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Electronic Commerce; Books and Music CDs

Introduction

This report covers the business of selling books and CDs over the Internet, as well as related services provided to consumers. Particular emphasis is given to sales, along with trends in both consumer preferences and business practices. In addition, attention is given to major companies recently entering this business, along with details on their current stage of development, as well as the goods and services they offer.

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Yen - Dollar Exchange Rates

Year	Yen / US\$
1996	109
1997	121
1998	131
1999	114
2000	108

Source: Bank of Japan, "Financial and Economic Statistics Monthly"

Summary

According to the “Internet White Paper 2000” published by the Internet Association of Japan, in 1999, 33.2% of those in Japan who had used the Internet purchased something online. Of the items purchased, 26.9% were computer-related hardware products and 26.3% were computer software products, followed by books and magazines at 23.6%.

Books and CDs are particularly suited to sales over the Internet for several reasons, including the fact that a distribution system already exists. Moreover, they are easy to convert to digital form. There is a very large variety of products that sell in small quantities. Also, search functions for titles can easily be utilized. Even though these kinds of products have been sold online since the Internet came into existence, their distribution and sales routes have undergone numerous changes since the end of 1999.

Tohan Corporation, a large sales agent, tied up with Seven-Eleven Japan Co., Ltd. and Softbank Corporation to create a service called “e-Shopping! Books,” which allows customers to buy books over the Internet and pick them up at a nearby Seven-Eleven store. Following this, the large bookstore chain Sanseido Co., Ltd. joined with East Japan Railway Company (JR East) to create a service by which books ordered over the Internet are picked up at convenience stores inside JR East rail stations in greater Tokyo. Outside the publishing industry, “bk1”, using the warehouses of the book-distributing network TRC (Tosho Ryutsu Center) and other distribution routes in stationery retail, began a low cost, same-day delivery service in July of 2000. Clearly, an Internet-based book service battle is steadily emerging.

From overseas, the large German media company, C. Bertelsmann Verlag, which has a superior search engine, entered the Japanese market in June of 2000, followed by the U.S. online book sales giant Amazon.com in November of 2000. How foreign companies deal with the resale and commissions systems that have shackled the distribution system will be closely watched (see II A).

In the CD market, there is anticipation about how issues related to online transmission of music in digital data form and ensuing artist copyrights and royalties will be handled. As a result of the appearance of music downloadable in digital form, the demise of the packaged CD has been predicted. Consumers can make future selections either by listening to CD samples on the Internet and then buying CDs that appeal to them, or by searching the Internet for other CDs from artists whose music they have heard elsewhere and enjoyed.

The book and CD market does not just entail selling products. Rather, extra services that differentiate retailers in the minds of consumers are important. These may include technology for offering contents in digital form, and security controls that protect copyrighted material from unauthorized copying or use. New technologies, services and capital will be required to create the new media distribution networks of the future. These large foreign

companies, with their substantial resources and superior technology, are predicted to enjoy plenty of opportunity in entering this market.

This report discusses the direction of Internet book and downloadable music businesses, which continue to appear, as well as changes in the resale system and artist copyright and royalty issues. The peculiarities of the Japanese market with regard to Internet book and CD sales is also analyzed, and advice is offered to those foreign companies considering entering the Japan market.

I. Market Overview

A. Market Trends for Books and CDs

1. The retail book market

Distribution agents¹ are central to the publishing distribution system in Japan. In 1997, however, the sales of books and magazines through such agents fell from the previous year for the first time since World War II. This trend continued through 1999. In 1999, sales through distribution agents were down 3.2% from the previous year, to 2 trillion 460.7 billion yen. The actual number of books sold has also similarly dropped by almost 100 million books. This shrinking of the overall publishing market is considered to be a reflection of the changes toward increased leisure in the lives of Japanese people.

In recent years, the number of returns from retailers to distributors has been approximately 40% on books and approximately 30% for magazines, both extremely high figures. This system came into being so that book dealers could stock a great many books. However, these high rates of return seem to indicate that the system of being able to freely return books has outlived its usefulness.

Table 1. Changes in Monetary Sales of Books and Magazines, Through Distribution Agents (1997 to 1999)
(Units: billions of yen)

Year	Total		Books			Magazines		
		Growth		Growth	Product Returns		Growth	Product Returns
1997	2,673.4	(0.7%)	1,073.0	(1.8%)	39.3%	1,564.4	0.1%	29.5%
1998	2,541.5	(3.6%)	1,010.0	(5.9%)	41.0%	1,531.5	(2.1%)	29.2%
1999	2,460.7	(3.2%)	993.6	(1.6%)	39.9%	1,467.2	(4.2%)	29.6%

Source: The Research Institute for Publications

Table 2. Changes in Sales of Books and Magazines
(Units: millions of books/magazines)

Year	Books Number Sold		Magazines Number Sold	
		Increase		Increase
1997	875.9	(4.3%)	3,813.7	(1.3%)
1998	813.4	(7.1%)	3,723.1	(2.4%)
1999	791.9	(2.6%)	3,537.0	(5.0%)

Source: Same as for Table 1

¹ These agents are distributors who receive a commission from the publisher for exclusively distributing books and magazines to bookstores.

Looking at changes for each one of the individual sales routes, there is an obvious drop in sales at bookstores, kiosks and bookstands. Co-ops and convenience stores, however, are handling more books, and Internet sales are really growing. These trends are expected to continue.

