JAPAN'S CHANGING CONSUMER

drivers of change for luxury brands

2007 JAPAN MARKET RESOURCE NETWORK

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Researched and prepared by JMRN.

Debbie Howard, Mari Nomoto, Tomomi Yamaguchi and Carolyn Kopf.

section1

Introduction: State of the Japanese Luxury Brands Market

Japanese consumers are unparalleled in their value to the world's luxury brands, driving over 40% of worldwide revenue[1] in a global luxury branded goods market valued at $50 billion (USD).[2]

Foreign luxury branded goods began to transform the retail landscape in Japan during the early 1980s, their success fueled onward by the prosperity of the intoxicatingly affluent bubble years of the late 1980s. The shopping-enthused Japanese responded to their newfound prosperity in a collective "lux-aholic" splurge.

As the 1990s began and the so-called economic bubble burst, Japanese consumers found their previous sense of identity rattled as the concept of lifetime employment broke down and many were laid off from their companies. This apprehensive period of economic recession, along with the emergence of more independent-minded women, helped to contribute to a breakdown of traditional social codes and the creation of a Japanese consumer with values that differed markedly from the bubble years.

> *"An area the size of Montana, Japan is studded with 34 Bulgari stores, 37 Chanel stores, 115 Coach stores, 49 Gucci stores, 64 Salvatore Ferragamo boutiques, 50 Tiffany & Co. boutiques, and 252 stores of the LVMH Group…"*
>
> Source: Japan External Trade Organization, February 14, 2007[1]

Over the past decade, lux-aholic behavior has quelled relative to the 1980s thirst. Yet today, while the Japanese Consumer Confidence Index still hovers below 50, consumer sentiment is comparatively optimistic as the country and its citizens cautiously climb out of a recessionary period.[3] Further, unlike in the West where luxury branded goods are an expression of social class, income and refined taste, allowing consumers to distinguish themselves from the mainstream, in Japan luxury branded goods represent the mainstream. In a society that once claimed everyone was middle class, luxury branded goods evolved from status symbols into social codes, identifying the owner as belonging to the larger collective group. In this social context, not having the same "status" could cause discomfort. These consumer mindsets have allowed luxury branded goods to maintain a strong presence in Japan despite macro-economic pressures.

Today, Japanese consumers are emerging from the security of the collective group as they become increasingly comfortable expressing their individuality – whether through the articulation of opinions previously construed as overly assertive or rebellious, or through purchasing decisions that reflect individual identities. Confidence in expressing individual preferences is a radical departure in a culture where conformity has been the standard. And Japanese consumers are more sophisticated than ever in their purchasing behavior.

In order to shed light on key changes in the luxury branded goods category, Japan Market Resource Network (JMRN) drew upon its 22 years of listening to Japanese consumers, analyzed existing secondary data and conducted consumer focus groups and an Internet survey to illuminate Japanese perceptions, attitudes and desires toward luxury branded goods.

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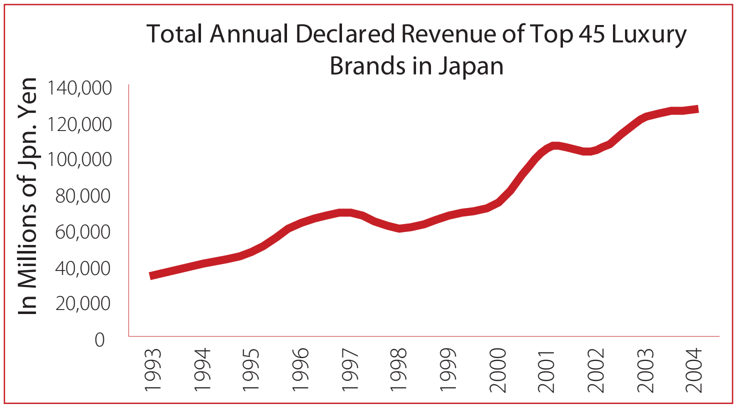
This insights briefing reflects the changing attitudes and mindsets of consumers toward purchasing luxury branded goods. JMRN's research revealed, that while a strong interest in luxury branded goods remains among a core group of Japanese consumers, for a far larger segment – two-thirds of those interviewed – interest in luxury branded goods has declined over time.[4]



Source: Teikoku Data Bank, Ltd., September 2005[5]

Nonetheless, there is ample evidence that luxury branded goods that maintain relevancy in meeting changing consumer desires will naturally find continued success. After all, during the gloomier economic years, total revenue for leading luxury brands sustained an upward trend and consumer sentiment continues to skew positive.[5]

Luxury Branded Goods vs. New Luxury

Luxury branded goods distinguish themselves through promises of quality, craftsmanship, authenticity, exclusivity and country of origin. These standards of excellence command premium prices even when there is no apparent functional advantage over comparable products of lower quality. But because the brand builds a story to appeal to consumers, an emotional connection between the brand and consumer develops.

