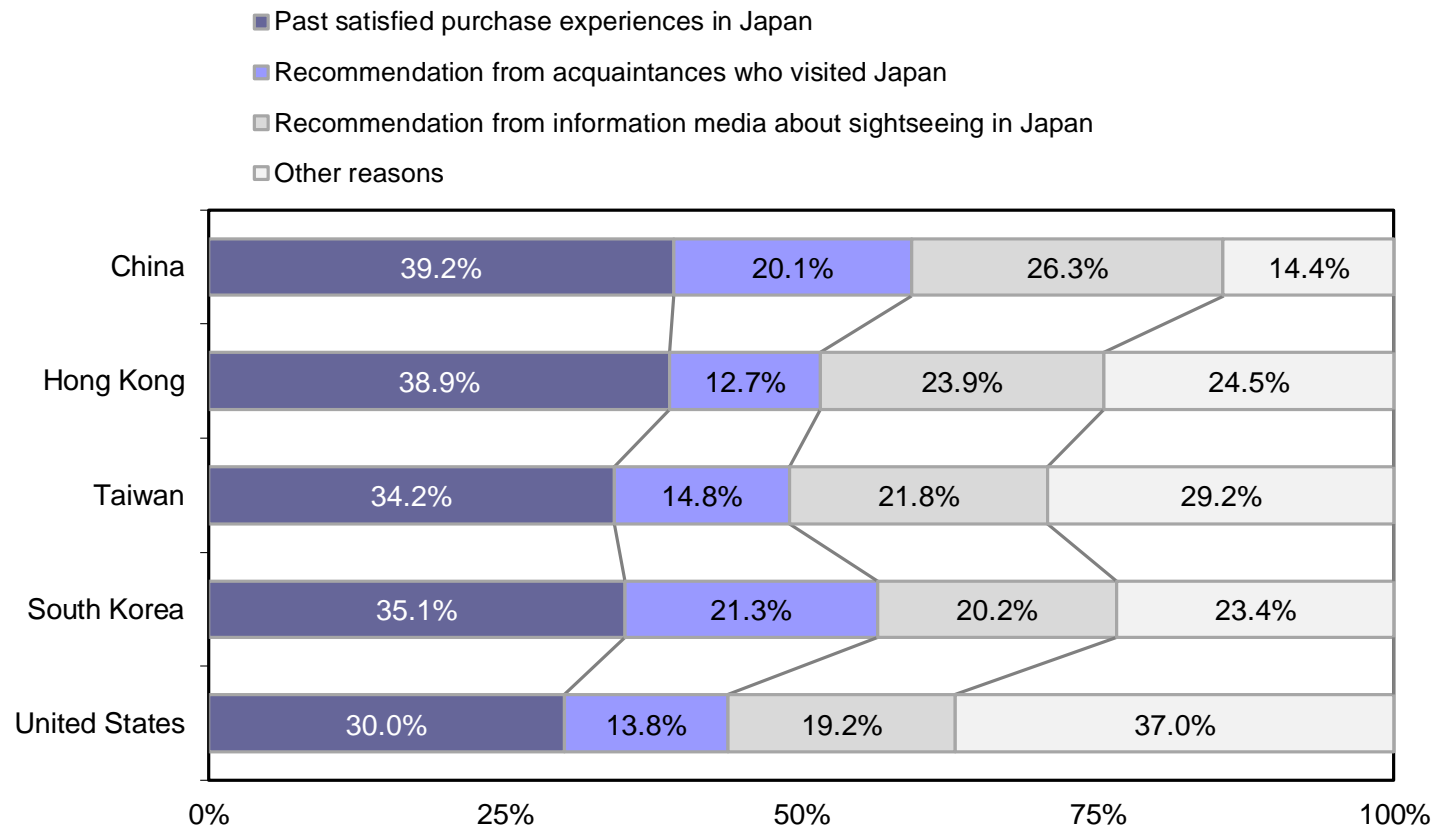


(Million Visitors)



Reference (3): Repeat purchase of foreigners visiting Japan

- The past purchase experience in Japan, or word-of-mouth communication from relatives and acquaintances who have visited Japan have a positive influence on the purchase at the cross-border EC site.