Table 3. Book and Magazine Sales for Each Route

(Units: billions of yen)

Route	1996			1997			1998		
	Sales	Market Share	Growth	Sales	Market Share	Growth	Sales	Market Share	Growth
Bookstores	1,840.2	68.2%	3.6%	1,775.7	66.3%	(3.5%)	1,708.6	65.3%	(3.8%)
Exports	22.9	0.9%	2.1%	22.2	0.8%	(3.3%)	21.2	0.8%	(4.3%)
Co-ops	54.3	2.0%	0.3%	55.1	2.1%	1.4%	57.2	2.2%	3.9%
Installment selling	20.7	0.8%	(4.6%)	20.2	0.8%	(2.4%)	20.0	0.8%	(1.0%)
Bookstands	35.7	1.3%	(6.5%)	32.7	1.3%	(8.2%)	31.1	1.2%	(5.1%)
Convenience stores	439.2	16.3%	6.3%	477.9	17.8%	8.8%	490.7	18.7%	2.7%
Distributors	231.8	8.6%	3.6%	242.3	9.0%	4.6%	238.3	9.1%	(1.7%)
Train station kiosks, etc.	53.3	2.0%	(2.7%)	52.7	2.0%	(1.1%)	50.2	1.9%	(4.7%)
Total	2,698.0	100.0%	3.6%	2,678.8	100.0%	(0.7%)	2,617.2	100.0%	(2.3%)

Source: Shin-Bunka, September 99

2. The CD market

In recent years, large data storage media like DVD and CD that can store data other than music have become available. This report, however, looks only at music CDs, which actually constitute most of the market in terms of volume. In 1998, sales of CDs reached 587.9 billion yen, a 3.7% increase over the previous year. The actual number of disks produced reached 457.17 million, exactly the same (100.0%) of the previous year's production, and over the last few years growth has stagnated. One reason behind the lack of growth in production is the large drop off in manufacturing of 8-cm CDs, sometimes called CD Singles, though regular 12-cm CDs have helped support the market with their growth.

Table 4. Music CD Production

(Units: billions of yen, millions of CDs)

Year	CD		CD	
	Production Value	Percent of Previous Year	Production, Number of Discs	Percent of Previous Year
1996	562.6	102.0%	448.85	102.0%
1997	567.1	100.8%	457.14	101.8%
1998	587.9	103.7%	457.17	100.0%

Source: Based on information from the "Record Production in Japan" from the Recording Industry Association of Japan

B. The E-business Market

1. Internet users

In the 2000 version of the Ministry of Posts and Telecommunications (from 2001, Ministry of Public Management, Home affairs, Post sand Telecommunications) “The 2000 white paper communications in Japan,” there were 27.06 million Internet users in the end of March, 2000 in Japan, an increase of 59.7% over the previous year. These users included those that can send and receive information like e-mail and access Internet web content, not only through personal computers, but also through cell phones, palmtop terminals, home game units, and televisions with Internet access capability. In February of 1999, it became possible to access the Internet with cell phones and take advantage of services with content exclusively for cell phones. By the end of that year, there were 5.71 million confirmed users. The large number of users of this service no doubt was a significant factor affecting the numbers, indicating a rapid increase in Internet users. It is expected that many people will utilize mobile technology to engage in e-commerce in the future.

2. Sales of books and CDs over the Internet

According to a report put out jointly by Anderson Consulting and the Electronic Commerce Promotion Council of Japan (ECOM), operated under the auspices of the Ministry of International Trade and Industry (from 2001, Ministry of Economy, Trade and Industry), the size of the market in 1999 for domestic electronic commerce directed toward consumers was 336 billion yen, with books and CDs comprising about seven billion yen, twice the amount from the year before. That amount can be further broken down into estimated amounts of just over 5 billion yen for books and just over 1.5 billion yen for CDs.

Table 5. Scale of Consumer e-Commerce Market by Product/Industry/

(Units: hundreds of millions of yen, in parentheses: E-Commerce rate by product/Industry/)

Product/Service	1998		1999	
Personal Computers	250	(1.80%)	510	(3.60%)
Books, CDs	35	(0.14%)	70	(0.30%)
Clothing	70	(0.04%)	140	(0.09%)
Food	40	(0.01%)	170	(0.06%)
Hobby	35	(0.03%)	100	(0.08%)
Gifts	5	(0.01%)	15	(0.03%)
Other Products	60	(0.03%)	100	(0.05%)
Travel	80	(0.05%)	230	(0.15%)
Entertainment	15	(0.01%)	30	(0.02%)
Automobiles	20	(0.02%)	860	(0.90%)
Real Estate		-	880	(0.20%)
Finance	15	(0.02%)	170	(0.20%)
Services	20	(0.00%)	85	(0.01%)
Total Exc. Real Estate	645	(0.03%)	2,480	(0.10%)
Total		-	3,360	(0.11%)