Globally, the luxury branded goods category is broadening to include lower-priced premium products. This new luxury phenomenon has been unfolding at a global level, as well as in Japan. The Boston Consulting Group (BCG) defines "new luxury" as "items, products and services that deliver higher quality, taste and aspiration than conventional ones."[6] It is a category BCG estimates to generate $840 billion (USD) annually around the world.[6] Products include everything from Starbucks coffee to premium soy sauces. For the purposes of this paper, however, we will focus only on luxury branded goods.

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Women Drive Purchases of Luxury Branded Goods

Women's changing attitudes and values are paramount to understanding today's luxury branded goods market in Japan, since Japanese women tend to possess a stronger interest in purchasing luxury branded goods compared to men. Women's presence in the workforce is a driving force, since working outside the home fuels spending on self-consumption. At the same time, women are delaying marriage until later in life (if they marry at all), which is impacting the number of women aged thirty and over in the workforce and providing these unmarried, working women with higher levels of disposable income to spend on luxury branded goods.

Over the past 20 years, women have come to challenge stereotypical homemaker roles in order to pursue careers, or even just part-time work. Even though many of these positions are still predominantly clerical or administrative in nature, since 1997 the number of women aged 30-44 in the Japanese workforce has increased by 15%.[7] The Ministry of Internal Affairs and Communication reported in June 2007 that there are 16.5 million working women in Japan aged 20-49; those aged 30-39 have the strongest presence in the workforce.[8]

Among female consumers in Japan, "parasite singles" are among the most voracious purchasers of luxury branded goods. Parasite singles include the approximately four million single working women aged 20-34 who live with their parents relatively rent-free.[9] With minimal financial obligations, these women spend close to 10% of their annual income on fashion.[6] JMRN's research revealed that overall many younger women purchase luxury branded goods to reward themselves for working hard.[4]

Profile: Parasite Single

Akiko Naganuma is a 28 year-old single woman. She commutes daily from Yokohama, where she lives with her parents, to Tokyo.

She is a marketing account executive in a foreign-owned firm earning ¥4.5 million annually. After a stress-filled week, going to a Pilates class and shopping with her friends is relaxing. Her clothes are fashionable, but her style is all her own, having come of age in the mid-90s where she flexed her fashion muscles for individuality with the "sexy gal look." Her fashion and accessories include multiple luxury branded goods chosen spontaneously to fit her mood, including items from Dolce & Gabbana, Gucci and Chloe. Akiko wears basics from Uniqlo. Brands under future consideration are Cartier and Omega.

Additionally, a new female wealthy class has emerged earning over ¥10 million (US$86,597) annually. These high-earning women are also spending 10% of their annual income on self-polishing for personal and professional reasons.[10] These women reported spending their money on "dining out," "luxury goods," "vacations" and "cars" – with the largest amount allocated toward a condominium purchase of ¥30 million (US$260,870).[10] Importantly, many of these women tend to purchase luxury branded goods and experiences in a relatively spontaneous manner.

Publishers have for years targeted working women in their mid to late 20s with magazines such as *25ans*, which focuses on fashion, beauty, travel and global topics. What is interesting is that magazines targeting the underserved segment of affluent women aged in their 30s, 40s and older – such as *Nikita*, *Nikkei EW*, *Grace* and *Marisol* – have recently begun to proliferate, indicating the purchasing power of this influential group.

Profile: Emerging Wealthy Female
Chiaki Ogawa is a 42 year-old single woman. She lives in an apartment in the urban Tokyo neighborhood of Ebisu. As a supervisor at a financial firm, she earns ¥9 million annually. She spends her weekends shopping and hosting dinner parties with her friends. She expresses both her individuality and her sense of style through her selection of high-quality accessories distinct for each season. Her style is unique, reflected by her choices of colors, patterns and fabrics which stand out against her colleague's traditional business attire of dark colored suits, light colored blouses, minimal jewelry and low heels. The brands she favors are Bulgari, Cartier and Max Mara.

