

Crisis impact on mature economies' sectors: Luxury in Japan

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Abstract

The purpose of this paper is to present an exploratory analysis of the current situation and the future of Japan's luxury market in the wake of the March 11 2011 Tohoku triple catastrophe, following the "lost decade" of the 90s and the 2008-2009 world financial crisis, and to consider their possible consequences on one of the leading markets in the world for western luxury brands. This research relies on a review of the literature as well as on 10 expert interviews and on a questionnaire of a sample of core luxury consumers in Japan.

We first describe the concept of luxury in the Japanese context as well as the Japanese luxury market, then we examine the impact of changing consumer behaviors in the face of internal and external shocks, and finally, we formulate a first assessment of the sector's possible evolution in the medium term.

As limitation of space puts a damper on owning large homes, condominiums or big cars, and yachts are something that most Japanese office ladies in their early 20's and 30's are not able to afford, luxury as defined in this report are items that can be worn or carried : clothing, accessories, and cosmetics.

Key words: mature economies, economic crisis, natural catastrophe, luxury sector, country attractiveness

Introduction

Three assumptions could be initially made about luxury in Japan (Atsmon et al., 2009):

- The country was once a “sacred cow” to many Western luxury brands. Yet in recent times with the slowing down of the economy with the succession of the early 90s bubble bursting opening the “lost decade”, and the more recent 2008-2009 world financial crisis, Japan has been losing its previous attractiveness.
- It is also one of the most mature luxury markets where a rapid change in consumer behavior can be observed, as far as consumers are becoming more frugal and much more selective. It seems to be running ahead of anybody in terms of demographic, economic and sociological evolution and could provide an interesting benchmark for mature economies.
- Japan has been one of the most experimental fashion markets in the world. Many key brands – such as Louis Vuitton – use the Japanese market to test innovative marketing solutions (products, services, distribution formats...) bound to be duplicated elsewhere in the world and more specifically in Asia where it remains, more than ever, the reference point.

The Tohoku crisis could have created new conditions to previous crises (Salsberg & Yamakawa, 2011), whose consequences could be explored, following a three-step process:

- the first emphasizes, beyond the universal features of the luxury sector, the background of luxury in Japan, its origin, and definition;
- the second examines the impact of the successive crises which have hit Japan during the past twenty years on consumer behavior.
- the third, relying on a series of 10 interviews with luxury experts¹ and on a questionnaire of a sample of core luxury consumers in Japan², and on a few studies performed by consumer trend research companies³, focuses on the early consequences of the Tohoku earthquake on the luxury sector in Japan and its managerial implications.

¹ Executives from global luxury groups, marketing directors and fashion magazine editors specializing in the Japanese market and additionally sales staff from luxury brands specializing in Japanese consumers both in Tokyo and Paris

² On-line questionnaire with 42 respondents of both male and female who have purchased a luxury product within the last 12 months; ages from 30 to 45 constituting the core luxury clientele in Japan

³ See “reports” in the bibliography.

1. The Japanese luxury background

1.1. From universal attributes of luxury to local specificity

Universal attributes of luxury

Although the concept of luxury is not socially neutral but rather one defined by each society, there are some universal attributes to luxury which provide a global standard. Luxury can be an extreme expression and elevated notion of **sensory pleasures, prestige, design, exclusivity and craftsmanship** (Sicard, 2006):

- The most important aspect of luxury is the emotional one. Desired to the extreme. Luxury is **hedonistic** and **symbolic** in the sense that it must be an object that creates illusions of intimacy and deep satisfaction. It does so by offering a multi-sensory experience (visual, sound, smell taste and touch) (Kapferer & Bastien, 2009). Thus utilitarian precision is less important.
- Luxury brands cannot exist without a **history**. It must show the uniqueness, something that sets them apart from others, while being the original and authentic lineage to the brand's claim. What is important about history is that it can become the source of the brand's social idealization. Just being old does not automatically make a brand luxury, but through myths and legends, it can create the qualities that bring value and prestige to the brand and timelessness to its objects.
- A luxury product is **derived from the spirit of the creator**. It is the expression of a style, a creative identity of the creator. This identity must be consistent over time and across the brand's different range (*ibid.*).
- Thorstein Veblen, the famous economist theorized that luxury is what is most demanded and desired. They are products where demand increases as the price increases. Luxury capitalizes on the concept of **exclusivity and rarity** to create this demand. There are 5 types of rarity: rarity of ingredients, innovation (new technology), limited editions or custom-made products, rarity by selective distribution, and rarity of information (celebrity selections and scoops) (*ibid.*).⁴

⁴ Rarity of ingredients is an important factor for luxury, but the mass-luxury market has somewhat stepped away from this particularity of rare materials. However, they compensate this aspect by creating limited series and custom made products. It is important for the luxury brand to make the product seem barely attainable and maintain an appearance as exclusive. In addition to its price barriers, a client must go through a long wait to obtain a Hermès bag, which increases even more acutely the desire.

- Aspects of craftsmanship add to the image of tradition, prestige and attention to detail (radiator grill of a Rolls-Royce or a Birkin bag by Hermès). It depicts a strong image of rarity and preciousness. The value of hand crafted products is the long lineage and history of the **savoir-faire** of a brand, which is why the **origin and cultural roots** are important. This guarantees their authenticity and attraction, their mystique and luster and increases perceived value (*ibid.*).

Globalization may have created a link between cultures, but it also emphasizes the particularity of a culture's roots that make that product special. A luxury product from Europe, for instance, is deeply associated with a specific culture and its traditions and savoir-faire by people from cultures or countries (i.e. Asia) which acknowledge its qualities and support its success (Chadha & Husband, 2006).

Local perceptions of luxury

Although there is a global understanding of luxury, the concept and codes of luxury are **different according to culture**. A CEO of a new startup company in Beijing may not have the same criteria as a successful artist in New York or a French politician with a summer house in Cannes. Localization is an important factor in the internationalization and marketing of luxury (Dubois & Laurent, 1994).

