



Japan Is Entering a Period of 10 Million Visitors: The Growing Competition to Attract Tourists — A company that has seized the business opportunity of increasing inbound visitors

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The number of foreign visitors to Japan is expected to reach 10 million this year. And this number will likely grow further with the 2020 Olympics in Tokyo. What do businesses need to do in order to succeed in this growing market? What are the issues? We undertake a multilateral analysis.

As a nation for tourists, the government needs to develop rules

The number of inbound visitors to Japan rapidly increased during the period from January to September, and is expected to reach 10 million by the end of the year. While this trend is riding the tailwind of a weaker yen and visa deregulation, could Japan continue to increase its inbound visitors to double or triple the current number?

The Ginza store of Don Quijote (“Donki”), a discount store that is open twenty-four hours a day, is known to be teeming with tourists from Asia and other foreign countries late at night. After taking in the country during the day, visiting tourist attractions and theme parks, there was nowhere for people to safely enjoy their late-night hours. Noticing this, Donki went creative and started attracting these inbound visitors. The number of foreign tourists visiting Donki’s current network of 257 stores totals 4 million a year. This figure has grown ten-fold from the 400,000 visitors of five years ago.

Nakamura Yoshiaki, the president of Japan Inbound Solutions, which has led inbound visitor initiatives since 2008 and was spun off from Don Quijote, explains, “While some retailers tried to fill the gap in their domestic sales with sales from inbound visitors, Donki went and found the ‘blue ocean’ (a market without any competitors) of inbound visitors when its main business was on a roll.”

The key to Donki’s success in its inbound business is that it developed a system of identifying customer needs.

Although the store is largely known in Japan as a discount store that is open late into the night, Donki exhibits at tourism expositions overseas and advertises itself to local travel agencies as a tourist attraction. No other business sells such a wide variety of goods, ranging from name-brand watches to home appliances, cosmetics and snacks, and 231 of its 257 stores even sell duty-free items.

Donki also runs the Yokoso! Discount Passport system exclusively for foreign visitors, and allows customers who present the card to receive a 500-yen discount on purchases of 10,000 yen or more. As with the company’s domestic members, cardholders can buy certain home appliances at



up to a 50% discount.

The company also takes advantage of the card as a tool to collect marketing information. The card is distributed to domestic and overseas travel agencies and major hotels nationwide, and a barcode on the back indicates which travel agency distributed it on what date, and which hotel gave it to which nationality of traveler. Travel agencies and hotels also earn incentives according to how much customers purchase at Donki, so they thoroughly explain Donki's advantages to their customers. Over 400 travel agencies and hotels partner with Donki, and around 300,000 cards are distributed annually.



Don Quijote ("Donki"), Osaka

The biggest seller at Donki is the matcha-flavored Kit Kat. Many tourists buy these by the box, and Bomoto Kentaro, the manager of the Ginza store, says, "We get calls checking whether we have any in stock. Our supply can't keep up with the demand."

The matcha-flavored Kit Kat originally started out at the Dotonbori store in Osaka, where it sold well to Chinese customers. When the store increased its display space for the product, other snacks such as Milky also began selling well, and this led Asian customers to tweet on SNS (social networking services) that "Donki has everything you need," and "Bought it at a discount." Other foreign customers saw these tweets and came to Donki.

In 2011, Donki opened an account with the Chinese SNS Sina Weibo and has its Chinese staff tweet daily which stores accept the Union Pay debit card and what discounts Donki is offering. Stores offer free Wi-Fi, and customers can recharge their

smartphones for free. While deeply cutting costs, the company believes that its reputation as a "convenience store" will spark word of mouth on SNS and draw customers to its stores.

Its Yokoso! Map lists local department stores and restaurants. It is offered in English and Chinese or English and Korean, and the Osaka edition features a complete map created in partnership with the city tourism office.

Realizing that "Drawing foreign visitors to the local area will lead to Donki sales," Nakamura recently began developing tourism for the San-in region. Using the Hiroshima store, which gets few Asian customers, he began promoting the local region's resources, such as the Tottori Sand Dunes and Shimane tea. He planned to take advantage of the travel agency network that was developed with the Yokoso! Passport.