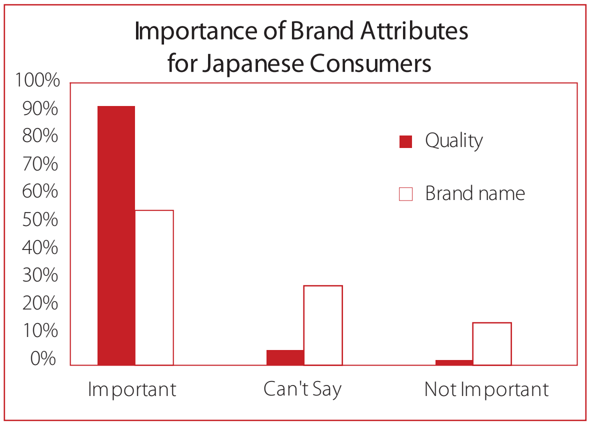
Note : The two profiles are composites based on JMRN's research, and do not represent actual individuals.

Grace deconstructs how to dress elegantly by featuring fashion pieces with starting prices over ¥120,000 ($1,043 USD). The *Nikkei EW* targets business women who hold titles such as Section Chief and President.[11]

Note : Currencies were converted at an exchange rate of 1 USD to 115 Japanese Yen.

Quality Trumps Brand

Focus groups with Japanese female consumers allowed JMRN to understand perceptions about "brands" in a Japanese context. Specifically, the key characteristics that women indicated make "a brand a brand" (in order of priority) are *quality*, followed by *well-known*, *brand heritage* and *maintenance of consistent prices*. Many respondents strongly connected *quality* to the experience of buying and owning a luxury brand, including customer service and aftercare. JMRN's research also indicated that the importance consumers place on *brand name* is decreasing.[12] This is a significant indicator of the shift from purchasing luxury branded goods as social code toward purchasing based on individual preference.



Source: JMRN August 2007 Consumer Survey: Attitudes Toward Luxury Brands[12]

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Changing Consumer Attitudes & Mindsets: Five Key Trends

Today's shift away from traditional social codes is changing the sources of identity for both men and women. Their brand choices are increasingly aligned with their desire for self-expression and relatively higher levels of individuality. JMRN has identified five current underlying needs and concerns expressed by today's dynamic Japanese consumer.

- *From "Me Too" to "Me First:"* In an era of individualism, consumers are seeking out unique products, regardless of price.
- *Mind, Body & Soul:* Consumers are looking for enriched brand experiences.
- *Diversity in Brand Lifestyle:* Consumers easily accept and believe that less expensive brands can deliver value in terms of quality and functionality.
- *What's in a Label?:* In an era of low-cost manufacturing, authenticity still reigns.
- *The Emerald Effect:* Consumers are looking toward "green" luxury.

From "Me Too" to "Me First:" In an era of individualism, consumers are seeking out unique products, regardless of price

JMRN's research indicated a growing resistance among consumers to owning the same products as "everyone else." This trend was particularly evident across all ages of women, from the young parasite singles to older affluent women.[4]

Top 10 Luxury Brands Popular in Japan:

1.	*Louis Vuitton*
2.	*Coach*
3.	*Hermes*
4.	*Gucci*
5.	*Chanel*
6.	*Bottega Veneta*
7.	*Bulgari*
8.	*Cartier*
9.	*Christian Dior*
10.	*Tiffany*

Source: JMRN August 2007 Consumer Survey: Attitudes Toward Luxury Brands[12]

A perfect example is Louis Vuitton, a power brand within the Japanese market. Mr. Kyojiro Hata, the CEO of Louis Vuitton Japan, has claimed that 44% percent of Japanese women own a Louis Vuitton bag.[13] This statistic excluded other LV accessories which further increases the brand's penetration. JMRN's research revealed that this level of penetration is beginning to be a liability in today's Japanese luxury market.

During interviews, women of all ages expressed the sense that a luxury brand's high penetration and visibility decreases its aspirational value. Further detracting from a brand's value is the fact that many younger women, including high school students, can now afford to purchase luxury brands.