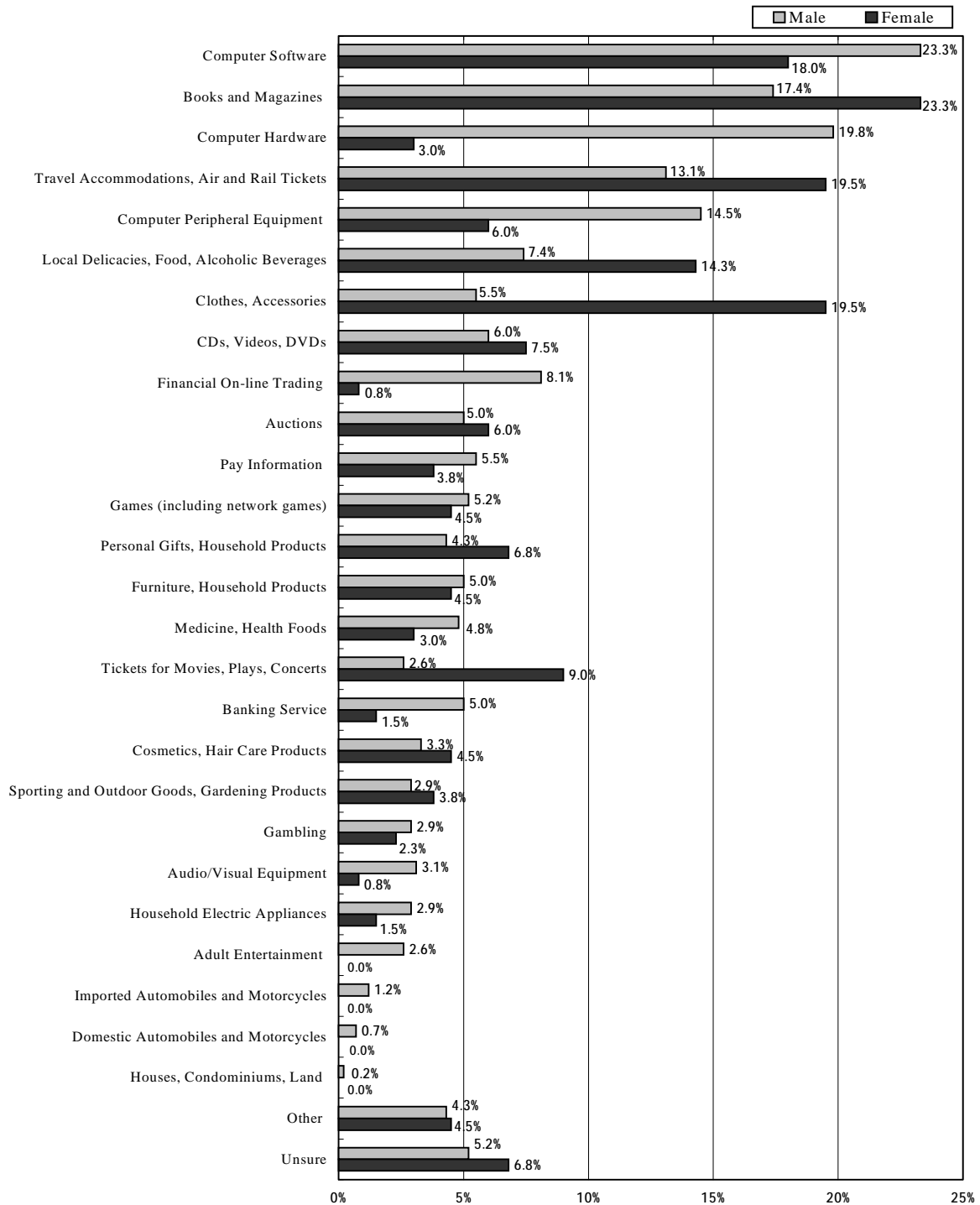
Source: ECOM-Anderson Consulting

Note: E-Commerce rate = E-Commerce transaction value / household expenditure

The market is expected to grow to 4,400 billion yen in 2003, and 6,700 billion trillion yen in 2004, with CDs and books accounting for 147 billion yen (5.3% of the total). The CD and book market is currently in a state of decline, but whether the increased sales over the Internet will increase the size of the market or simply steal shoppers from “real stores” has yet to be determined.

Also, based on the “Internet White Paper 2000,” published by the Internet Association of Japan, figures indicate that 24.6% of all households are now connected to the Internet, and 33.2% of all those who use the online-shopping in February of 2000. Items purchased include computer software (22.1%), and books and magazines (18.8%).

Figure 1. Goods and Services Purchased Online



Source: Internet White Paper 2000

In the “E-commerce Awareness Survey” administered by the aforementioned ECOM, in response to the question “What do you want to buy on the Internet?” the top answer was “books and magazines.” This was followed by tickets, software, music CDs, and electrical appliances, in that order. This gives an indication of how popular online-shopping for books and CDs.

II. Book and CD Businesses on the Internet

A. Internet Bookstores

Books and CDs are particularly suited to sales over the Internet for several reasons, including the fact that a distribution system already exists, large variety of products that sell in small quantities and useful search functions. As such, the number of online bookstores is currently increasing rapidly. In 1999, domestic sales of Japanese books over the Internet totaled almost two billion yen. This is still only a very small part of the overall 1,730 billion trillion yen book market, but the growth of the market is eye opening, and it is likely to continue gathering momentum.

An Internet bookstore can actually take many forms. These can be roughly divided into 1) sites operated by large bookstores 2) sites operated by agents and the business offices of publishers and 3) those entering the market in from some other business. The product is actually received by the customer at an increasingly wide range of places such as convenience stores and train stations, and this has created a new “secondary agent” sector of the business, as well. Although further diversification in these forms is expected, this report will analyze these three major types of bookstore sites. In addition, attention will be given to secondhand books, a market that is expected to experience sudden growth in the near future.

1. Large Bookstores

The first large Japanese bookstore to begin sales of books over the Internet was Maruzen Co., Ltd., with their “Maruzen Internet Shopping” site, which began in December of 1995. In April of 1996, Yaesu Book Center launched their “Yaesu Book Center Internet Shop,” followed in October by the opening of Kinokuniya Co., Ltd.’s “Kinokuniya Shoten BookWeb.”

At February 2000, “Kinokuniya Shoten BookWeb” is the largest Internet bookstore in Japan, in terms of sales. As of February 2000, there were 135,000 members including their “BookWeb Pro” service aimed at Special customers. Their goal was four billion yen in sales for the year 2000. They have a huge selection of books sorted into nine topic sections that span across 150 genres, which can also be sorted by publisher, in what they call the “Hypothetical Bookshelf.” Beyond this, they have also begun what they call their “Hybrid Web Service,” in which customers can order books advertised and in stock at the physical bookstores over the Internet. Using this system, customers can see from their own homes just what is actually in stock and on the shelves at Kinokuniya, and then have orders either delivered, or go to pick them up at the store. It is a remarkable new system that fuses the real and virtual worlds. It also has the advantage of reducing labor at the bookstore, as employees do not need to manually record the

sale of another book into the store inventory database.

In July of 1997, Aoyama Book Center put up their “Aoyama Book Center Internet Shop,” which was soon followed by sites from other major bookstores, including J-BOOK in August from Bunkyo Co., Ltd. “Book Site” in September from Sanseido Bookstore Co., Ltd, and “Junkudo Book Web” in November from Junkudo Co., Ltd..

Many Internet bookstores operated by bookstores are trying to increase the number of pick-up points for ordered books, not only through their actual bookstore network, but also at any other possible locations. For example, “Book Site” operated by Sanseido began a service in December of 1999 whereby customers can pick up ordered books at convenience stores operated inside JR East railway stations.

