

Amazon in Japan

On November 11, 2000, American online bookstore Amazon opened its Japanese subsidiary, throwing wide "virtual doors" to a Japanese bookselling market that at \$8 billion was larger than the \$7 billion American market. Considering that the population of Japan is less than half of the American population, such a world-leading market size indicates that the Japanese are truly voracious readers.

By 2000, Amazon had already established itself as one of the three main booksellers in its domestic market, along with the much older Barnes & Noble and Borders. Amazon's success in the United States was based on its price advantage and wide selection, as it was able to offer a greater variety of books at a lower price than its bricks-and-mortar rivals. The Japanese retail bookselling industry was much less concentrated than the American market; the largest Japanese bookseller, Maruzen, was only one-fifth the size of Amazon's largest American rival, Barnes & Noble. By opening its new subsidiary, Amazon appeared to be in a position to feast on a Japanese bookselling industry characterized by a large market but small competitors. However, optimism soured quickly when Amazon Japan's 2001 sales only reached a disappointing \$150 million—a drop in the bucket compared to Amazon's worldwide sales of \$4 billion. Amazon's struggles were puzzling given its great success in the United States. Why was it unable to replicate its success in Japan, at least initially?

The primary source of Amazon's troubles stems from the unique institutional landscape of the Japanese bookselling industry. Laws have allowed publishers to fix the price of new books and newspapers since 1980. In other words, publishers alone,

not retailers like Amazon, have discretionary power over pricing. This price-fixing system is known as the *Saihanbai Kakaku-iji Seido* ("Resale Price Maintenance System"—commonly known as the *Saihan* system), and it virtually outlaws price competition between bookstores. For Amazon, whose primary competitive advantage rested on its ability to offer the lowest prices, the *Saihan* system was a critical roadblock. Although this could have spelled doom for Amazon, by the end of 2005 Amazon stood on top of its Japanese competitors, passing Maruzen and raking in approximately \$1 billion in sales (a 560% increase from 2001). In 2001, Amazon's

sales in Japan made up only 4% of its total sales, yet by 2005, Amazon's Japan operations accounted for over 10%. How did Amazon do this?

First, even though Amazon was not the first online bookseller in Japan, it was the first to sell a wide variety of products besides books. Seven months after opening its Japanese entry, Amazon added music, DVDs, games, videos, and software to its selection

of books. By 2005, the software and gaming division was Amazon's second largest source of sales after books. Games were not regulated by the *Saihan* system, which allowed Amazon to give its customary 20% to 30% discounts for these products. Between 2001 and 2006, many more products were added, including electronics, kitchen appliances, toys, sporting goods, and health and beauty products. By 2005, book sales made up less than half of Amazon Japan's total sales. By this time, Amazon's online sales presence was nearly as large as that of Yahoo!'s Japanese site and Rakuten, the Japanese equivalent of eBay. Unlike books, many of these products were not under *Saihan* regulations, allowing Amazon to offer a large variety of products at



discount prices. Even though Amazon was unable to sell books at discount prices, it was able to differentiate itself by offering a larger selection of products than its competitors.

Second, Amazon made adjustments to the unique environment of Japan. For example, a fear of fraud has made the Japanese comparatively more hesitant to make Internet credit card purchases. In response, starting in April 2006, Amazon allowed its customers to make payments at any of more than 70,000 convenience stores and ATMs throughout the country, enabling customers to avoid the risk of online fraud (as of 2007, Amazon Japan is the only Amazon subsidiary to offer this service). Also in Japan, there is a long tradition of *tachiyomi* (standing and reading), where readers pick up a book or magazine and stand to read it for as long as an hour or two. Following its US online store, in November 2005, Amazon Japan began to offer the "look inside" option for many of its books, allowing customers to read excerpts and passages from books before they purchase them.

Finally, Amazon used three clever methods to indirectly bypass the *Saihan* system. (1) Amazon offered free shipping on purchases over 5,000 yen (approximately \$45). Later, the minimum amount was lowered to 1,500 yen (about \$13)—lower than even the \$25 minimum offered by its US online store (as of 2007). Free shipping put Amazon on par with its bricks-and-mortar rivals but gave it an

advantage over other online stores that did not (or could not) offer this service. (2) Late in 2003, Amazon Japan opened a Japanese version of its highly successful "Amazon Marketplace," where third-party users sell both new and used products to each other. This allowed Amazon to indirectly sell books and music at prices below *Saihan*-mandated prices as third-party users, not Amazon, made the transaction. Of course, Amazon profited by charging a commission on the sale. (3) Finally, Amazon used a system that allowed customers to accumulate points based on the price of items purchased that could be redeemed for a gift certificate—essentially offering a discount in disguise.

Despite a slow start, once Amazon adjusted its strategy to the unique institutional environment of Japan, its sales took off and allowed the company to enjoy the same success it had enjoyed in its home market. Should the *Saihan* system be repealed, Amazon is in a prime strategic position to capture any potential windfalls.

Case Discussion Questions

1. What are Amazon's firm-specific resources and capabilities in the United States and Japan?
2. What institutional barriers prevent Amazon from flexing its muscle in Japan?
3. How does Amazon leverage its capabilities to overcome institutional barriers in Japan?

Sources: This case was written by **Charles E. Stevens** (Ohio State University). It is based on (1) <http://www.amazon.co.jp>; (2) C. Stevens, 2006, Bookoff, Amazon Japan, and the Japanese retail bookselling industry, in M. W. Peng, *Global Strategy* (pp. 158–164), Cincinnati, OH: Cengage South-Western; (3) <http://japan.cnet.com>; (4) <http://www.yomiuri.co.jp>.