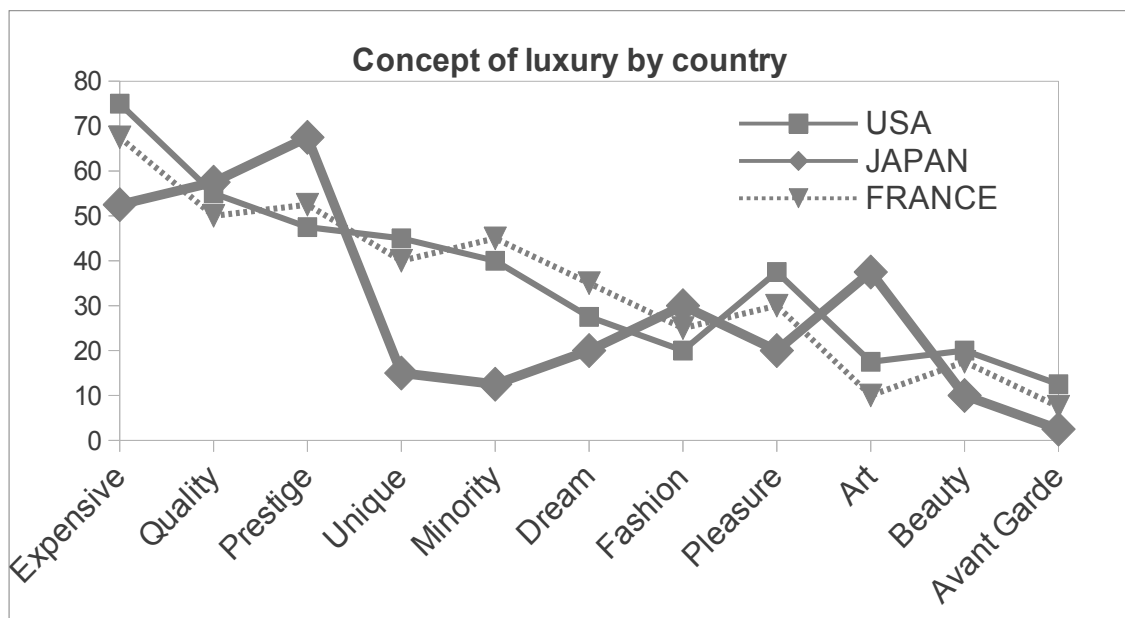
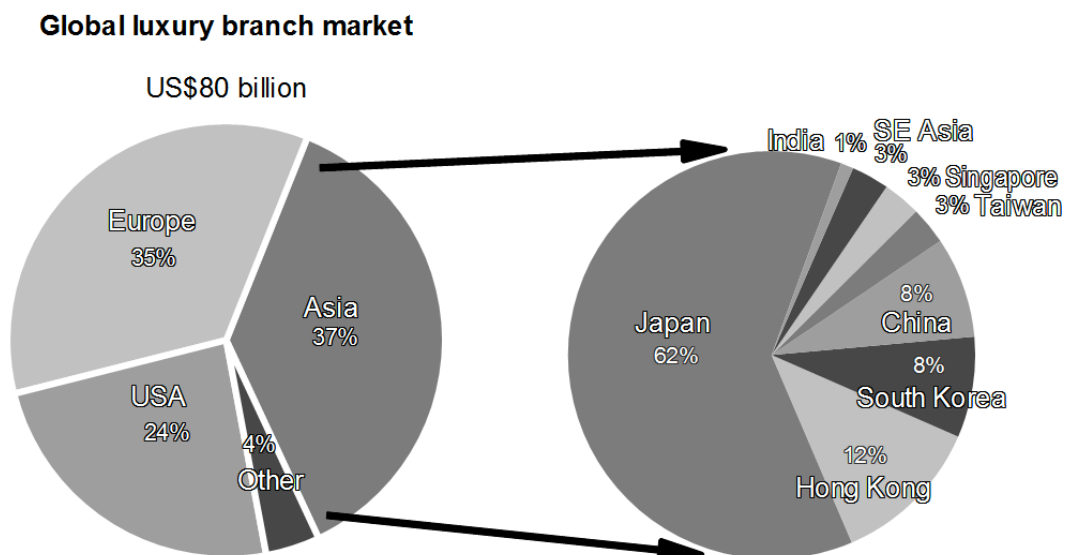


Figure I.1 Concept of luxury by country (Source: Dubois & Laurent, 1994)

- **France** is considered the mother of modern luxury; however, the luxury market cannot rely solely on the French. It is a country of connoisseurs where history, expertise and detail are respected. Luxury is consumed as a pleasurable experience - i.e. gastronomy. The French hold a vision of luxury as intimate, and wealth should be hidden. Flaunting luxury or one's wealth is considered an insult to the poor, but since it is also a source of steady jobs, it has been accepted and even respected in supporting jobs (Kapferer & Bastien, 2009).
- With the **U.S.** aspiration of the pursuit of happiness, consumption is considered the answer to happiness. It is believed that efficiency and comfort are the way for progression and superiority and exceptional qualities are regarded important. Pedigree is valued but when there is no heritage; "meritage" is good enough (*ibid.*).
- In **Japan**, attention to detail and quality are important. Showing of success and status through luxury is used for integration, but in a discreet fashion as showing off is disrespected. Lastly, as in France, Japan has a long history of artisan culture, hence tradition and savoir-faire are appreciated values (*ibid.*).

1.2. An overview of the Japanese luxury market



From the rise from zero to a society of luxury addicts in only three decades, Japan's climb is a startling case study of what can possibly be expected in other emerging Asian markets and beyond.

Figure II.1 Global luxury branch market (Source: Chadha & Husband, 2006)

Supporting factors of consumer society in Japan

There are two main factors that helped the explosion of the consumer society of Japan.

- **One big happy middle class:** Significant increases in wages for the so-called white-collar workers amplified the spread of the middle class. This middle class played a leading role in developing the mass consumer society of Japan. The advent and growing middle class consumer boom prompted a major **change to the distribution system**. Aspiring for economic progress and material wealth, Japan became a consumer society. One contributing factor was the **absence of social class distinction** regarding consumption. There was no taboo in whatever people wanted to buy. An agricultural worker driving a BMW, an office lady with a Louis Vuitton bag or a salary man in an Armani suit, were considered normal (Aoki, 1996).
- **“New is Good”:** The particularity of Japanese consumers is that there is a general consensus that “new is good.” Looking at the rapid rate of renewal of car models or mobile phones, and the constant launch of new models and the thirst for all things trendy is incredible. It is undeniable that this passionate obsession for everything new has supported the Japanese economic growth (*ibid.*).

Another factor which adds to the phenomenon of consumerism in Japan is the tradition of gift-giving. Twice a year (seibo and chugen) Japanese exchange gifts with those with close relationships. It is considered a code of etiquette and is a custom to show respect. The culture of buying souvenirs (omiyage) for the extended family, neighbors and work colleagues whenever one goes on a trip also boosts demand.

The golden age of luxury

From the 1970's there was a general consensus that European products were of better quality than those of Japanese origin, bringing about the love for European luxury goods in Japan and eventually evolving into an emotional and social attachment. European luxury became a status symbol and a badge of social acceptance (Atsmon et al., 2009). Contrary to many other luxury markets, luxury products were more a part of the predominant middle class rather than the upper class which is typical elsewhere.