2. Entry of agents and publishers

In September of 1999, the large sales agent Nippan (Nihon Shuppan Hanbai Inc.), who practically splits the market with Tohan Corporation, started an Internet site called “Honya Town,” (Bookshop Town), allowing bookstores to sell their books on this site. The stock of participating bookstores may be searched and viewed, and tracking records pertaining to orders may be confirmed. This represents the free public release of data which was previously kept between the publisher, Nippan and the retailer, as well as data on store automation (hereafter referred to as “SA”) at the retail level. For retailers, this development supports their entry into the field of Internet sales at minimal cost.

Tohan, together with Softbank Corporation, Seven-Eleven Japan Co., Ltd., and Yahoo Japan Corporation, began a service called “e-Shopping! Books” in November of 1999 whereby ordered books could be picked up at one of 8,000 Seven-Eleven convenience stores all over Japan. With the participation of major agent Tohan Corporation, this operation actually contributed to the breakdown of the traditional three-tiered publisher - agent - retailer distribution system. This development caused great concern among existing bookstores.

Another significant development is that publishing companies themselves are starting up online book sales sites as one means of promoting better customer service. For example, the large publishing company Shogakukan is operating a service in which ordered books can be picked up at one of some 9,500 participating bookshops, or delivered by a parcel delivery service.

3. Entry of other related businesses

Yamato Transport Co., Ltd, the large home delivery company, began a book delivery service in 1996 called “Kuroneko Yamato’s Book Service,” through which books can be ordered

not only from their home page, but also from the i-mode² service on NTT DoCoMo cellular phones. In the first half of 1999, over 151,000 books were sold using the service.

Culture Convenience Club Co., Ltd. (CCC), a national chain of video rental stores with 950 shops all over Japan, in its TSUTAYA franchises, provides information on new videos, DVDs, CDs and game software products on what is called “TSUTAYA Online.” They are planning new expansion into what is known as “clicks and mortar.”³

In July of 2000, Toshokan Ryutsu Center (TRC), Nihon Keizai Shimbun, Inc., Nikkei Business Publications, Inc., ASKUL Corporation, FUJITSU Limited, DENTSU, Inc. and NTT-ME Corporation, seven companies from very different fields, formed “bk1,” the largest book database in Japan.

4. Second-hand bookshops on the Internet

On the “Nihon-no-Furuhonya (Japan secondhand bookshop)” site operated by “The Federation of Antiquarian Booksellers,” with its 2,800 second-hand bookshop members from all over Japan, it is possible to search for and order second-hand books. Presently, they boast 800,000 hits a month on their site.

There are currently 1.5 million titles in Internet bookstore databases. However, only about 600,000 titles are actually in stock and deliverable. Often, when books are sold out or much sought-after, searching at secondhand bookstores is the only recourse. It is expected that the system by which highly sought-after books can be searched for and obtained through the rare book distribution system that is a claim to fame for Amazon.com and Barnes & Noble.com, will certainly be needed in Japan as well.

B. On-line Publishing and Electronic Books

One example of online publishing on the Internet, is “Electronic Book Papyless” started by Fuji Online System which currently has 2,400 titles from 55 publishing companies, and boasts sales of as many as 12,500 “volumes” a month. An i-mode version of Electronic Book Papyless began recently called “Pocket Papyless,” and they are enjoying rapid expansion into the handheld terminal market, as well.

Since online publishing makes it possible to publish as little as a single copy, there has been an increase of services such as on-demand publishing that meets individual needs. Options

² i-mode is an Internet-type network established by NTT DoCoMo that can be accessed through special models of mobile phones.

³ The expression “clicks and mortar” refers to the linking of both an Internet-based business and a physical shop to optimize their respective functions.

and services have sprouted up that take advantage of special conditions, such as allowing free downloading of books for which the copyright has expired.

C. Internet CD Sales and Downloadable Music

“CDNow Japan” is currently doing quite well selling CDs on the Internet. “WEBNATION,” operated by Digital Garage, Inc., is aiming for two billion yen in sales in its first year of operation. The online CD shops operated by large CD retail companies are also visible, but there are many that enter the market from a completely different business, such as Neo Wing Co. and bookstores like J-Book and Tsutaya Online. Also, the large record company HMV Japan kk has tied up with Lawson, Inc, and created a system by which customers can order CDs and other products over the Internet, then pick them up and pay for them at a nearby Lawson convenience store. Service commenced in the middle of November 2000. Prior to this, HMV Japan kk was already achieving about one billion yen a year in sales from its Internet operations, selling CDs and music-related books, which they began in 1999.

In the music world, it is expected that downloading music over the Internet will become more mainstream than buying CDs, since it is simpler and more convenient. At present, despite a number of problems such as downloading speed, and copyright violations from the distribution of unauthorized copies, it is indeed becoming more popular.

Sony Music Entertainment (SME), in December of 1999 created a site especially for downloading music called “Bit Music.” This is one example of a movement toward music downloading. SME now sells all of their new songs through downloading on the site at the same time as the CDs are released. Music can be played through a music portable player or PC, using proprietary technology that upholds copyrights. Also, January of 2001, NTT DoCoMo and Matsushita Communication Industrial Co., Ltd. started a service that enabled consumers to utilize their music downloading service from a PHS phone.

A lot of music downloading is being done on a trial basis at the various Internet CD shops. Tower Records Inc has opened a listening page adapting the Liquid Audio System⁴ and has started an Indies music download service with a new system called “VitShield”. In April of 2000, Avex Inc started a music download site called “@Music.” The site uses the Real Audio Player to allow customers to listen, and uses both IBM’s EMMS⁵ and Liquid Audio system for

⁴ A system developed by Liquid Audio of the U.S. It supports Dolby noise reduction adapted to this system as well as several compression technologies, such as MP3 and AAC. It is a highly evolved system that employs security technology such as electronic watermarking and other software, including the mastering software Liquidfier, the data-checking software Liquidservier, and the playback software Liquidplayer.)