Marketing Activities

Marketing Activities

Conditions to consider in expanding cross-border e-commerce business in Asia Pacific region

- Japanese merchandisers would be required to design strategic marketing process to capture the strong cross-border purchasing demand of consumers in Asia Pacific region.

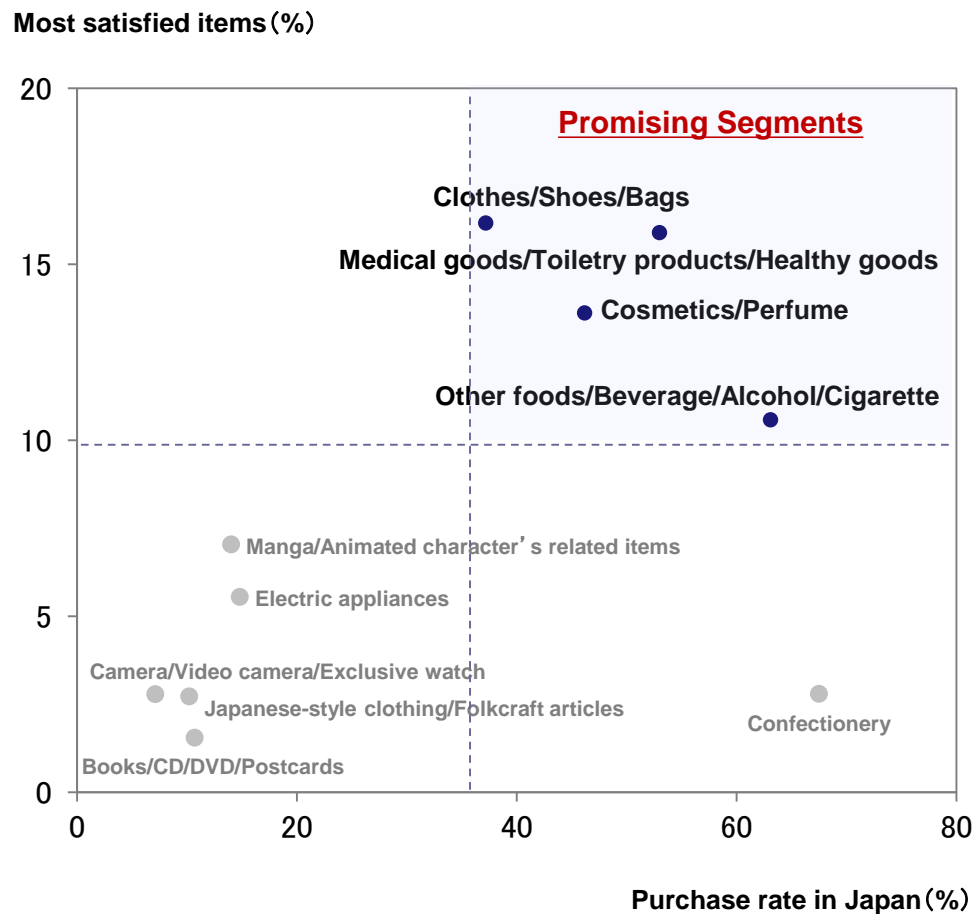
Marketing Process	Overview
Product & Price	<ul style="list-style-type: none">• Product categories already sold well to tourists visiting Japan and with higher level of satisfaction would be 1st candidate to expand through cross-border e-commerce sites.<ul style="list-style-type: none">✓ Of course, there are differences in suitable products by countries, so sellers would be required to consider product categories tailored to characteristics of the countries• In addition, sellers need to care about price elasticity because cross-border e-commerce specific expenses such as overseas transportation costs and customs* would weaken the price competitiveness compared with local similar products.
Promotion	<ul style="list-style-type: none">• Sellers with lower awareness would be required to widen the upstream part of the marketing funnel compared to products that are already sold well for tourists in Japan<ul style="list-style-type: none">✓ There is a huge difference in the promotion method between products that are already popular among tourists visiting Japan and products that are not.
Place	<ul style="list-style-type: none">• Cross-border e-commerce is an excellent channel for capturing customers “before visit” and “after visit”. On the other hand ideally, in order to maximize the business, sellers would be required to develop strong sales channel combined with inbound market due to creating seamless flow between inbound and outbound.