Along with the growing love for European brands, the 1970's and early 80's was also a period where Japan produced a boom of daring designers. Designers such as Kenzo Takada, Kansai Yamamoto, Issey Miyake, Yohji Yamamoto and Rei Kawakubo shocked the world with styles that the fashion world had never seen before (Chadha & Husband, 2006).

In the 1970's, Japanese shopper-tourists became a phenomenon and continued to grow through the 80's and 90's. European luxury brands took note of this **luxeplosion** and began installing shops in Japan. Gucci opened its flagship store in 1972 in Tokyo, and Louis Vuitton in 1978 (ibid.). In 2002, Louis Vuitton sales in Japan was \$1.4 billion, accounting for one-third of its global sales (CNN Money, 2009).

The development of luxury points of sale boomed as Japanese tourists expanded their scope of travel destinations. One could say that it was the Japanese tourists who helped jump start the luxury retail market all throughout Asia. Price tags and sales staff were prepared and trained to serve these luxury-thirsty clients. With the economic growth and prosperity, the government collaborated by being willing to ease policies towards luxury goods. There are more shops in Tokyo or Hong Kong than there are in Paris, London or New York⁵ (Atsmon et al. 2009). According to JP Morgan, more than 80 percent of Louis Vuitton's boutique on Champs-Élysée sales is made by global tourists. (Chadha & Husband, 2006).

From the second half of the 80's, the market was inundated with new products. It is also during this time that the market of western luxury products exploded in Japan, and the **golden age of consumerism** began. It was a period unprecedented in Japan, where consumption was, both, a source of joy and virtue. There was an abundance of expensive products such as cars, large screen televisions, and clothing by famous luxury couturiers. A handful of the most popular European luxury brands profited greatly. **The western luxury brand market doubled** in turnover in merely two years going from 376 billion yen in 1988 to 826 billion by 1990. By the 1990's one in three women owned an article of luxury in Japan (Akabane & Saito, 1996).

With the economy booming, a new generation was born. Frugal living ethics endured by their hard-working parents were no longer necessary. Money was flowing and spent as easily as it was made. The new clients were younger, however with a smaller financial capacity. They were not after the show-off attitude of haute-couture, but after the lighter spirit of ready-to-wear and accessories. Big cars and homes were not their concern, they wanted tangible goods that could be carried or worn. Thus began the era of "you are what you wear" (Chadha & Husband, 2006).

⁵ Store locations on brand's website: Hermès 15 in Tokyo - 3 in Paris. In a country with less than half the population of the US, the number of luxury boutiques in 2009 per brand were :Burberry 75 in Japan compared to 32 in the US; Hermès 64 to 30; Prada 35 to 15; and Bulgari 31 to 17 (Atsmon et al., 2009).

The economic boom and urbanization set fire to retail development which provided an infrastructure necessary for luxury brands to enter and expand. It began with **department stores** such as Isetan, Mitsukoshi, Seibu and Takashimaya. These mammoth institutions were a one-stop destination that fulfilled all needs and desires for retail, food and entertainment. Strategically located nearby train station hubs, their ability to attract traffic was massive. As many Japanese consumers were not very confident in them-selves at this point and didn't know how to apply the new arrival of European brands, it was the role of the department stores to guide them. They trusted the department stores and were confident in whatever they bought at a well respected establishment like Mitsukoshi. Hence for luxury brands, the department stores provided an educational space for clients to have first-hand access to luxury products and its implied lifestyle. Ken Young, a sociologist, claims that the experience gained wandering through the department stores was an important learning lesson in luxury consumption behavior and in choosing the right brands and products to help create the desired identity and status (*ibid.*).

As ready-to-wear and accessories became important, even necessary, in order to expand into the new market, **licensing and franchising** increasingly became common methods for many luxury brands. However because licensing carries the high risk of damaging brand image and quality, many brands like Yves Saint Laurent began to take back control of many of their licenses by the early 2000's (*ibid.*). Brands began to centralize production and control and to tighten the vertical integration of the value chain. They regained control from beginning to end: design, production, marketing to retailing. Cost control became a hot topic and rapid growth was a must since many brands had become public and had to answer to the stock market.

The new strategy of growth and distribution control created a spur in building elaborate stand-alone shops. **Fashion cathedrals** of several stories sprung up in Tokyo. Prada in Aoyama is a six-floor futuristic glass construction. La Maison Hermès building built in 2001 in Ginza, one of the most expensive shopping districts in Tokyo, is an 11-floor 6,000-square meter building which includes retail space, workshops, offices, a space for exhibition and multimedia, and a roof garden.⁶ The architect Renzo Piano known for designing the Pompidou Centre in Paris, was inspired by Japanese traditional lanterns. He used specially fabricated glass blocks to create a classic yet innovative look, something like a well-crafted jewelry amidst the neon lights of the Tokyo metropolis.

⁶ See "galinsky" in the Bibliography.

Such elaborate boutiques were a space where clients could experience the perfection of service and operation, and create an intimate relationship with the brand (Chadha & Husband, 2006). The construction of flagship stores also triggered a change of retailing in Japan by taking lead in the development of brand new shopping districts. Omotesando used to be a quiet residential area known for small art and cultural galleries; today it is Tokyo's Champs-Élysées, a shopping avenue lined with internationally recognized luxury brands. Roppongi Hills, a 29-acre mini-city built for US \$4 billion in Tokyo, offers an array of shopping malls, restaurants, a movie theater, an art gallery, a hotel, office spaces and a residential complex.⁷

Brands like Christian Dior used this as an opportunity to reinvent their identity to cater to a younger clientele which fit well with the relatively younger Japanese consumers of the time (Chadha & Husband, 2006).

Japanese luxury consumers

Typical Japanese luxury consumers are disproportionately **women over 35**. Japanese luxury consumers are largely divided into two groups: the traditional 45 and older and the under 45 trendier segment. An important sub-segment of the younger group is the **parasite singles**, women between the ages of 20 to 35 who hold a full time job while continuing to live with their parents thus holding a substantial dispensable income (Atsmon et al., 2009). It is at first glance an odd phenomenon, for most of these consumers are not particularly wealthy.

With a push from the strong yen during the Bubble economy in the 1980's, young employees, especially **office ladies**; female office worker generally performing pink and white collar tasks, began frantically buying from luxury houses such as Louis Vuitton and Chanel. They rushed to make international travel and went out to dance clubs at night in their tight body fitting dresses, and went on shopping sprees at every opportunity. Department stores, in unison, rearranged their stores in order to stimulate these consumer desires (Akabane & Saito, 1996).