Brands that succeed will be those that respond to Japanese consumers' desire for unique products. JMRN's research identified that the Italian luxury house of Bottega Veneta is gaining brand momentum with consumers, in large part due to its quality and uniqueness. While only 5% of respondents claimed ownership, 20% indicated that it is a hot brand now. Marc Jacobs holds a similar status. On the contrary, brands like Polo and Prada, which both have high levels of brand awareness and market penetration, are losing momentum as Japanese consumers increasingly claim that these brands are not worth their premium prices.[12]

Bottega Veneta's strategy, according to its President, Patrizio di Marco, is to emphasize the company's philosophy of quality.[14] Contrary to the recognizable logo collections of the category leaders, Bottega Veneta's logo-free bags include only a small brand label inside.[14] JMRN believes Bottega Veneta's recent brand momentum is a testament to consumers' growing confidence in choosing brands and products that emphasize craftsmanship and quality, rather than those that visibly emphasize the brand name. Embracing such a brand demonstrates consumers' increasing desire to move away from "me too" purchases.

Mind, Body & Soul:
Consumers are looking for enriched brand experiences

Brand democratization – the pervasiveness and accessibility of luxury branded goods – is as evident in Japan as it is globally. Mr. Hata has referred to Louis Vuitton's decreased scarcity in the Japanese market as the brand's freedom from existence as a status symbol.[13] Market trends beg the existence of counter-trends, reflected in consumer shifts away from what is too readily available. Today's luxury branded goods echo elite customers' desires for exclusivity, uniqueness, and more individual identities. Accordingly, leading brands are offering limited and special editions; however, consumers earning over ¥10 million annually are seeking much deeper connections from brands than simply product purchases.[15] JMRN's research found that one in four women "still purchase luxury brand products, but these days really enjoy the experience of a brand, such as its signature café, spa or attending an event, more than just owning the product itself."[12]

Over the past decade, luxury brand marketers' responses to consumer needs for total brand experience have accelerated. Going beyond the expected superior levels of customer service found in the mega-flagship stores in Tokyo's fashionable shopping districts, successful luxury brands now offer to enrich every aspect of one's life – a total brand experience for the mind, body and soul. As consumers desire brand interactions beyond the retail environment, brands are no longer just selling to customers, but are providing services that will be scrutinized for a certain level of quality.

Chanel, for example, in collaboration with the world reknowned French chef Alain Ducasse, has brought the luxury brand's essence to *Beige*, a restaurant located on the top floor of the Chanel Ginza Building. Raising the bar, Baccarat Crystal's *B Bar* operates in Roppongi, the nightlife hub of Tokyo.

Consumers are increasingly seeking out preferential treatment at VIP lounges and events. LVMH has opened *Celux Salon*, a "member's only" boutique offering highly exclusive items from its brand line-up. The Audi TT launch married art with luxury, creating a special launch event for their VIP invitees at the National Art Center. The super wealthy jet set class enjoys summer all year long via luxury vacations at the Bulgari-branded resort in Bali. The epitome of glamour and exclusivity, the resort is marketing heavily to experience-seeking Japanese consumers. However, tranquility can be pursued without leaving Tokyo; balance and inner beauty can be found by escaping to Furla's Aoyama Boutique where yoga classes are offered.[16]

Indeed, the retail leveraging of "lifestyle" and culture by luxury brand marketers through a marriage of architecture, art, music and food is evident not only among leading luxury brands, but also among hip, young apparel brands such as Italy's Diesel and Gas, and non-apparel brands such as De' Longhi.

Diversity in Brand Lifestyle: Consumers easily accept and believe that less expensive brands can deliver value in terms of quality and functionality

In the late 1980s luxury brands were purchased based on their prestige and aspirational value. JMRN's research showed that only 20% of consumers agreed that "owning luxury brand products demonstrate success and social status." As consumers acquire higher levels of confidence, many do not feel the need to prove themselves by owning a luxury brand.

It is important to note that industry marketers are finding it more challenging over time to attract and maintain loyal customers, especially as they grow older. For example, JMRN's research found that as women age, they are less likely to claim that "luxury brands give me confidence."

At the same time, consumers' previously negative attitudes toward the purchase of discounted products are changing. Today, it is socially acceptable to purchase off-price or from discount stores. JMRN's research revealed that 50% of those surveyed "do not feel the need to own luxury brand products anymore because they believe non-branded clothes and accessories are adequate."[12] Women in their 40s tended to feel more strongly about this point compared to women in their 20s, suggesting that women in later life stages may naturally prioritize marriage and family over self consumption, or simply have more interest in product functionality.