*Customs duties vary depending on the country and products, so it would be required for the companies which consider overseas expansion to investigate before actual product sales.

Marketing Activities

Product & Price: Product category

- Product categories with higher purchase rates and higher satisfaction levels should be considered first when expanding through cross-border e-commerce sites.
 - Among products meet the above conditions, products already expanded and sold well at local stores would not be suitable for cross-border e-commerce.



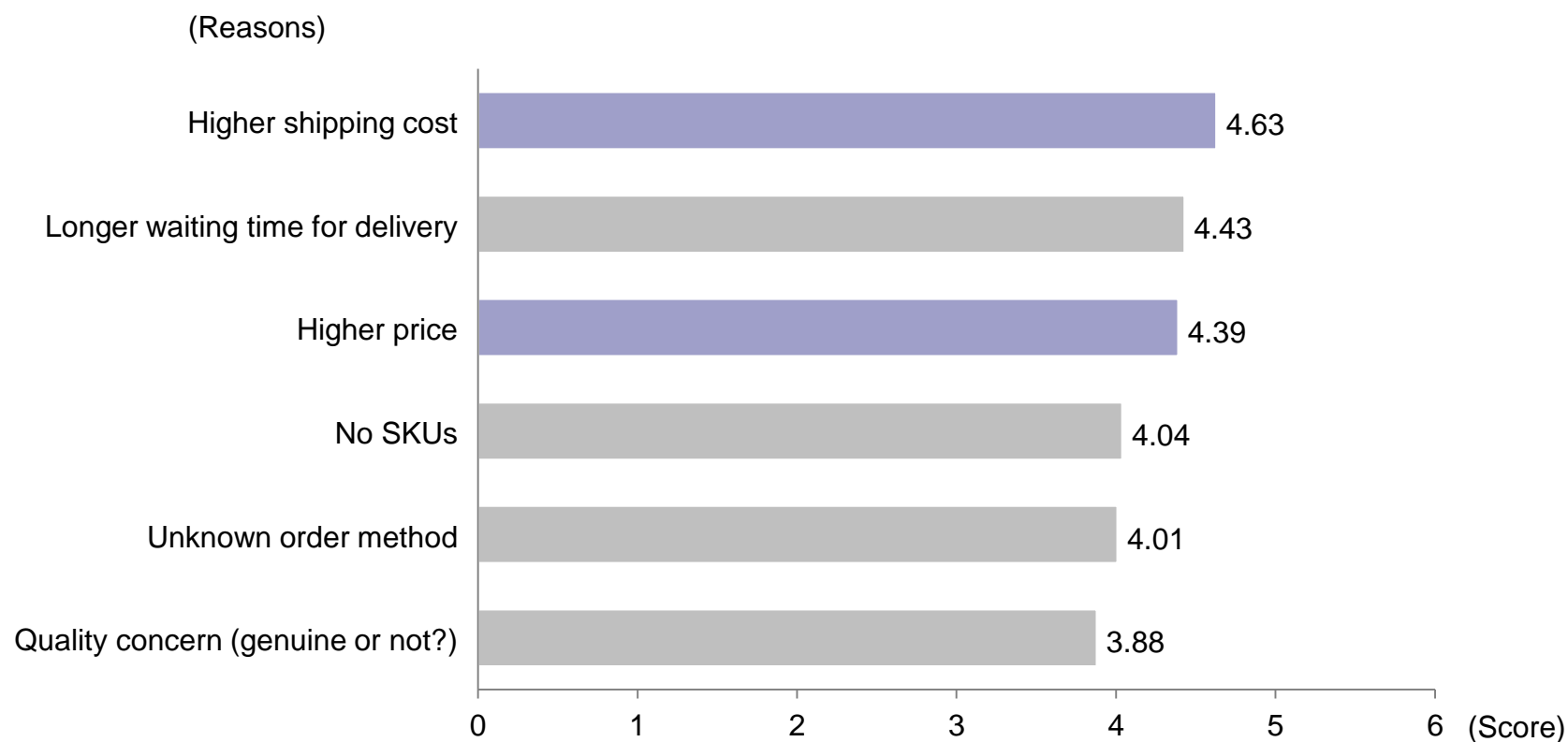
Source: Japan Tourism Agency 「Consumers Trend of Foreigners Visiting Japan (2017)」

