

Sales on the Internet – Japan Focused

Good morning everyone. My name is Jim Weisser, and I am the Principal of Weisser Consulting, and I am the founder and former chair of the American Chamber of Commerce in Japan's E-Business Committee, and have taught previously at Temple University in Internet Marketing. Bill, thank you for both the fantastic introduction and thank you for allowing me to speak with your class today. Today's topic is somewhat broad, ranging from the beginning of the sales cycle (through search engine marketing and other types of online acquisition), traversing web site design and its affect upon the sale, and concluding with an introduction to payment systems in Japan with a particular focus on credit card systems and payment gateways. While I'm speaking, I'm more than happy to have any questions that you might wish to raise, so please feel free to raise your hand and interrupt at any time during the presentation.

Things you should know:

- Click through rates
- Affiliate marketing
- Pay per click advertising
- Performance marketing
- Opt-in vs. opt-out
- Revolving debt
- Merchant Bank
- Acquiring Bank
- Takyubin

You are probably all familiar with different types of advertising mechanisms online, but to review the most common ones:

- Banner advertising.
- E-mail marketing
- Search Engine connectivity and placement.

One of the great differences between selling on the Internet and via other types of media is that it is very easy to track your success (or failure) at a level of detail that other mediums cannot provide.

For example, with just a banner advertisement on a web site, what can you potentially tell about the subscriber?

- IP address.
- Previous page.
- Country of origin (probably).

- Type of connection.
- If page fully loads or not.
- If they have visited before.

Just banners, by themselves, however, are not that efficient for promoting actual commerce. In fact, banner advertising (and other types of text placement) tends to most resemble conventional advertising in magazines and in newspapers, where buyers pay “per thousand” rather than on a performance based metric of some sort. Banner buyers pay to be placed next to content that they deem relevant—for example, you will most likely see PC makers placing banners next to (and in some cases over) the text of articles that you wish to read. Best practice in this in any country is to provide the ability to close windows that pop-up.

In Japan, there are several large ad-buyers that dominate the online banner market, in the same way that they dominate the conventional market:

- Digital Advertising Consortium, a joint venture of Hakuhodo and several other ad agencies handles all of the placements for Yahoo! Japan.
- Cyber Communications, a Dentsu subsidiary. Dentsu is the advertising giant, which is the world’s largest advertising agency.
- Cyber Agent, the largest agency specializing in Internet advertising, fared well in its search-linked ads and its ads that run on cellular phone screens.

There are a couple of other key companies in this space as well:
Others you should know:

- Septeni, focused on key-word search placement.
- Valueclick, a web banner distribution company and affiliate marketer.
- ValueCommerce, a pure affiliate marketing company.

Affiliate marketing builds a network of people focused on selling your product—Amazon alone has over a million affiliates that link into their books, and receive commissions off of sales. Other companies offer affiliate marketing networks, in effect creating “virtual Amazons” for companies that do not have the resources or the reach to get 1 M people working for them. Rather, the affiliate marketers create large networks of content sites that have banner space available. Companies like ValueCommerce in Japan (and Commission Junction in the United States) have developed independent compensation systems through which they allow advertisers to pay a commission per sale through their network to the individual web site owner/operator based on the number of banners displayed, the click-through rate, or a percentage of an actual sale. This is a fairly advanced model, beyond where most advertisers are ready to manage or specifically develop at this stage. Also, depending on how you think about affiliate marketing, you may consider e-mail marketing simply to be a more targeted form of affiliate marketing, where the content is available in e-mail magazines, rather than on web sites.

The number one opt-in e-mail marketing company in Japan, Magclick, has been experiencing some problems, however. According to Nikkei, opt-in e-mail advertising, lost market share to search-linked ads (or search engine marketing, which we will talk about in a few minutes). Can any of you explain what an opt-in system is, or a web page would look like?