The universal concepts of luxury, as mentioned above, can be found within the Japanese luxury clientele, but their relationship to the brands and their attraction to luxury are slightly different. As shown in Figure I.1, Japanese consumers associate *prestige* and *art* with the concept of luxury. On the contrary, *uniqueness*, *minority* and *avant-garde* are much less important. They are connoisseurs and they value reputation, which is why such brands like *Cartier*, *Hermès* and *Louis Vuitton* are among the favorites of Japanese consumers.

⁷ See "Roppongi hills" in the bibliography.

With political, social and economic changes, the Japanese got rid of the dusty social hierarchy defined by birth which held sway in Japan for centuries, and suddenly classification was determined by how rich one was (Chadha & Husband, 2006); this signaled a shift from a cast-system to a class-system endowed with mobility. Hence luxury became a new protocol, where one's identity and self-worth were determined by the visible brands one was wearing. We can go on to say that a new and different social class system now exists where a Hermès bag or a Van Cleef and Arpels watch indicate where one stands in society.

Thus luxury has an essential function of recreating social stratification in a democratic style. The codes of luxury replace the lost or diluted hierarchical codes to give a new sense of position and superiority in society. Within the realm of financial constraints, people are now able to recreate and re-define themselves as they desire. Thus luxury is a symbolic extension of the desire to belong to a superior class (Kapferer & Bastien, 2009).

Social class can therefore be purchased and social integration remains very important. Department stores and flagship stores by Western luxury brands demonstrate international lifestyles, which represent success and a better living to the Japanese. Products of these brands are symbols to indicate that they too belong to such universe. In Japan, luxury is therefore a symbol of integration. It hence explains the reason why many office ladies in Japan own the same model of Louis Vuitton bag. Too much rarity would disrupt the value of the brand as a status marker.

In modern Japan however, as most of the populous is in the middle class, differentiation of social stratification by luxury is less useful. People seem to use fashion as a way of rejecting social stratification, and rather as a way of expression of their own self and to acknowledge those with similar understandings (*ibid.*). It became a kind of **identification** among the crowds of anonymous faces and a guide in social choices, where people could identify other members of their "tribe."

Important attributes of luxury in Japan

It should be mentioned here that the pure sense of luxury is different from "premium" products, notably "masstige" – short, for "mass-prestige." These are products targeting the mass; they are positioned over conventional products and priced lower than luxury products. Upper-premium brands must be more price/utility/quality efficient, they follow a more traditional marketing where positioning and market demand is deeply considered (Silverstein & Fiske, 2003).

However, it is indeed the Japanese 'middle class's members who invented this category of 'masstige.' This hybrid of prestigious brands at accessible prices helped boost the image of middle-range products to capture the demand of trading up. (Kapferer & Bastien, 2009) Thus it is important to keep in mind that though premium products are not real luxury, the line between the two has blurred within the Japanese market.

Within the universal attributes of *pleasure, exclusivity, design, prestige* and *craftsmanship*, prestige and craftsmanship, are the most important for the Japanese.

- *Craftsmanship:*

With the legacy of the *shogunate* and the imperial family, Japan also has a long history of luxury. Emperors' elaborate clothing, accessories, architecture, and furniture resulted from an accumulation of skills going back hundreds of years, and were made with elaborate processes and fine materials. There was a deep influence by Chinese high-quality fabrics, particularly silk (for kimono), lacquer wear and ceramics. Due to this historical background, the Japanese understand and respect the value of heritage and the skills and knowledge that are acquired through time. But Japan never quite achieved the same level of luxury industry as the West because of historical and cultural transitions.

With the Meiji restoration, kimono transformed into Western style clothes. With the devastation of war, industrialization, and modernization, many craftsmen lost their jobs to foreign competition and larger firms who had the means of automating their fabrication processes. With Westernization, people began to distance themselves from the old ways which took time, manpower, and cost. For example, Japan used to boast a flourishing silk industry, but the industry was taken over by the rise of competition by cheaper Chinese silk and improved quality of synthetic fibers (Hays, 2009). But there remain some Japan-kept treasures. Many are protected by the government designated as *kokuhō* or **Living National Treasures** certifying people who are preservers of important intangible cultural properties of Japan. Japanese traditional artisanal culture has *ryūha* (school or house). In the arts, such differences in principle are distinguished by the style of each strain. Artisanal products such as paintings, pottery, or silk have a long heritage of famous artists and so their know-how and style are known by the founder's name, similar to many Western luxury brands.

- *Prestige through logo:*

One of the reasons for the great success of Louis Vuitton in Japan, besides the legitimacy coming from a source of value from the elite fashion capital, Paris, is cultural symbolism. The LV monogram designs created in 1892 which have become the staple or classic line of the company, are taken from the *ka mon* or signs of Japanese heraldry. Europe was in the midst of the era of *Japonism*, when Japanese aesthetics was making a big impact and was influencing many artistic creations of that period. This was taken by the Japanese clientele as a sign of genuine value as a brand with history and prestige (Kapferer & Bastien, 2006). Family emblems, which were traditionally used to distinguish and show class standings, were incorporated everywhere from kimonos, mirrors and swords. Therefore, the “logo-fication” of luxury products was natural to the Japanese and practical as a status-defining purpose (Chadha & Husband, 2006).

2. The changes of the Japanese luxury sector and of customer behaviors facing internal and external shocks

2.1. Successive internal and external shocks

The phenomenon of the “bubble” began in February 1987 and abnormal growth continued through 1990. Inflation of the yen had already started by the end of 1985. Fearing a degradation of profits made on exportation, companies invested in real estate and stock to restore equity. The government also made efforts to focus on internal demands and reduced interest rates, which in effect tripled the value of stock prices and real estate (Yamaki, 1994).

During the bubble economy, product life became shorter and shorter. New products were being introduced into the market at a rapid pace. Consumers were throwing away still usable products to replace them with newer models and broken appliances were never repaired. Study by Hakuodo shows that in 1990, 40% of purchases were excessive buying, 36% impulsive buying and 24% whimsical buying (Akabane & Saito, 1996).

After the 1980's there were signs of declining consumer interest and a shift towards saving (Yamaki, 1994). This undercurrent resulted in the creation of the economic bubble and boosted a change in consumer behavior within those who benefited, and eventually led to its destruction.

One of the effects of the burst of the bubble was the widening of the gap between social classes, i.e. between asset owners and the rest of the population. With the loss of assets, the population with money also lost its buying power, which accelerated the slowdown in consumption and triggered an eventual collapse of economic growth in Japan (*ibid.*).