⁵ A music download system developed by IBM in conjunction with five major record companies. It can also be used for moving video images and other applications.

downloading.

NTT Communications Corporation has teamed up with nine large record companies to start “Arcstar Music,” an experimental music downloading service. They have devised ways for a variety of listeners to participate through the use of several kinds of downloading systems, as well as considering each company’s different music delivery systems of each company. Beyond this, there have been many experimental music download businesses in operation, such as “Millennium Big Bang” created by the 15 companies in the BMG Funhouse group, which provides music content from several record companies as its platform. There is a lot of interest in how things will progress in the months and years to come.

III. Related Regulations

A. The Resale System

The resale system enables publishers to restrict the retail prices of publications in stores. This system exists because published products can be considered things that contribute to the knowledge and culture of the population, and it is thought necessary to allow as many people as possible to come in contact with such products, through many retailers, even if economic efficiency is lowered as a result. It is up to the customer to choose which product they want from among a wide range of products, and the publishers and retailers need to guarantee the availability of a wide selection. Some books continue to sell over a long period of time, so stability of price is indispensable. This system is believed to allow a wide range of products to be available over a long period of time and to be as easily accessible as possible.

B. Commission Sales System

The commission sales system for publications followed by publishers and distributors allows retailers to return unsold books to the distributor, so that a wide range of products can be displayed. This practice is not completely separate from the resale system, and as such, the price stability resulting from the resale system makes it possible for bookstores to stock so many items.

Reconsideration of the resale system has been an issue since around 1994. After a recommendation from the Japan Fair Trade Commission in 1998, the free-pricing of books began, along with a time limitation for the resale of magazines. While there are demands for the total abolition of this system, there are still many who strongly support it. However, the time has come to seriously reconsider the necessity of the resale system in light of modern developments, such as the digitalization of publications, the emergence of Internet bookstores and the increasing popularity of new-style used bookstores⁶. Accordingly, it will be necessary to follow these trends carefully.

C. Copyright Issues

Before, according to the Law on Intermediary Business concerning Copyright, the Japanese Society for Rights of Authors, Composers and Publishers (JASRAC) was the sole organization managing the information related to the distribution of music copyrights. Since an approval system was in place to decide what copyright royalties were to be applied to a song or

⁶ These are bookshops that collect new books which are returned and sell them as secondhand books.

applicable product, permission had to be granted by the Director-General of the Agency for Cultural Affairs.

Some in the music industry and some copyright holders had their doubts about the centralized system for managing copyright. Many opinion that in order to embrace the current generation of digitalization and the Internet, and the varied form that copyrights and royalties will take, the old approval system and centralized system for managing copyright are outdated and potentially very detrimental. Also many thought that modern technology should be utilized and that a system that allows artists themselves to handle copyright royalties over the Internet should be implemented.

In response, the Law on Intermediary Business Concerning Copyright will be quashed, instead, the Copyright Management Business Act will be established. As a result, the copyright control organization will change from an approval system to a registration system, and it will become possible for entities other than JASRAC to enter the market as managers of copyrights. A number of alternative approaches will become possible. For example, record companies and companies offering music download services can keep track of such information when they deliver music online, then provide this information to the artist, allowing the artists themselves to manage this information.

JASRAC, however, has expressed opposition to for-profit organizations entering the market along with the influx of competitive principles since they would have a large effect on music culture. At the same time, JASRAC has proposed the “DAWN2001”⁷, system of managing copyright information that was created for the era of digitalization and the Internet, and is aiming to implement this system in 2001. At present they are only at the level of creating guidelines to then form a set of rules, but they are including a lot of content that will be applicable to a system of managing digital copyrights in the 21st century.

Such a system would allow organizations policing for illegal sites and registered companies to use the latest technology to not only function efficiently, but also to set up a system that can accept applications over the Internet from companies providing music downloads and artists wishing to send out their music themselves.

Currently there is a provisional agreement between Network Music Rights Conference (NMRC), an organization of companies engaging in the music downloading business, and JASRAC, related to artist copyrights and royalties for the downloading of music. Since adhering to the same thinking as in the past will allow many rights to exist on many levels, there is agreement that downloadable music shall be valued on a one unit per service basis. However, since there has been no agreement on the actual fees involved, this agreement has not been finalized. Also, fees related to downloading free music have not yet been agreed upon.

⁷ A copyright control system that handles all duties including collection of the license fee, as well as protecting copyrights.

IV. Book Distribution System

A. Agent Routes

Distribution routes for publications in Japan have basically remained the same for approximately a century, with publications going from publisher through an agent to the retailer, and these tiers protect each other's existence. However, today, the fact that 40% of publications are returned from the retailer to the publisher is threatening to destroy this structure.

The standard margin for books taken by an agent is 8-9%, and 20 – 23% by retailers. The margin for magazines is a little higher. However, there is a catch to this margin: since 40% of the books are returned, the actual margin for agents drops to just less than 5%. This level is the lowest among advanced nations. The margin on books of Europe and North America varies a bit for each country, but on the average agents take 10 – 15%, retailers get 30 – 40%, and magazine margins are, conversely, lower than Japan.

B. Newly Developed Distribution Routes

The commission system based on the concept of the resale system is less risky for agents and retailers than a system in which they purchase the books outright. As they do not have to accept responsibility for books they do not sell, they can continue to take in new books for display, focusing only on volume of sales. As such, they do not need to be creative in coming up with new ways to sell. The result of this has been a drastic increase in the number of publications, as well as the number of returns (to the publisher), which is resulting in a breakdown of the publisher-agent-retailer distribution system for publications.