E-mail Marketing

Moving beyond banners, e-mail marketing is another form of reaching out to customers who may already have an interest in the product, or who have interest in content. One essential component of e-mail marketing, however, is respecting the consumers right to choose whether or not to be contacted by the business. While there were numerous debates about the best way to manage this sort of thing a couple of years ago, convention is to only work with “opt-in” systems. In Japan generally, the so-called “Mail magazines” came to dominate the Internet marketing scene earlier than in a number of other locations, in large part due to the number of cell phone users who chose to read short articles on their cell phones. If any of you have tried to input long URLs into cell phones, you will quickly see why. Studies of cell phone users show that they consistently send each other URLs (from both computers and mail magazines) rather than input them by hand.

At this point, before we get into search engine marketing and optimization, I would like to speak about one of the customers that exclusively uses e-mail marketing to sell his products. “Froggy”, or “The Super Fishing Site” was started as a hobby by Mr. Toru Konno in 1996, and he found himself with in a position of “first mover advantage”. Like many sites at the time, he experimented with selling advertisements, but the revenue from that (around 300,000 yen/month) did not cover the cost of running the site. At that time (and still, to some extent), minimum charges on credit cards were very, very high, so it was impractical for him to require credit cards for membership. COD, or cash on delivery usually required a physical item to be sent—so, the question that he had, and I have for you, is “**How do you sell memberships via COD?**”

Answer: Send the **membership cards**, and charge for those.

At the time, however, more and more members were upset about charges for the content (this was during the “content should be free phase” of the dot-com boom), and so he began looking for other, fishing related things to sell.

After looking into a conventional “web fishing store”, he decided he did not want to deal with the inventory and logistics problems that relate to a conventional online store, so he focused on a specialty niche in the market: custom-made fishing lures.

Fishing lures are a collectible, though useful item for a fisherman. They tend to be a few centimeters long, and are designed to resemble fish food—whether it’s another fish, or a bug or whatever. In any case, he uses exclusively e-mail marketing to sell his lures. On a periodic basis, he sends a mail-blast to his list, with a message along the lines of “we have a limited number of xyz lures available, get it now!”. Now, in terms of systems

design and architecture, this feeding frenzy is a serious strain on hardware and software, so when we were implementing this project for him, there were a number of special tweaks that had to be done to the E-Commerce system, as most things are designed around certain peak load parameters.

This artificial scarcity technique is one that is common to successful e-mail marketing operations, both in the US and Japan, as getting from interest to close is a particular challenge for any sales operation.

At the end of the day, however, his site is reasonably successful:

- The business sells unique lures to an existing base of customers and readers.
- Depending on the campaign, they have between 3-5 M yen/month in revenue, selling on average of 2,000 items with an average cost between 1,500 to 2,500 yen.
- Current promotional messages include only “one time goods” or “limited time promotions” to active membership (about 3,000 individuals)
- No Search Engine optimization.

Search Engine Optimization

As I mentioned in the previous commentary, the biggest challenge for Internet sales, really any sales, are in taking the customer from the level of “I’m interested in something” to “I want to buy it NOW”. Search Engine optimization is the current hot topic in the arena, with lots of companies offering to drive sales through optimizing search results. Let’s take a look at the search engine chart that shows how the technology has become separate from the end user interface.

Search engines have long used technology known as “Bots” or “Spiders” to search out where information is on the web, while other sites started by using a “directory” service, where users entered how the information appeared. That is not the primary challenge of the search engine, however—it is relatively simple to build a program that goes out and “clicks” through every link. The hard part is presenting that data in a way that makes sense to the user. In the pre-Google days, many of companies would just do a search based on things like the number of times a certain word appeared on the page, or the invisible tags that are known as “meta-tags”, which describe the information that will appear on the page. Unfortunately, though, this led to things like words that were completely unrelated to the actual site being used to sort and rank the relevance of the search results. Google changed all of that with page-rank.

Page-rank is the technology through which Google sorts results. Without spending too much time on the technology, much of which is tightly held and secret, page rank used the names in links to sites, and the titles of the site pages themselves, to determine how relevant they are in the rankings. Also, Google will look at what type of site links to the other. For example, the top page (or any page) of IBM linking to you is of greater page rank value than Weisser Consulting linking to you—your ranking in the Google engine

will increase, and you will appear higher in the Google web rankings—by default, appearing in the top ten of a given search engine is a factor of 2 better than appearing on the 2nd page, a factor of four cheaper than page 3, and so forth.