The fall of the economy resulted in a slump in industrial production and many companies reduced personnel, restricted working hours, cut bonuses and salary, and also began to consider remuneration according to performance rather than seniority, which itself was based on the traditional system of life employment. These changes created insecurity for the future, which led to a significant decrease in consumption.⁸

Japan was confronted to the serious problem of building an economic system based on something other than on excessive expansion: the design and implementation of quality in products and the improvement in the quality of life, avoiding *karoshi*⁹ and moving out of small housings known as “rabbit hutches”, became much more important (Aoki, 1993).

Another reason for the slowing consumption during that period was the general **satisfaction of the standard of living** achieved by the Japanese. By 1955, they had regained the same level as pre-war Japan, by 1980 it was equivalent to that of Europe, and by 1990 it was the same as the United States, thus losing the momentum and goal that had been sustaining the growth of the nation for the past 40 years (Yamaki, 1994).

Through its history, Japan experienced numerous massive transformations politically, socially and certainly economically, changing traditional ways of thinking, self-identification and social status. Beyond the “bubbles” described above, which can be considered internal economic phenomena, Japan has also suffered external shocks like the world financial crisis of 2008 and an impressive series of major earthquakes. The Great East Japan Earthquake of 2011 is considered the worst traumatic catastrophe since the Second World War and has once again altered Japanese consumer behavior.¹⁰ But nothing has yet turned the Japanese away from their appetite for luxury.

In fact, recession had begun in the early 2000’s (Atsmon et al., 2009). With the appreciation of the Euro, retail prices hiked up, leading to a shift in consumer attitude and behavior in Japan.

⁸ 1-8 Etude du comportement N° 12, p17. Centre de Recherche de Dentsu, 1994.

⁹ In the late 1980’s during the bubble economy, the phenomenon known as “**karoshi**” (death from overwork) began to appear in the media. Japan’s rise from the devastation of World War II to economic prominence in the post-war decades had pushed the Japanese to a point of extinction by exhaustion. This new phenomenon was immediately seen as a new and serious threat for people in the work force (Aoki, 1993).

¹⁰ **The Great Hanshin Earthquake of 1995:** Approximately 6,434 people lost their lives. It was considered Japan’s worst earthquake since the Great Kanto earthquake of 1923, which claimed 140,000 lives. Damages cost ten trillion yen (\$100 billion), 2.5% of Japan’s GDP at the time.

The Great Global Recession of 2008: Instigated by the bankruptcy of the investment bank Lehman Brothers Holdings. Characterized by various systematic imbalances, it affected the entire world economy.

The Great East Japan Earthquake of 2011: With a magnitude of 9.0, the earthquake hit the North-Eastern coast of Japan on March 11, 2011. It was the most powerful known earthquake ever recorded in Japan. The earthquake triggered powerful tsunami waves devastating entire regions and causing 15,844 deaths according to the National Police Agency of Japan. It also caused a number of nuclear accidents affecting hundreds of thousands of people in the evacuation zone and triggered global contamination concerns.

2.2. Consecutive changes of Japanese consumer behavior

Remaining strongly anchored to social institutions (school or work), the Japanese became more aware of the importance of their personal life (outside of work). There was a shift in self-identity in relation to society. They evolved in both their state of mind and in their behavior and lifestyle: “individualism”, in a positive sense, gradually took root (Mizuno, 1997). The “We” which previously took precedence, was replaced by the importance of the quality of “life” (both material and spiritual). Emphasis was put on free time, personal desires; people showed interest towards others, the society and altruism. They no longer made sacrifices for their country or society, as seen before the war. The time when the Japanese fiercely worked was over. The myth of Japan as a stable great power collapsed and companies and consumers began to question what true wealth was, and what was essential to them (Akabane & Saito, 1996).

The global recession of 2008 and 2009 hit the industry hard, but 2010 was showing signs of hope and 2011 began with a brighter promise. That was until the terrible natural and nuclear catastrophes of March 11 which are now referred to as the country’s worst crises since World War II. Many, especially those in eastern Japan, took upon a voluntary restraint mentality known as “**jishuku.**” A survey by McKinsey highlighted a drop of 10-20% in sales in the luxury sector since the disaster. Coach reported losing \$20 million in quarterly sales directly affected by the catastrophe (Salsberg & Yamakawa, 2011). According to a study by Yano Research Institute in 2010, the market shrank to \$9.94 billion in 2009, about half the size of its peak in 1996. The distinct shift is toward Asian mainland and South East Asia. European luxury companies have all seen a drop in sales in the Japanese market and sharp increases in the other Asian markets. This shift in the growth of the luxury market away from Japan is due to the long perpetual recession and the aging society. Another reason lies in fundamental changes in consumer behavior, especially towards luxury goods.

With recession, the luxury fashion and apparel category is getting hard hit, especially with new entrants taking over market share with remarkable speed. Looking at the McKinsey surveys from 2009, attitudes toward “fast fashion” and luxury seems to fluctuate depending on the economic state. The proportion of those who “**don’t feel the need to buy luxury brands because more affordable non-luxury brands offer good enough style**” increased to a high percentage of 25% in 2011, 12% in 2010 and 21% in 2009. Those who thought showing off luxury goods was considered bad taste increased to 49% in 2011, compared to 24% in 2010 and 31% in 2009 (Salsberg & Yamakawa, 2010).

The gap between the HNWI's (High -Net -Worth-Individual) and the middle class is becoming wider, and the middle class is sinking closer to the less affluent. In the 2000s, there was a wave of free market reforms that widened the disparities between haves and have-nots, and by 2007 the Japanese society which had predominantly been mono-middle class was polarizing and was becoming a **class society** (Shimizu & Nakamura, 2007).

What used to be the luxury day trippers of the West and Japan, who used to sustain the luxury market up until the 2000's, have now transformed into frequent shoppers from China and Pacific Asia (Kapferer & Bastien, 2009). This is due to the rising optimism felt by developing economies where income is perceived to be increasing and people feel richer, as opposed to the Western and Japanese middle classes with their income stagnating or even decreasing. They are less optimistic and more worried about their future, which has put a break on occasional consumption of luxury. They are keeping their aspirations, but are much more conscious of their spending and uneasy of their instability.

Towards a new Japanese consumer taxonomy

- *Bi-ma-Jo*: The term (□□□) “beautiful witch” is given to women who are over 35 years old who have both brains and maintain a manicured youthful beauty. It comes from the fact that they are “beautiful as if they were bewitched.” The term was first introduced by the fashion and lifestyle magazine “Bi-Story.” Offering women in their 40's “tips to stay beautiful,” or “diet to be beautiful from the inside” soon became a social phenomenon. Beauty contests were organized and broadcasted on national TV which ignited the boom. These “beauty witches” strive to balance work, family and fun. They go out with their friends and family to restaurants, frequent luxury boutiques and feel it a reward or a need, or simply a pleasure to invest money on them-selves¹¹.
- *Youth*: Youth is estimated to account for approximately 25% of luxury consumers according to a specialist of a leading luxury brand. We have found that there are changes, from conformity to self-assertion; there is now a cult of mixing high-end brands with “fast fashion” within the youth and from spending time outside to “nesting” and an increased awareness for one's “well-being.” They certainly have not lost their taste for luxury, but their budget for luxury is far less than that of their predecessors¹².