By abolishing former distribution routes in which commissions were paid, Internet bookstores have begun to grope for new routes that are easier for customers to use. Examples of new routes now being focused on include:

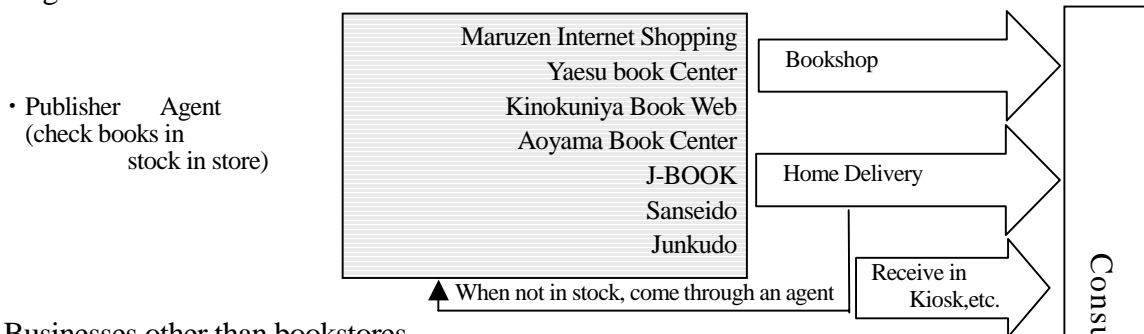
- Parcel delivery services
- Convenience stores
- Convenience stores located in train stations
- Bookstores directly operated by commuter railroad companies
- Other distribution routes already in existence (example: the largest video rental chain in Japan, Tsutaya)

These new routes for books are being supported by the distribution businesses which have recently emerged in response to E-commerce demand. For example, Hankyu Corporation has begun a service in which books ordered on website, and can be picked up at over 1,000 shops

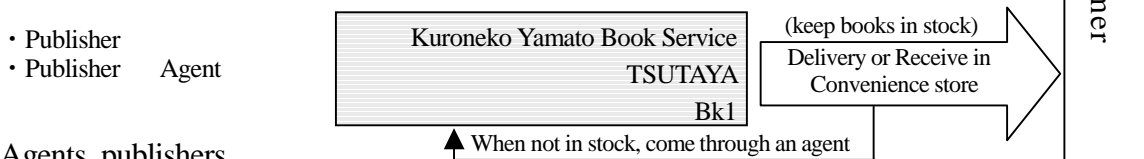
inside commuter stations, including company-operated stores, convenience stores, and their direct management bookstores of “Book 1st,” with no additional handling or delivery charges. This service is being taken advantage of by the many company employees who commute to work by train, and thus can be considered a business model that conforms to the characteristics of the Japanese market.

Figure 2. New Distribution Routes for Books and CDs

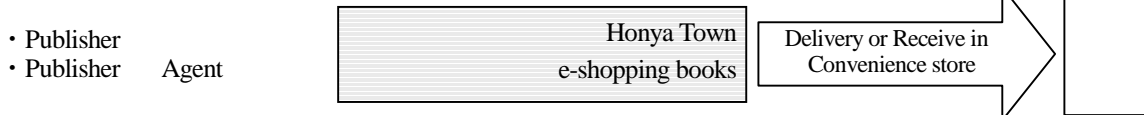
a. Large bookstores and internet



b. Businesses other than bookstores



c. Agents, publishers



C. Music CD Distribution Routes

In Japan consumers that go to music stores to buy CDs are concentrated in a special stratum of the market. Most are in their teens and 20s, whereas most people in their 40s and 50s that used to listen to music as a hobby, do not bother to go out to shops. Older people have become a bit distanced from music stores because music shops are increasingly focusing on selling large volumes of popular CDs. As a result, older people find it a hassle to look for CDs because they cannot relax and choose a CD, or the CD they want is not in stock.

V. Consumer Trends

A. What is Important to the Consumer

The following seven points were the main requests from consumers based on surveys on website with respect to online bookstores. They are listed in order of frequency of request.

- A good search engine
- Plenty of information about each book
- Indication of whether or not the book is in stock
- Ability to select delivery method and payment method
- Inexpensive shipping
- Fast delivery
- The ability to track an order

1. Search functions

Search functions and the displaying of proper information are indispensable to Internet bookstores. Few people go online with absolutely no clue about what book they want to buy, but rather think, "I want that author's new book," or "Where are the books on this particular topic?" Most consumers have some notion of what they want.

Looking at the number of books in the databases of each bookstore, at present most have between 1.4 and 1.5 million books, with the largest database being that of "bk1," which boasts 1.8 million books. However, even large databases tend to include many books which are out of print and no longer available. This means that a bigger database is not always a better database. It is rather important to make it easier for consumers to purchase the books that are actually currently available to buy, so the presentation of search results is one key point. There are many Internet bookstores with search engines that allow searches to be made in order of publication or in the Japanese-language equivalent of alphabetical order, but often more than half of what comes up on such search engines are results that do not correspond to the parameters of the search. One of the major difficulties for all of the online bookstores is that they still do not have the capabilities of any of the major search engine sites. The challenge is to create a system architecture that allows users to easily find the books they are looking for.

2. Information on books

Since consumers cannot actually touch the books sold through Internet bookstores, providing information like a picture of the cover, a list of the table of contents, and commentary on the contents becomes even more important. Another important point is whether or not a site provides various of contents such as book reviews, popularity rankings, selections related to current events, and email newsletters. There are actually many bookstores that do provide photos, a table of contents, and reviews of best sellers. "bk1" takes it a step further by providing author introductions and reviews, as well as reviews by readers.

3. Ordering system

What the readers are most concerned about when they place an order is “when will the book be delivered?” An notation that says “in stock” is an easy-to-understand way to accomplish this, and is now employed by many bookstores.

For most online bookstores, customers must first register and log in. There are some bookstores that can be used temporary without registering, but by registering the customer may eliminate the need to have to input their shipping address or credit card number next time, simplifying the process. There are sites where the ID and password are selected by the customer, and other sites where these are specified by the site itself. Sites that allow customers to specify the ID and passwords themselves, or consider the user’s email address to be the ID number are easier to use. Also, receiving confirmation of the order by email afterward is quite important. Customers can be sure that the order was received properly, and if by some chance an unauthorized order was made by a third party, the customer would know about it through the confirmation email. Many organizations are now handling things through email in this way, but there are still places that have yet to implement such a system.