Donki is the ultimate success story of a business taking advantage of the increase in Japan's inbound visitors to achieve its own growth, but it is not a rare case. Many companies are expanding their sales with a little creative effort by targeting foreign visitors to Japan. Market expansion enables this.



Chinese travelers are not decreasing

The number of visitors to Japan from foreign countries is growing rapidly. According to the Japan National Tourist Organization (JNTO), from January to September 2013, the cumulative total of inbound visitors from abroad was 7.731 million, a 22.4% increase year over year. This will almost definitely exceed the level prior to the Great East Japan Earthquake and surpass 10 million this year. The Koizumi administration launched a Visit Japan campaign in 2003 that aimed to increase the number of visitors to Japan to 10 million over the next ten years. This means that it met its projected goal.

The top three countries from which inbound visitors come are South Korea, Taiwan, and China, with these three nationalities comprising roughly 60% of all visitors to Japan. Due to the Senkaku Islands issue, visitors from China fell by 21% year on year in the bulletin-report figures for the January–September period of this year, yet the total number of visitors to Japan still increased by double digits due to the rapid increase in visitors from Southeast Asian nations.

The factors driving this increase include the weaker yen, the deregulation of tourist visas for ASEAN nations, and an increase in LCC (low-cost carrier) flights. As income levels have risen in ASEAN nations, barriers to visiting Japan have been lowered, and travel demand has increased among the middle class. Visitors, particularly from Thailand, for which Japan removed the need for a tourist visa in July, have rapidly increased, and total visitors for the January–September period increased by 59.1% year on year.

Although the list doesn't include Indonesia, since that country wasn't subject to the consumption trend survey of foreign visitors, visitors from Indonesia increased 36.9%, to 98,000, compared with the same period last year, not far behind Malaysia, in eleventh place. The rise in income and the LCC connection have brought Japan that much closer. During the Lebaran holiday (the holiday after fasting) in August, flights from Jakarta to Japan were sold out.

The number of tourists is not the only figure that is increasing; the consumption amount per tourist is also increasing.

Even with only four-fifths of Chinese visitors—who lead the world in travel spending—visiting Japan compared to the same period last year, domestic consumption by foreign visitors to Japan rose 22% from January to June.

According to the Yodobashi Camera Akiba Store, “Indeed, we no longer have Chinese groups flocking to our store, but we have had steady visits from individual Chinese customers. They buy luxury watches in bulk, and for digital cameras, they go less for the under 30,000-yen products than they do for the high-priced digital SLRs and mirrorless cameras. Cosmetics also sell well.”

About 40% of the foreign visitors to this store are Chinese, and foreign visitor sales for 2013 are expected to exceed the highest ever.

The circulation of the Union Pay card used by Chinese visitors has also broken its record for three consecutive months since last July, with a figure of 15 billion yen recorded for September. This is due to its use by individual Chinese visitors as well as its increased use by Chinese-Asians in Taiwan and Singapore.

These people use tablets and smartphones to frequently check travel information, particularly through word of mouth and SNS posts. They will also post online about meals or hotel rooms they liked.



The above figures indicate the satisfaction level of visitors to Japan. Having experienced firsthand Japanese services and hospitality as well as the pleasures of Japanese food and shopping, their satisfaction level exceeds 90%, which includes “Fairly satisfied.” This high level of satisfaction naturally leads to repeat visits. Particularly regarding travelers from Taiwan and Hong Kong, over 80% visit for travel purposes and close to 80% come for repeat visits.

Expensive domestic transportation, little nightlife; a Japan of many issues

Despite steady growth in the tourism business in terms of individual companies and case examples, Japan’s competitiveness with regard to tourism is low.

Each year 8 million foreign visitors come to Japan, a figure that places it thirty-third in the world in inbound visitors per country. This doesn’t even amount to one-tenth of the figure for France, the No. 1 country, which exceeds 80 million. Thailand, South Korea, and Singapore have already passed the 10 million mark.

As Tagawa Hiromi of JTB points out, “The tourism industry in Japan has huge domestic demand but sustains most of its business by simply targeting the Japanese, so its inbound business has taken a back seat.”