¹¹ Interview with Mioko Iwai, Shueisha.

¹² Interview with Emmanuel Prat, LVMH Japan.

Consumers in their **20's appear more cheerful** than other age groups among luxury consumers who have changed their shopping behaviors. A year ago in the McKinsey survey, up to 22% of 20 year olds were “willing to pay full price” for luxury products. In their more recent survey in 2011, they were the biggest age group buying more often and switching to higher brands. Perhaps because they have never known the Japanese economy booming, one more recession may not seem much of a damper to them hence the relative stability in their buying behavior.

- *Ageing with Grace:* Contrary to the youth of Japan with declining fertility, the fastest growing aging population in the world will see its population of 60 and older rise from 27 percent to 44 percent by 2050¹³. These ageing baby-boomers are showing the biggest change in consumer behavior but in disfavor to the luxury market. They showed to be the biggest age group which traded down to cheaper brands (Salsberg & Yamakawa, 2011).

Behavioral evolution

The Japanese consumers used to be quite different from their counterparts in the US and Europe, but these days they are starting to look more and more alike. They used to prefer high-end department stores and expensive supermarkets and were willing to pay a lot for quality. Their adoration of luxury products created the mass-luxury market and owning expensive luxury products, especially a limited edition was considered a must (Salsberg, 2010). The new Japanese are slowing down and looking for value. A survey by MyVoice Internet in 2009 found that a majority of respondents declared that they were more likely to “spend time to save money.”

¹³ See “Transgenerational” in the Bibliography.

- *Nesting*: Japanese were known for not spending a lot of time at home due to long working hours and limited living space, but this is changing. A trend of *sugomori*, or “**nesting**” where people spend more time at home had been detected even before the March 11 devastation. Especially after the tsunami, their domestic activities have increased. More people are surfing the internet, enjoying watching TV, reading the newspaper and listening to music. Consumers are generally staying closer to home especially in the aftermath, thus changing shopping behavior patterns. Particularly in eastern Japan including Tokyo avoiding shopping in central Tokyo and choosing to shop in the close vicinity to their home (Salsberg & Yamakawa, 2011). It seems that consumers opt to satisfy their needs in more of the experiential services like eating and entertainment rather than shopping.

I prefer spending money on experiential services than luxury products



Figure II.1 online quantitative survey to Japanese consumers

They are not willing to spend less, or treat themselves less, but rather the spending has been redirected. What expense they would have spent on international travel is spent on domestic travel and staying at high-end hotels enjoying better service and pampering themselves at spas and restaurants¹⁴. These are the same people who used to go on cheap international package tours while skimping on hotel accommodation and food to spend more on shopping (Chadha & Husband, 2006). Additionally, the majority of their customer base is relatively well off Japanese women between 35 and 55 year old, which overlap with the core luxury clientele, thus more companies in diverse sectors are chasing after the same purses (Atsmon et al., 2009).

It also appears evident that there is a measurable shift in the geographical area of shopping activity toward the city periphery, resulting particularly from the wealthy suburban buyers with great reluctance to return to the city center where store sales have significantly declined since the Tohoku disaster¹⁵. Consumers have also become anxious to sit through services which take a long time, such as facials or massages due to fear of aftershocks (Koshige, 2011).

¹⁴ Interview with Mioko Iwai, Shueisha.

¹⁵ Interview with Emmanuel Prat, LVMH Japan.

- *Tightening of purse strings: less frequent and more selective:* The HNWIs from Japan remained the most conservative in the world and held 55% of their aggregate portfolio in fixed-income and cash/deposit vehicles at the end of 2010, up from 48% a year earlier and above the global average of 43%¹⁶. This indicates that people with cash continue to exist but they have become more selective with their purchases.

The disappearance of life-long jobs (security) and an increase in part time jobs and temporary jobs are heightening anxiety. The JWT Anxiety Index 2011 shows Japanese at 91% and the most anxious or nervous people in the world (Price, 2011).

With the economic downturn, people are spending less. They are eating out less frequently and salary men are even bringing boxed lunches to work and have been given the name “bento-danshi” or lunch box men (Salsberg, 2010). According to the McKinsey 2009 report, they give reasons such as declining income, fewer needs and occasions to use luxury goods and better offer from non-luxury brands for the slowing luxury consumption.

Many consumers however believe that **livening consumption will help rebuild** the economy in times of crisis. The **watch and jewelry market has shown resistance** due to two different reasons: in the wake of the earthquake and continued aftershocks, many consumers were fearful of being alone and regaining family values, which has led to a **boom in engagements and marriages**. The second reason is because watches and jewelry are one of the few luxury products that can be worn and **brought along in case of evacuation** (Koshige, 2011).

Even with a grim outlook, many experts are holding **optimistic forecasts**. Most believe that Japan will remain in the global top-three market for luxury in the predictable future. Specially when purchases by Japanese outside of Japan are included. The Chief Executive of Christian Dior, Sidney Toledano remarked that luxury sales in Japan were improving to post-earthquake levels in a speech he made in April. He commented “I am sure Japan will recover...They love luxury, they love what we do and I believe in our long-term relationship.” (Ferris-Rotman & Astrasheuskaya, 2011). In a survey by McKinsey in May 2010, the predilection to purchase luxury products by Japanese buyers remained relatively high, closely following China and Korea and far ahead of the US or Europe.

¹⁶ See “Capgemini” in the Bibliography.

Japan will be one of the **world's only mature "fast moving" luxury market** due to the particularity of the Japanese clientele who have affinity to quality, novelty and exclusivity and middle class consumers in general have a higher purchasing power than their counterparts in other mature markets.

The government holds serious debt at about 100% of GDP, but the Bank of Japan has ensured financial institutions to fund recovery efforts. Japan will slowly alter its export-oriented economic strategy to face a more open Japan and the government is currently considering joining the Trans-Pacific Partnership (TPP), a multilateral free trade agreement that aims to further liberalize the economies of the Asia-Pacific region. This will intensify local competition and improve opportunities for more efficient operations (Bremmer, 2011). Several months after the disaster hit the archipelago, survey results show that **desire to have luxury products by Japanese does not seem to have disappeared.**

3. Possible evolution of the Japanese luxury sector

3.1. Early observed reactions from Japanese Luxury core consumers

Contrary to other reports, the online survey of Japanese consumers showed that the majority of respondents intended to continue purchasing regardless of the economic downfall.