Marketing Activities

Product & Price: Price Elasticity

- As cross-border EC specific expenses such as overseas transportation costs and customs weaken the price competitiveness, sellers would be required to care about the price elasticity before actually listing the products.

【Purchasing obstructive factors at cross-border EC sites; N=600】



* On a scale of one (=Not at all true) to six (=very true)

Source: Mizuho Information&Research Institute, Inc.「Survey on repurchase intent of Japanese products for foreigners visiting Japan (August, 2016)」

Marketing Activities

Promotion

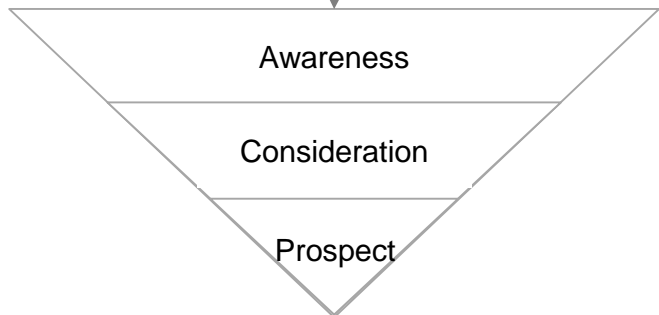
- Companies which sell products in Japan but not popular for tourists need to plan and implement basic marketing activities steadily in overseas market to newly create “good cycle” of purchasing activities.

Popular products among tourists visiting Japan

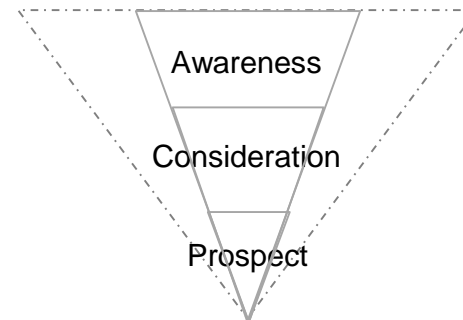
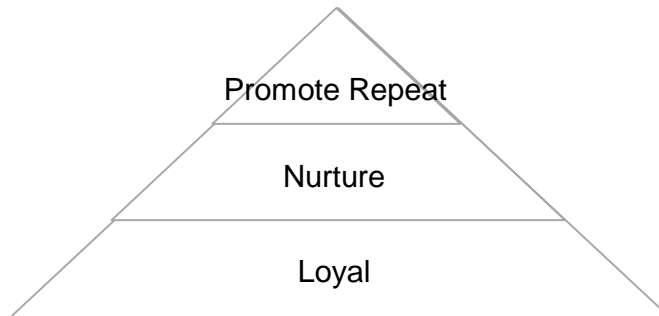


Lower-awareness products among tourists visiting Japan

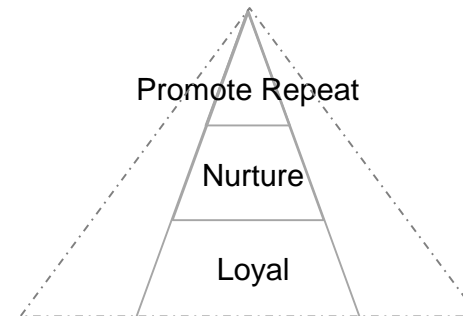
Inflow promising consumers



Purchase



Purchase



Marketing Activities (e.g.)