- Designing for search engines:
- Identify the key words that are relevant to your business.
- Determine if there are common mis-spellings (consider buying those key words)
- Design pages with titles that match up with the keywords
- Meta-tags have little meaning in design now, except to Infoseek.
- Submission engines and programs
- Avoid “text in graphics” approach to text
- Index pages are a must
- Avoid frames
- “Paid Inclusion” option with BTLooksmart and others
- Doorway pages: high keyword pages designed to get the engines to the site. Not so effective any more.
- Cloaking: Presenting a different page to search engine bots than to actual users. Good way to get permanently de-listed.
- Avoid “?” in links, as some engines will choke on the character.
- Multiple, relevant web sites can be built as a “team project” to increase the value of the “core” site.

Google is a special case in terms of service offerings, and given their location in the center of the search engine technology universe, it is worth spending a little bit of time discussing their offering. Google offers a program, Adwords, that is purely pay per click, that individual web sites can bid for specific words on. For example, if I have a Japan based company that does market entry, I can choose to pay a certain number of yen per click to have my advertisement appear in a text box next to the search results. Similarly, Google has programs for content sites called “Adsense”, where they will provide to their content affiliates relevant text based ads, and the affiliates receive a portion of the click through revenues that Google receives from its advertisers. So, using a similar example, Google might place my “japan market entry” advertisement on a web blog about Japan’s Internet business.

The other major competitor in this space in the Japan Internet marketplace is Yahoo! Japan, who acquired Overture in 2003, and is experimenting with a number of different opportunities. Yahoo! Japan absolutely dominates the other portals in the market, reaching 90-odd percent of online PC users (though a smaller percentage of cell phone users). Yahoo! also provides search of course, and the Overture offering is somewhat similar to the Google Adwords, but with a twist. If you choose to purchase Overture’s keywords, your company improves where it is in the search engine rankings, mixing and mingling the “actual” search results with the paid results.

From a business standpoint, which do you think is the better offering, and why?

So far, we have been entirely focused on reaching customers—what do you need to do once they get to you.

Web Site Design

What are the most important metrics for determining if a web site is well designed or not? First and foremost, revenues, followed by amount of customer interaction that is accomplished by your site. From a search engine marketing perspective, we already examined some of the best practices available. Some other best practices include:

- Minimizing the “click-to-sale”-remember, with each page, you lose about ½ of your potential customers.
- Allows distributor or member to choose when and how contacted.
- Personalization—treats different people differently, but requires you to know your customer or the person accessing the site.
- Allows for multiple methods of access, based on your demographic needs.
- Balances richness with reach.
- Richness is the amount of data/information presented. Yahoo Japan! has a site rich in the number of different things available
- Reach is the number of individuals who can access the material. Google has focused on reach, rather richness on its top page.

A few other key differences between US design and Japanese design:

- Japanese customers tend to like much more “crowded” pages than US customers.
- When providing online Q&A, the more information the better. Customers in Japan love to read about the things that they are buying, more so than the equivalent US customer.
- Customers here tend to be much more demanding, not just online, but in general in terms of responses—and dissatisfied ones go over to “2-channel”, a gripe web site.
- Color means different things in different cultures—what looks like a good “look and feel” to a westerner may mean something completely different to a Japanese. For example, one company I worked with developed marketing material to demonstrate how global the company was. Unfortunately, though, they chose a boy in lederhosen for the German representation that brought back Nazi memories, and the Japanese woman in the kimono at the tea ceremony was the wrong approach for their industry (high technology).

From a functionality perspective, you will have to have a shopping cart, payment gateway, and (ideally) some sort of inventory management and logistical functions in your site.

Now, we’ve touched on different types of design today, but I want to leave that for your class on CRM, and instead talk about some of the back-end business processes that most

people gloss over, but as a businessman, I spend a lot of time thinking about: how you get paid for products on the Internet.