When the Jalan Research Center at Recruit Lifestyle asked Thais, “Did you consider going to a country other than Japan?” over 80% answered “Yes,” of which 30% indicated South Korea. South Korea has a tourism budget of 48.5 billion yen—over seventeen times that of Japan’s 2.8 billion yen—to promote tourism both for the nation and per region. “Unless we develop a tourism strategy that allows tourists to Tokyo to extend their trip to remote regions to revive their economies, this whole inbound thing will end up being temporary,” cautions Hoshino Resort president Hoshino Yoshiharu.

Transportation costs within Japan are also expensive. National LCCs only account for about 8% of all air routes, and the Japan Rail Pass, offered for riding the Shinkansen, can’t be used on the Nozomi. When domestic travel costs so much and is inconvenient, it doesn’t encourage people to travel to outer regions.

Although we now have more maps at stations and towns as well as train guides in Japanese and English and occasionally in Chinese, they aren’t very easy to understand. As a tourism business professional says, “Many Japanese restaurants only have salad on the menu for vegetarians; they still lack a universal design that can welcome anyone.”

Japan also offers little nightlife that foreign visitors can casually enjoy. Musical theater and plays start early, at 6:30 or 7:00 p.m., and kabuki in particular starts its evening shows quite early, at around 4:15 p.m. You could go in around 7:30, see just one act and leave, but tickets are hard to get, and this isn’t something an inbound tourist can casually experience. Japan also has very few services that are common overseas, such as night cruises. There are a lot of issues involved in developing Japan into a tourism nation.

A rapidly growing market of individual inbound visitors Competing for customers through a first-mover advantage

As the inbound visitor market expands, competition to reap the benefits is under way, with first



movers having the advantage. We report on the actions of local economies to promote their regions and the successive openings of hotels.

Regarding the Japanese tourism business, the New Travel Industry Law that was enacted this October in China could possibly prompt further growth. This law, the purpose of which is to make Chinese tourists behave properly, mandates that tour guides and travel agencies comply with rules and aims to improve the quality of Chinese group tours.

70% of Chinese tourists come on group tours. But quite a few of these include tours that are, for example, priced cheaply but include buses that are run by a Chinese capital tour, the “Golden Route” of Tokyo–Mt. Fuji–Osaka (or the reverse), and that spend most of their time traveling, or tours where the guide will only take tourists to restaurants and duty-free shops that pay them a high rebate, or to hotels and restaurants that were beaten on price and forced to lower the quality of their service. According to an executive at a major Japanese travel agent, these are “Tours that betrayed tourist expectations of Japan and don’t lead to repeat visits.”

“If the quality of Chinese tours improves, we would have more repeat visits, and that would increase the number of individual visits. Then people would be more interested in the refined services that are characteristic of Japanese travel agents. Japanese agents would have a chance to compete in the business of tours of Japan, which the Chinese capital tends to be strong in,” says an executive at a major travel agent. Also, they expect Japanese agents to be capable of promoting tourist attractions in the outer regions of Japan.

What local economies should consider From how to attract tourists to monetizing

Gifu Prefecture has a record of attracting foreign tourists, and is a subject of broad interest. Visits to this region from Singapore and Thailand are rapidly increasing. A figure of particular interest is the number of visitors from Singapore that stay in Gifu Prefecture, which was 6,940 in 2012, 3.2 times the figure for 2009, and the largest rate of increase in the nation. This figure exceeds that of Fukuoka Prefecture, which is the destination for direct flights from Singapore. The figure itself hardly matches that of Tokyo, Osaka, or Aichi, and ranks ninth in the nation, but is a huge accomplishment for a regional city that has no sea or airport and is greatly lacking in demand for business trips.

Inbound visitors can be a major booster of local economies. Yokoyama Yukiyo, co-director of the Jalan Research Center at Recruit Lifestyle and an expert on the tourism policies of local areas, points out, “Local economies need to not only think about how to attract tourists, but also how to monetize the business from there on.”

In that sense, the key individual for Gifu Prefecture is Furuta Naoko, an advisor to the prefecture’s Tourism Exchange Bureau. She was involved in community development as a freelance planning director, but governor Furuta Hajime recruited her in 2009 to become the first chief of the bureau.

She allocated the budget by focusing on attracting visitors from Singapore. She determined that raising awareness in Singapore about Gifu would have a big influence on the wealthy class in Thailand and Malaysia.