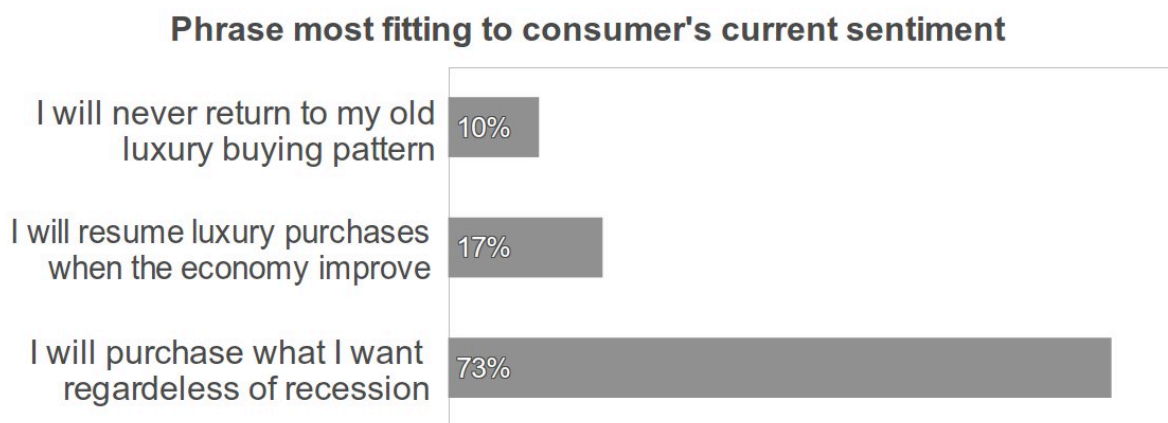


Figure III.1 Online quantitative survey to Japanese consumers

Only a year ago, in the 2010 McKinsey survey, more than 20% of consumers reported to have increased their purchases of luxury items of leather goods, accessories, watches and jewelry because many came to understand and **appreciate the value** of owning or wearing a luxury product. Other reasons were from **seeing others** who increasingly purchased luxury goods, and the convenience of buying luxury items (Salsberg & Yamakawa, 2010). But those purchasing less frequently in the leather goods, accessories, watches and jewelry feel that there are fewer occasions to use luxury products and this reason may be prevailing to the current situation in Japan.

Showing off is a quality poorly regarded by Japanese society. Though there are differences by region, generally speaking only subtle signs of wealth are socially accepted (Chadha & Husband, 2006). Especially in a time of hardship, it is a Japanese virtue to appear modest and in harmony with the rest of the community.

Among 1,300 Japanese luxury clients surveyed by McKinsey in 2011, 20% indicated that they were less interested in buying luxury products immediately after the incident. Showing off luxury goods was considered bad taste by an increasing portion (49%) compared to 2010 (24%). However this restriction may be temporary. In fact 38% thought that consumption should continue to aid the Japanese economy.

More justification necessary for luxury purchase



Figure III.2 Online quantitative survey to Japanese consumers

According to the online quantitative survey, more than 56% of the respondents said they were **willing to pay full price if the products were exclusive or limited**. McKinsey, reports that the percentage was only 12% in the US and 8% in Europe. This is a continued trend we can trace back to the bubble generation and a general characteristic of the Japanese who love new and exclusive products. As luxury appeals to the trendy, modern taste of the age, it must also be timeless at the same time. **Limited and special editions** serve well to satisfy both demands (Salsberg & Yamakawa, 2010).

Quality and durability were important in reasons for purchasing luxury items. Retailers must increasingly reassure their customers that their purchases are a wise choice as they are asked more questions by buyers on **sustainability** of products and **charitable** efforts made by the brands.

Aid to help Japan is now a common motivation

Efforts to support the reconstruction of Japan by luxury brands can be a motivation to purchase from the brand



Figure III.3 Online quantitative survey to Japanese consumers

A high majority of the online respondents agreed that efforts made by luxury brands to support reconstruction can become a motivation in buying from that brand. Almost 30% of respondents in the McKinsey report believe that luxury companies “have an obligation to use some of their profits to support ongoing quake relief efforts.” Ever since the March 11 disasters, customers are increasingly applying such reasons in making their final purchase decisions. People felt guilty purchasing luxury brands in the aftermath, and the magic word that dissipated that feeling was “charity” and “donation.” If even a portion of one’s splurge could help with the reconstruction and aid for the victims of the tsunami it was a reason to be able to enjoy shopping once again.¹⁷

3.2. Major areas of change

- *Changing shopping venues:* The two main distribution channels until recently were department stores and stand-alone company-owned boutiques. In recent years, development in distribution channels for **premium outlet malls** has improved perception. Premium outlet malls account for about 23% - 29% of purchase frequency and growing. This is pushed by the growing value seeking customers and also by a sharp reduction on highway fees to maximum 1,000 yen (\$12) regardless of distance on weekends since March 2009.¹⁸ This became a significant incentive to take trips outside of Tokyo to big discount stores and outlet malls.

¹⁷ Interview with Mioko Iwai, Shueisha.

¹⁸ See “Highway fees” in the Bibliography; the 1,000 yen-cap has since been abolished.

- *Receding presence of Department stores:* Department stores used to be the principal source to access the newest luxury items. With an increasing number of manufacturer-owned stores, outlet malls and Internet, department store sales plummeted and have been forced to merge for survival (Makino, 2010). It used to be that people trusted the department store buyers' taste and recommendation, but now that people have more confidence and seek their own style, there's less importance for department store staff to provide consultation. Customers prefer to be pampered by their favorite brands' sales staff rather than department store staff.

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Immediately following the earthquake in March, Japanese department store sales dropped 14.7 percent from the previous year in March to 462.4 billion yen (\$5.7 billion), according to the Japan Department Stores Association. The drop in sales was due to the aftermath of the triple catastrophe which caused stores to cut their operating hours and deal with rolling blackouts. Reports of contaminated food and water further dampened consumer sentiment and consumers were reluctant to spend. Additionally, many refrained from spending in respect for those who lost their lives in the tragedy, and were only purchasing bare essentials (People's Daily, 2011).

Department stores sales continue to decline (2.4% decline in September from the previous year), however they continue to represent 50% of luxury sales across all categories (excluding apparel). On a positive note for department stores, sales of luxury jewelry goods saw an increase of 1.1%.²⁰

There seems to be some movement of client return seen in department stores especially by younger customers. This is mainly due to strategic efforts to retain client interests and traffic by leasing out their space to fast fashion brands such as Uniqlo and Forever 21 (Kageyama, 2010).

