E-BUSINESS

Japanese Experiences With B2C E-Commerce

Can innovative partnerships increase store traffic and improve the retail revenue stream?

A four-year study of Japanese business-to-consumer (B2C) e-commerce initiatives reveals the innovative ways Japanese corporations exploit traditional aspects of Japanese business and consumer retailing — specifically, the consumer's preference for paying with cash and the willingness of corporations to form cooperative alliances (the keiretsu model) — to further develop the potential of B2C e-commerce.

The focal point of these particular research findings? Japan's convenience stores, where services, such as bill paying and the sale of ready-to-eat fast food, have played a far greater role in the overall business than in the United States.

"The sophisticated information technology required to support these traditional offerings means that the Japanese convenience store has entered the e-commerce era with some previous experience in practically every aspect of e-tailing — from deploying IT to analyzing customer needs," says William V. Rapp, professor of international trade and business at the New Jersey Institute of Technology School of Management in Newark.

He and Mazhar ul Islam, research and teaching associate at the International University of Germany's School of Business Administration in Bruchsal, are co-authors of Putting E-Commerce To Work: The Japanese Convenience Store Case, a May 2003 working paper from the Columbia University Center on Japanese Economy and Business. The authors relate how Seven-Eleven Japan Co. Ltd. (SEJ), Lawson Inc. and other convenience-store chains have been expanding the scope of their offerings to include portions of the e-commerce and mobile-commerce value chains. The goal: to increase foot traffic and promote cross-selling in existing outlets at marginal cost. Their case studies integrate analysis from previous research with responses from questionnaires and direct interviews.

Many early B2C e-ventures failed, say the authors, because they added little value to the customer proposition. "Early e-retailers provided limited supply chain coverage," says Rapp.

In densely populated Japan, however, convenience stores are continually adding products and services that attract customers, even if these activities do not contribute directly to the bottom line, according to the authors' findings. Carrying as many as 3,000 items, these tiny stores also serve as venues for courier services, payment of online shopping bills (in Japan 75% of Internet purchases are paid for with cash at convenience stores), automated teller machines and travel services, all of which depend on robust information systems and logistics infrastructures developed in IT-based alliances that the authors term "e-retsu."

In quickly raising capital and pooling the principals' business and technical expertise, the authors say that the e-retsu structure supplements the relative scarcity of venture capital and "free agent" mid-career staff in Japan, while leveraging the investors' research-and-development and brand recognition. Providing its own products, services and expertise to the venture, the e-retsu partner's B2C activities are a significant part of the value-added chain.

The two leading Japanese convenience store chains illustrate the potential of such an approach to e-commerce.

SEJ and its parent company, Ito-Yokado Co. Ltd. (IY), work with other companies to create new ventures (eShopping! Books with Softbank, Tohan and Yahoo! Japan) and, to exploit economies of scope and scale, provide their services to others. For example, the 3 million customers of Japan's largest virtual mall, Rakuten Ichiba, can pay for and pick up purchases at SEJ stores, which 75% of IY's own Web shoppers already do, according to IY reports.

Largely independent of the Internet, the e-commerce support system used by IY and SEJ is an extension of an existing sophisticated, proprietary satellite-based IT network. For now, say the authors, SEJ prefers the direct control and competitive barriers that its proprietary IT approach creates.

Not far behind SEJ in terms of e-commerce activities, according to the authors' findings, is Lawson, which has developed a multichannel e-commerce system based on the Internet, mobile phones and multimedia kiosks. Lawson's in-store multimedia kiosk, called Loppi, relies on technology from IBM Japan Ltd. to provide a range of entertainment items. Ever intent on expansion, in September 2003, Lawson announced a strategic alliance with Nikko Cordial Securities Inc. to provide securities-related services through these same kiosks.

"It's clear that the convenience store-based, e-commerce model is working and growing in Japan, supported by large firms with real resources," Rapp says. "However, we continue to follow these endeavors closely, because most of these e-ventures are still losing money."

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