Hidatakayama, Gifu Prefecture

Gifu has since exhibited regularly at the biannual travel expo in Singapore. The governor himself has promoted the prefecture; members of the Tourism Bureau have handled business discussions on the spot and distributed flyers, and have gone beyond the venue to seek out restaurants and retailers to sell their local Hida beef and let their presence be more than a transient one. They have asked TV stations and magazines to report on Gifu and called on potential travel agencies to run sightseeing tours.

The prefecture has kept the same representatives in their posts in order to develop relationships with travel agents that offer tours to Japan, and has developed a business. Explaining that in April Gifu offers views of both cherry blossoms and snowy mountains, Hidatakayama offers hot springs and snow, and that the area is within a two-hour drive of Nagoya airports, they have promoted Gifu's attractions in a way that can't be conveyed just by handing out brochures.

Gifu Prefecture has even offered support for developing travel products. These include an individual travel package in partnership with JR Tokai that consists of rail tickets from Nagoya to Takayama, a bus ticket to Shirakawago, accommodations, and a workshop on making the local handicraft *sarubobo*; or a ticket produced along with Central NEXCO that allows unlimited highway access (only for foreign tourists). This allows travel not only from Gifu to Aichi, Nagano, and the Hokuriku region, but also to Tokyo. Seeing that demand for rental car travel is growing in Singapore, Gifu has let travel agents in Asia experience its product. As a result, the Gifu package was listed in all major Singaporean brochures on Japan tours, which led to an increase in visitors.



Gifu Prefecture recently became the first local area to partner with AirAsia Expedia, a company that runs the Asian business of Expedia, the world's largest travel agent, and started a promotion to acquire individual travelers.

But what about hotels in Tokyo, the “entry point” for foreign visitors to Japan? How prepared are they to meet an increase in tourist demand? The average operating rate of major hotels in Tokyo for the month of August was 85%. Although Tokyo has been known to have “fewer luxury (super-high-class) hotels compared to New York or London,” according to Sawayanagi Tomohiko, managing director for Jones Lang LaSalle, who is versed in hotel investments, numerous foreign-capital hotels will start opening this year.

Hotels are in high demand

Foreign-capital hotels are entering one after another

There are more choices in the low price range as well

One hotel that has attracted particular attention is the foreign-capital hotel Marriott International. This major chain, which operates over 3,800 hotels in seventy-four countries around the world, opened its flagship brand Marriott in Tokyo in December. The Mori Trust Group spent 6–7 billion yen renovating the Laforet Tokyo and changing to a new brand. Mori Trust chose Marriott mainly because of the 38 million members in its rewards program. It is aiming at an average operating rate of 80–85%, increasing its target ratio of foreign customers from the 20% prior to its renovation to 40%.

Mori Trust will also be opening its mid-price Courtyard by Marriott hotels in Tokyo and Osaka in 2014. Customers from abroad are very likely to stay consecutive nights, and they tend to make reservations earlier than Japanese customers. Tourists would mostly come in twos, which will lead to higher spending overall.

The Prince Sakura Tower Tokyo, which reopened in September, has partnered with Marriott's Autograph Collection. Tokunaga Kiyohisa, operating officer and general manager of the Prince, which hopes to make the Takanawa district in Shinagawa a MICE city (Meetings, Incentive tours, Conventions and Exhibitions), believes that this “partnership will increase awareness of our brand overseas.”

On the other hand, the Hoshinoya Tokyo, due to open in 2016, insists on a Japanese-style *ryokan* despite being located in a business district near Tokyo Station. The company has taken on this challenge, with President Hoshino saying, “It's during this time of foreign-capital hotels opening one after another that we need to show that Hoshinoya's know-how regarding operations is globally competitive. This will lead us to expand our business in contracting operations abroad.” The business hotel market is likely to rapidly expand as well. Two hotel towers are due to open in 2015: Fujita Kanko's Washington Hotel (1,030 rooms) on the east side of Shinjuku Station, and the APA Hotel Shinjuku Kabukicho (620 rooms). Many in the industry support the view of one investment expert that “Central Tokyo clearly lacks hotels. APA Hotel will be central to the rush of new hotel construction.” As President Sawada Hideo of Huis Ten Bosch says, we may see new hotels entering the market.

Amid the strong possibility of a surplus supply of hotels after the Olympics, competition to acquire a first-mover advantage in this inbound demand has just begun.



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