- Mass Advertisement
- SNS Advertisement
- Product Sampling
- Listing Advertisement
- Pure Advertisement
- Dynamic Advertisement



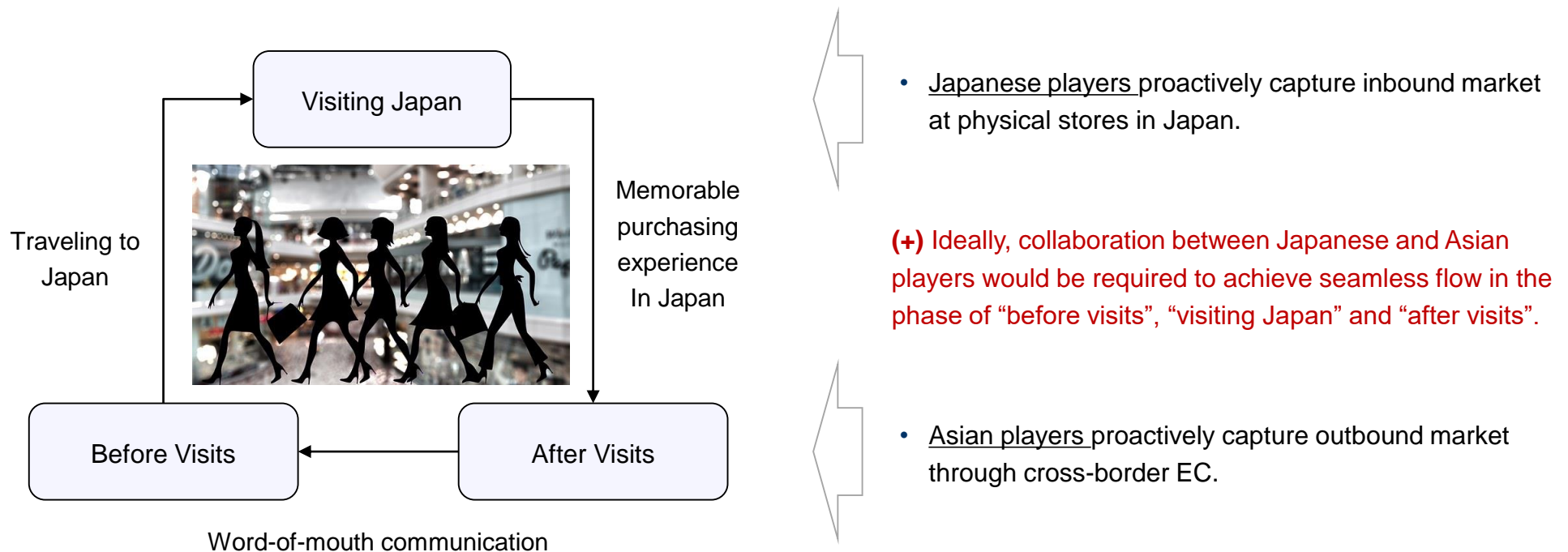
- ✓ Products with lower awareness among tourists visiting Japan would be required to conduct additional activities to expand upstream of marketing funnel.

Marketing Activities

Place

- Not only Japanese but also Asian players would be required to develop the strong channel structure in cooperation to entice consumers in whole phases since they could complement each other's area of expertise.

“Good cycle” of purchasing Japanese products



At the conclusion...

- Many Japanese merchandisers are looking forward to strengthening cross-border e-commerce business in Southeast Asia because further strong market growth would be expected.
 - Southeast Asian market is considered promising as “China +1 Market” among overseas business managers of Japanese companies.

- The key factor for success in cross-border e-commerce business is an appropriate choice of reliable partners. Due to the nature of cross-border e-commerce, many Japanese companies which consider overseas expansion through cross-border e-commerce will be SMEs (Most of large-sized Japanese companies have already operated business in overseas markets with their own marketing units). They tend to have a shortage of key resource and capabilities in overseas market, so have difficulty running smoothly without a reliable partners that complement scarce areas of Japanese merchandisers.
 - On the other hand, there might be more cases where large-sized Japanese companies utilize cross-border e-commerce sites as tests prior to the actual product development in Asia Pacific region.

- Ideally in the near future, both Japanese and Asian players should aim for achieving the seamless purchasing experience for customers due to developing common customer base to share necessary information in the inbound/ outbound markets in Japan and Asia Pacific region.

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