¹⁹ Interview with Akiko, Printemps.

²⁰ See "Japan Department Store Association" in the Bibliography.

- *Increase in international travel retail:* Almost 25% of the McKinsey survey respondents had purchased their luxury product outside of Japan in the past two years. Reasons are due to less expensive prices and also because one of the most popular reasons for international travel is to shop at high-end luxury stores.²¹ The recent bolstering of the yen has intensified the price difference, and Japanese clients are now able to easily compare prices on-line and through fashion magazines. Benefiting from this trend, there has been an increase in duty-free purchases in Japan, Korea and North America (Europe had dropped from 22% in 2010 to 19% in 2011). Korea and Hawaii were the most popular destinations in 2010 followed by Europe and Hong Kong/Macau. The Japanese luxury market is about 25% larger than announced if overseas sales are taken into consideration (Salsberg & Yamakawa, 2011).
- *Going green:* According to a survey by J. Walter Thompson, a global advertisement firm, 51% of Japanese consumers are somewhat or much more focused on environmental issues compared to the previous year. Many consumer goods have made a business success tracking this trend such as I LOHAS (Lifestyle of Health and Sustainability) water by Coca-Cola which promotes reduced carbon footprints, or Levis with their “Water<Less” jeans reducing the use of water in the production of their jeans.²² However only 16% of the respondents in a McKinsey survey in 2010 expressed willingness to pay more for green products.

Ecological impacts, greenhouse gas emission footprints and sustainability concerns have become a trend in recent years in Japan especially since concerns for sustainable development have risen after the Tohoku earthquake. Japan reduced its electricity consumption over the summer, but this was a direct response to the government’s demand to support the country in the aftermaths of the disaster. A number of products that support the reconstruction have already been introduced by luxury brands.²³

Conclusion: Current and Future Trends

Despite the dark cloud which has over shadowed the land of the rising sun for the last few decades, and the ten months since the great tragedy of the Tohoku Earthquake, shopping districts like Aoyama and Roppongi are regaining momentum. Luxury cars like Mercedes-Benz and BMW are everywhere in the city and people are still flocking to renovated shops and malls.²⁴

²¹ Interview with Emmanuel Prat, LVMH Japan.

²² See “Levi’s” in the Bibliography.

²³ Interview with Kenji Aizawa. Manager for Online Marketing for a French Luxury Brand.

²⁴ Interview with Mioko Iwai, Shueisha.

Other positive changes can be seen in the luxury service sector, with a boost in luxury spas, hotels, domestic travel and restaurants. People are also moving back into the city allowing for more access and business to urban services.

- *Japan as a reference point: Fashion in Action:* “Japan is still seen as the window for trend setting in Asia (and the world),” says Caroline Thomas who has been working as a regional director for a European luxury brand in Japan. Japanese luxury market remains an important trend setting reference point for other Asian markets and the world. Japanese street fashion has been recognized by the world for its sense of style and *avant-garde*. For this reason, Japan will remain a testing ground for new and innovative styles and products. Bernard Arnault, the CEO of LVMH describes Japan as a “global reference market, a unique laboratory of creativity and innovation (Arnault, 2010).”

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Roberto Cavalli, an Italian luxury brand recently opened its first flagship store in Aoyama, Tokyo. It has been a project of theirs for a long time and finally they decided to launch. With decreasing land prices and a changing brand scenery, this may be the best moment for new brands to enter the tight Japanese market.

- *International Hub:* The renewal of Tokyo’s Haneda Airport allows for increased international flights, a vast shopping and restaurant arena to experience the best and the trendiest things that Tokyo can offer and only within minutes away from the heart of Tokyo.²⁵

There are many more areas where fashion and trends continue to be born within Tokyo. Japan remains a destination where *fashionistas* cannot resist stopping by, becoming awed all at the same time.

History repeats itself. This is why it is important to look at what is currently happening in Japan to anticipate the future of the current emerging luxury markets 10 or 20 years from now. Through careful analysis and planning, the luxury sector can continue to expand as it develops and adapts to the needs of each country’s people.

²⁵ See “Haneda Airport” in the Bibliography.

Aside from a record-breaking earthquake, the damages of the tsunami that followed, and a continuing nuclear crisis, the nation has had to deal with collateral damage related to growing anxiety, stumped economy due to a crippled distribution chain, plummeting tourism, and power shortages. But Japan will recover. This can be elicited by the remarkable recovery seen after the Kobe earthquake of 1995. The economy returned to almost pre-earthquake level within 15 months and the cleanup was largely completed within two years. This gives hope to the current aftermath from the Tohoku earthquake and tsunami. As proven with the Kobe incident, the reconstruction of devastated areas will stimulate industrial activity, housing and commercial infrastructures. Luckily, the core industrial area of the country was not severely hit by the devastation, so recovery can be made promptly (Bremmer, 2011).

Though the Japanese luxury market will probably never see the heyday of the 1990's, it is still safe to say that Japanese consumers will continue to buy luxury products as their financial circumstances permit. If luxury brands continue to pay attention to quality, service and promote value by helping consumers justify their purchases through attractive deals, special editions, ties to charity or sustainability, then the industry will surely be able to resist the recent terrible events and any other aftershocks which may follow, in much the same way that it recovered from numerous crises the nation experienced.

Using the vast culture of Japanese artisans can also be a way to revamp the image of Western luxury brands in Japan. As craftsmanship and know-how are important qualities for Japanese luxury consumers, there is no better way than to partner up with deeply respected “*kokuho*” craftsmen to create buzz and to promote support for the Japanese recovery. Tyler Brûlé, editor in chief of *Monocle*, claims that the Japanese are “rediscovering the skills and traditions of Japan’s best craftsmen and a new generation of homegrown designers...employ(ing) ancient manufacturing techniques and ... traditional materials” (Brûlé, 2011). Hermès, through their launch of *Shang Xia*, has created a brand which uses Chinese materials, local production and know-how à la Hermès.²⁶ This business model may very easily be implemented in Japan as well.

Japanese consumers have shown a short memory span regarding hardships. Though the impact of the tragic events of March 11 cannot be dismissed, the Japanese market has adapted and proved incredible resistance in the past and there’s no doubt it won’t do the same today. As the Japanese luxury consumers become more sophisticated, luxury brands must continue to enchant the buyers in order to stay in the game among the world’s most robust luxury market.

²⁶ See “*Shang Xia*” in the Bibliography.

Whether the case of Japan can serve as a reference or precursor to what awaits for other mature economies remains to be seen. Beyond a lower birth rate and the aging of its population, Japan presents challenges of its own due to its insular topography and culture. Future research should identify factors that are specific to the Japanese culture rather than common to luxury buyers regardless of nationality.

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