With a combination of increased confidence, shifting life stage priorities, and an adapted definition of value, Japanese consumers are increasingly mixing "high" and "low" lifestyles – a trend also observed across global markets. Some consumers purposefully cut back in one area to splurge in another.[17]

Examples include driving a BMW to a 100 Yen shop, carrying a Louis Vuitton bag and wearing Uniqlo or Muji coordinates, and shopping at discount stores such as Tsurukame and Costco in order to "stretch up" and then spending more in another area.[6]

Source: JMRN August 2007 Consumer Survey: Attitudes Toward Luxury Brands[12]

Whether Japanese consumers are purchasing less expensive brands to derive value, express their individual style, or mix high and low lifestyles, they now have the confidence to purchase products regardless of brand name because they trust these products can deliver comparable quality and functionality. Research on why people buy brands found that 34% of households with income over ¥8 million placed importance on "functionality" just after "quality."[18] Head Porter is a popular *Made in Japan* brand with a utilitarian range of bags that has become successful by designing products with an emphasis on both functionality and quality.

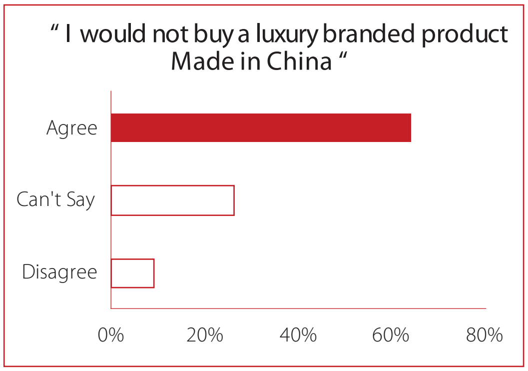
Even though lower-priced items and discount shops are increasingly socially accepted, only those delivering on quality will succeed. This is best explained by the Uniqlo brand phenomenon, which provides casual basics with a modern style. Basic t-shirts sell for ¥800. The brand has thrived in Japan since it offers a "safe" choice (in terms of fashion acceptability and quality delivered) rather than an "aspirational" one. Additionally, it has met the rigorous quality standards demanded by Japanese consumers while providing recognizable value.[19]

What's in a Label?: In an era of low-cost manufacturing, authenticity still reigns

In the 1980s, consumers were obsessed with brand and country of origin. Foreign luxury branded goods from Italy and France were seen as prestigious and stylish. Today, leading luxury brands are opening facilities in China, chasing cost reductions and manufacturing efficiencies. Burberry, a brand with a strong British heritage, announced the closing of its manufacturing plant in Britain to relocate to China.[20] Other leading foreign luxury brands such as Celine, Louis Vuitton, Loewe and Coach are expanding their manufacturing locations in China.[21] The President of Loewe has claimed "the quality is 120% Loewe; there is no difference with our products that are made in Spain." [22]

Luxury brands have commanded a premium for their products based on the premise of higher quality linked to country-specific artisanal skills. More than 90% of Japanese consumers believe that in order for a luxury brand to be a true brand, it must offer quality.[9] Maintaining premium pricing (i.e., no discounts) is critical and there is already evidence that Japanese consumers will not continue to pay premiums for luxury products that are made in China at a lower expense to the manufacturer. A survey focused on images and possession of foreign luxury brands found that 42% of Japanese women believe that "a brand's tradition is important to its value." It is doubtful that a luxury brand's image can survive the deterioration that a *Made in China* label will generate in the mind of the Japanese consumer.[23]

JMRN's research revealed that consumers would "lose interest in purchasing items tied to a specific country's heritage that are produced elsewhere" – such as a French brand manufactured in China. In fact, JMRN's research found that an overwhelming percentage (64%) would not buy a luxury brand product that they knew was made in China.[7]



Source: JMRN August 2007 Consumer Survey: Attitudes Toward Luxury Brands[12]

Clearly, Japanese consumers today purchase luxury brands that reflect their refined tastes and appreciation for quality. To the Japanese consumer, quality is intrinsically and emotionally connected to the overarching brand story and brand heritage which contributes to the status and premium price.

A fine example is that of high-end Swiss watchmakers, such as Vacheron Constantin and Rolex, which continue their long-standing tradition of building timepieces in the more expensive environment of their home country. While the annual number of watches imported to Japan has decreased, total value has increased significantly, indicating growth among watch brands positioned at the high end of the market.[24] However, for the short term, unless consumers know a product is made in China they may unknowingly purchase it based on the brand's existing image and reputation.

The Emerald Effect: Consumers are looking toward "green" luxury

Today, Japanese consumers are increasingly expressing and forming their individual identities through the brand experiences and products they choose. As individuals further reflect on their consumption choices, they will inevitably demand more of the luxury branded goods category.