4. Fulfillment of orders for books

One important aspect for future business will be responding to the varying needs of customers. For example, some will want books delivered to a convenience store near their office, or would rather receive a bill, as they do not have a credit card. Also, the number of bookstores with tracking functions that allow customers to check on the status of an order is increasing. Knowing where a book they ordered is at any given time provides a sense of security to the customer. Same-day shipping and shipping of partial orders as the ordered books come in is also becoming more common among bookstores. The cost of shipping is also an important issue.

B. Services Geared Toward Consumer Needs

Online bookstores can handle a great number of books while having no stock, and at the same time can provide each individual user with detailed information on the site or through email. Customers can also receive recommendations by email based on orders they have made in the past, and read or write reviews of books they have read. Amazon.com effectively employs all of these techniques in the United States and, as a result, is increasing their customer base.

However, the online bookstores in Japan until now have been more interested in keeping a large stock volume and have not put much effort into added services. Even screen navigation has not been all that user-friendly. This may simply reflect on the conditions at real bookstores. The existing resale system works on a consignment basis, and since books that do not sell can be returned to the publisher, there is less motivation to devise unique sales methods to move the product.

As a result, there are various bookstores that are not committed to any particular vision. Even amidst the expansive environment of the Internet, there are many bookstores that do not have a fundamental understanding of the nature of the business, and as such do not have distinctive personalities which correspond to the real bookstores situation.

Nonetheless, from the end of 1999 through 2000, Internet bookstores showed very rapid changes. "BOL" and "bk1" began service, various businesses entered the market in succession, and with the start of Japan operations by Amazon.com, all of the bookselling sites have been working hard to distinguish themselves in order to survive. This is one aspect that has changed drastically.

Each company has started to get serious about services that will distinguish them from the competition pricing, such as point card systems, delivery within 24 hours, and Web pages for i-mode.

C. Services Provided by Major Companies

Impress Communications Corporation, publishers of IT-related books and magazines, conducted a comparative survey⁸ on fast-rising Internet bookstores in August of 2000. This survey evaluated each company's service based on ten items⁹ from the point of view of consumer requirements. We analyzed points that were considered to be positive in the top-ranking Internet

⁸ Refer to "Tettei Chosa! Tsukaeru Online Bookshops 2000 Nenpan" (A thorough study of bookshops for the year 2000), from Internet Watch Magazine.

⁹ Great search engine/ Plenty of information about each book/ Plenty of content/ Indication of whether or not the book was in stock/ Ability for user to select ID and password/ Ability to select delivery method and payment method/ Inexpensive shipping/ Fast delivery/ no extra charge for partial shipments.

bookshops.

“bk1”

This company had satisfactory scores in eight categories, more than any other company. A relatively new service that began in July 2000, they have been focused foremost on getting customers to like books. They have created an environment in which customers can enjoy coming into contact with books, by setting up things such as a coordinator for each genre of books and offering plenty of recommendations, along with a section where a recommended book is highlighted each day. The site coordinator, Mr. Ando, bases his site construction on the concept of “showing context, an important aspect of building a bookshelf.” When each book is due to be delivered is clearly indicated, and of particular interest are the 20,000 books designated as “immediate delivery,” i.e., that can be delivered the same day if the order arrives before 11:00 a.m. Also, compared to other sites, there are plenty of book reviews and columns (accepting reviews from users themselves) with a lot of information related to the content of a wide range of books. This abundance of information, compared with other sites, certainly appears to make consumers happy. The organization plans to create an e-mail newsletter and ship overseas in the future.

“e-Shopping! Books”

This bookstore scored satisfactory marks in seven of the categories. They re-opened in August 2000, after revamping their site. They have increased the number of books they carry to 500,000, and have begun to handle magazines, as well. As they have stopped charging a handling fee for delivering through convenience stores, they can be expected to grow even more in the foreseeable future. Their search engine is simple and easy to understand.

“Kinokuniya Shoten BookWeb”

Another store that scored satisfactory marks in seven categories was “Kinokuniya Shoten BookWeb,” an enterprise of the old and established Kinokuniya Co, Ltd. They charge for membership, but they back this up by using their two large physical stores for stock that covers 70% of all their orders. Their database is far superior to the others in terms of ease of use. They have an extremely large number of books for which there is information like a table of contents and a description of the contents. Much of their customer base consists of die-hard fans of the original bookstores. There is also great interest in their newly begun “i-mode” service.

The next group of stores, those that scored satisfactory marks in six of the categories, can also be expected to development in the future. These include “Hon-ya-san,” “Ashahiya Shoten Ltd.,” “BOL.com,” and “Junku-do.” Hon-ya-san’s point system is a perk for their repeat customers. Asahiya Shoten Ltd. has a popular service called “Hondana” (bookshelf) that allows customers to register their favorite book genres and be notified when new publications in those

fields become available, or register the names of books they like. “BOL.com”, backed up by Kadokawa Shoten Publishing Co., Ltd. and the large German company Bertelsmann Verlag, has a service in which users can print their choice of wording on a gift card. The future promises new services from overseas competitive companies that will offer points of view new to Japan. Services that are expected to better meet the needs of consumers are also predicted to become available.

Currently, in the realm of online CD shopping, there is not that much difference among sellers. This may be due to the fact that competition is not that fierce, or it could be related to the copyright issues. There are still several systems in use for the downloading of music. In the future, as digital downloading becomes more common and the systems for managing artist copyrights becomes clearer, it is expected that the companies will become more competitive and try to find ways to differentiate themselves.

VI. Market Access Recommendations

A. Advice for Market Entry

Internet bookstores in Japan have just gotten started, and there are a lot of problems unique to Japan that call for compromises, such as the resale system and Japan's distribution system. Also, there are many areas like copyright issues that must be worked out related to digital delivery service. However, digitalization and globalization are urgent issues in the industry, and Internet and information technology related business building is moving quickly, whereby foreign companies with strong technology and financing are likely to perform well.

When considering entering the market in Japan, it is good to keep in mind the above-mentioned special conditions of the Japanese market, as well as to enter a mutually profitable relationship with a Japanese organization that has prime content.

1. Various forms of market entry

In 1999, Fujingaho-sha (now called Hachette Fujingaho) was purchased by the large French publishing company Hachette Filipacchi Medias, and a new twist was given to an industry that was said to be difficult for foreign companies to get involved with due to the language barrier. Kadokawa Shoten Publishing Co., Ltd. teamed up with Bertelsmann Verlag of Germany to create BOL.com in June of 2000. However, trends of tie-ups between Japanese enterprises with good publishing content, and foreign companies with the ability to digitize that content, are expected to increase.

2. Sectors where new businesses are needed

Digitalization of published content will greatly change the existing distribution structure. This means that middlemen such as agents and (retail) bookstores may cease to exist. On the other hand, a new type of middleman may come into existence. There is a lot of attention being given to companies that are called "aggregators" that are rapidly appearing in Europe and in the U.S. The function of an aggregator is to take the contents of several publishers and present it in an aggregated form, and offer a more easy to use single platform of information to the user, instead of exposing the customer to the varying online services and ordering methods that each publisher uses. This is perceived to be quite a good business opportunity that has come about as a result of new needs that have arisen to support Internet bookstores.

B. Examples of Market Entry of a Foreign Company

1. Amazon.com

Amazon.com Inc, the largest Internet bookstore in the U.S., made a bid in 1998 to buy Japan, Book 1, Inc. Although this bid was rejected. The company has since entered the market as 'amazon.co.jp' in November of 2000. They setup the distribution center in Chiba and opened a service center for all of Asia in Sapporo in January of 2001.

As there is no such resale system in the US, from 1990 "superstores" began to appear that are known for their large stock of books and discount prices, with price battles broadening. Amazon.com was able to grow quickly because of their speedy delivery and their low prices. In Germany, where a resale system similar to that in Japan exists, they attempt to infiltrate the market by providing free shipping, In Japan, at the time of January of 2001, shipping is free. Amazon's entry into Japan is promoting a new look at the resale system, and this itself is the focus of much attention.

2. BOL.com

The large German media company Bertelsmann Group is the first media group to sell their own publications over the Internet, and is planning to grow all over the world. The Bertelsmann Group always enters a foreign market by tying up with a local company, and doing things the way they are done locally. By tying up with Kadokawa Shoten Publishing Co., Ltd. in Japan, they have gotten themselves up and running surprisingly quickly. With proven results in various international markets, Bertelsmann brings a "global standard" to this field in Japan, spurring a new wave in the industry, and as such there will be a lot of focus on how things will proceed from here.

VII. References

A. Related Organizations

Japan Book Publishers Association
6 Fukuromachi, Shinjuku-ku, Tokyo TEL 03-3268-1301
<http://www.jbpa.or.jp/>

Japan Federation of Commercial Cooperatives of Bookstores
1-7 Kanda Surugadai, Chiyoda-ku, Tokyo TEL 03-3294-0388
<http://www.shoten.co.jp/index.htm> (Japanese only)

Japan Magazine Publishers Association
1-7 Kanda Surugadai, Chiyoda-ku, Tokyo TEL 03-3291-0775
<http://www.j-magazine.or.jp/FIPP/>

Japan Publication Wholesalers Association
1-7 Kanda Surugadai, Chiyoda-ku, Tokyo TEL 03-3291-6763

Japanese Society for Rights of Authors, Composers and Publishers (JASRAC)
3-6-12 Uehara, Shibuya-ku, Tokyo TEL 03-3481-2121
<http://www.jasrac.or.jp/>

Network Music Rights Conference (NMRC)
20 Sanbancho, Chiyoda-ku, Tokyo TEL: 03-5275-9011

B. Related Sites

1. Books

Kinokuniya Shoten BookWeb by Kinokuniya Co., Ltd
<http://bookweb.kinokuniya.co.jp/> (Japanese only)

JBOOK(by Bunkyodo Co.,Ltd.)
<http://www.jbook.co.jp/> (Japanese only)

Maruzen Co., Ltd.(Maruzen Internet Shopping)
<http://www.maruzen.co.jp/> (Japanese only)

Yaesu Book Center
<http://www.yaesu-book.co.jp/> (Japanese only)

Sanseido Bookstore Co., Ltd.
<http://www.books-sanseido.co.jp/> (Japanese only)

Asahiya Shoten Ltd.
<http://www.netdirect.co.jp/> (Japanese only)

Junkudo Co., Ltd., Book Web
<http://www.junkudo.co.jp/> (Japanese only)

Hon-ya-san Inc.
<http://www.honyasan.co.jp/> (Japanese only)

Book Service Co., Ltd., by Yamato Transport Co., Ltd.
<http://www.bookservice.co.jp/> (Japanese only)

bk1 by Book1, Inc.
<http://www.bk1.co.jp/> (Japanese only)

bol.com by BOL Japan, Inc.
<http://www.jp.bol.com/>

e-Shopping! Books Corp.
<http://www.esbooks.co.jp/> (Japanese only)

Amazon.co.jp by Amazon.com Inc.
<http://www.amazon.co.jp>

2.CDs

@MUSIC by Avex Network
<http://atmusic.avexnet.or.jp> (Japanese only)

Label Gate Co., Inc.

<http://www.labelgate.com> (Japanese only)

Liquid Audio Japan, Inc.

<http://www.liquidaudio.co.jp/> (Japanese only)

Culture Convenience Club Co., Ltd. (CCC)

<http://www.tsutaya.co.jp/> (Japanese only)

Tower Records, Inc.

<http://www.towerrecords.co.jp/> (Japanese only)

CDNOW Japan Inc.

<http://www.cdnw.co.jp/>