As the citizens of the world embrace the environment at all levels, JMRN believes Japanese consumers will look to decrease their carbon footprints. This is already occurring and is further fueled by Hollywood and the *causes celebre* of global celebrities, all making an undeniable impact on global consumer trends. Today, celebrities and early adopters of green technology are making statements as they trade in their luxury cars for the latest hybrid versions – predominantly embracing Toyota, the Japanese manufacturer leading the hybrid technology revolution.

In Japan, the distant signals of green luxury are apparent as home builder Sekisui House marries quality, comfortably designed homes with ecologically sound communities – all at a premium price. Another early indicator that luxury branded goods are moving toward embracing the green message is evident in LVMH's September 2007 global advertising campaign featuring former Soviet Union president and Nobel Peace Prize recipient Mikhail Gorbachev. Underscoring the campaign's environmental protection message, Mr. Gorbachev waived modeling fees and LVMH instead made a donation to his environmental organization, Green Cross International.[25] In the near future, JMRN expects consumers to increasingly demand ecologically sustainable and ethically sound labor practices to be woven into the brand stories of luxury branded goods.

Conclusions

Drawing on recent consumer research and over two decades of experience garnering insights on Japanese consumers, JMRN believes the era of the individual is now. Luxury brands that wish to succeed will need to continue to adapt, echoing ever changing consumer desires – their attitudes and mindsets driven by continually changing social demographics.

Parasite singles and affluent women will continue to drive category revenue. However, luxury brands that keep their pulse on developing trends may find that new segments and sub-segments can be nurtured beyond consumers who fall within the "luxury loyalist" category as well as among those whose interest may be declining.

Changes impacting Japan's luxury branded goods landscape are already firmly in place:

- As consumer desire for unique products increases, the importance placed on brand name is decreasing . . . creating opportunities for new entries both at the high end in the luxury category as well as for safe fashion choices at lower price points.

- "Luxury loyalists" have become even more discerning than before, and demand enriched brand experiences in return for their patronage . . . creating challenges for luxury brands to deepen the emotional bonds between them and the brand.

- With a combination of increased confidence, shifting life stage priorities, and an adapted definition of value, Japanese consumers are increasingly mixing "high" and "low" priced fashion . . . a positive indicator that consumers are still willing to pay for those luxury branded goods that demonstrate value.

- While *Made in China* may increase efficiencies for manufacturers, JMRN believes maintaining the trust and respect of Japanese consumers by delivering authentic products will derive higher value for both manufacturer and consumer.

- Current global trends in green luxury will continue to influence Japanese consumers, leading to the natural institution by luxury brands of corporate social responsibility measures that address consumer sensitivities.

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About JMRN:

JMRN offers innovative methodologies that provide fresh insight into the Japanese market and mind. American owned and operated, JMRN is the only market research company in Japan that specializes in providing both consumer-level and industry-level qualitative research services, with expertise in luxury branded goods, financial products and services, IT and e-commerce, healthcare and pharmaceuticals.

In 2005, JMRN introduced its series of *Innovation Workshops*, which apply JMRN's know-how with progressive qualitative techniques to client strategic planning challenges. These customized workshops artfully blend market information with the intellectual capital that exists in every company, and unleash new insights for product and service development, as well as communications and positioning.

Through its network of regional affiliates, JMRN offers its full range of qualitative research products and services in tune with the ethnical distinctions, cultural nuances and social dynamics of selected Asian markets.

JMRN is a member of the European Society for Opinion and Marketing Research (ESOMAR) and the American Chamber of Commerce in Japan (ACCJ). JMRN president, Debbie Howard, is a past President of the American Chamber of Commerce in Japan (ACCJ), having led the organization in 2004 and 2005, as the Chamber marked its 56th and 57th years as the leading international business organization in Japan. Howard served as ACCJ Chairman in 2006 and 2007.

jmrn

KHO Building 5F
3-14-16 Higashi
Shibuya-ku, Tokyo
150-0011 JAPAN

Tel: +81-3-5464-1990
Fax: +81-3-5464-1991
Web: http://www.jmrn.com

Japan Market Resource Network

KHO Building 5F
3-14-16 Higashi
Shibuya-ku, Tokyo
150-0011 JAPAN

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Tel: +81-3-5464-1990
Fax: +81-3-5464-1991
Web: http://www.jmrn.com