Payment mechanisms

US Credit Cards

In the United States, 90-something percent of business to consumer Internet purchasing occurs via credit cards with revolving debt. The credit card transaction process, while not easy to understand, at least has a number of players than it's Japanese counterpart. As a businessperson, you set up an account at a bank, known as a "merchant bank" which handles the transaction for you, and provides some level of credit protection to your end customer in the event your business goes bankrupt. The card issuer, known as the "acquiring bank", manages the account with your end customer, as well as minimizes the risk of theft and fraud (for Visa and MasterCard—Amex and some of the others have direct relationships with the end customer). The actual processing of payments is done by a third party outsourcer, which passes the information on to the card company.

Additionally, in the United States, almost all of the credit cards issued include a notion of "revolving credit", where a significant number of credit card users pay only a portion of their bill in a given month, and use a credit line for the rest. While that doesn't affect you as a businessperson (you bill the entire amount, and receive payment in a couple of days), it's an important difference with Japan, as we'll see below.

Other US payment mechanisms

Cash on Delivery (COD) is fairly rare in the US. There are too many cases of "shrinkage", or theft, when you have individuals collecting cash on a door-to-door basis. Bank transfer is non-existent for consumer transactions, and other types of payment systems just generally aren't worth the hassle.

Japan Credit Cards

In Japan, unlike the US, the third party payment network which connected the different credit cards never came into existence. Instead NTT Data, through its CAFIS system, would provide direct connectivity to each of the banks, and instead of having a single account with a bank (if you were clearing just Visa and Mastercard), as a business, you would end up with merchant contracts for each issuing bank. So, if someone showed up with card issued by Sumitomo, it would connect directly to Sumitomo via the CAFIS network, and your business would need to have a contract with Sumitomo. While we are focused generally on E-Business, this was a problem in the real world as well, where a merchant might have a number of terminals "under the counter" and a bunch of different forms. There has been progress on this over the last couple of years, however, with non-banks getting into the credit card business, and issuing to a wider range of customers. The rates charges businesses by credit card companies in Japan have been much higher as well. In the United States, the entire process might be only 3.5-5% of the total transaction, despite the many parties involved. In Japan, the cost to the business of Visa and MasterCard started at 5% and increased from there. There are exceptions based on volume, of course, but since the original network connectivity required individual bank-level connections, merchants did not have any real leverage when negotiating with

banks...and even now, the best rate that I am aware of is about 2% of a given transaction, and that is at incredibly high volumes.

Additionally, because of the way processing is handled in Japan, there is often a significant delay (six weeks on average) between when your business charges (and presumably ship) the customer and when your company receives payment for the product, since, unlike the US model, all of the payments are handled in batch processes. Additionally, from the customer side, instead of financing the debt through revolving credit, instead the Japanese customer has the option to choose “one payment”, “two payments” and sometimes “bonus payments”, to coincide with the traditional Japanese pay system. Credit cards in Japan are similar to paying cash, just with a 30 day delay

To me however, the most interesting part of the Japanese consumer E-Commerce market is in “Other payment mechanisms.”

Other Payment Mechanisms in Japan

COD

First and foremost, Cash on Delivery, or COD started out as one of the dominant players in the Japanese landscape. While I am unaware what the current figures are, due to a shortage in credit cards issued, concerns about security and the fact that Japanese tend not to steal from their employers have made COD a particularly effective method of transaction, and with the strong delivery and logistics infrastructure provided by the “Takyubin” companies, COD once represented about 60% of the payments in Japan. As more businesses looked to accept credit cards as well, these companies also added the ability to do credit card settlement at the point of delivery, creating a “Card on Delivery” system.

Bank Transfer

Bank transfer is generally more popular in a business to business environment, rather than in a consumer setting, and is important only for businesses which are too small to implement credit card processing. Though it is good for the business, in that the customer absorbs the cost of the transaction, with the current state of online corporate banking, it has traditionally been hard for the business to consolidate. Additionally, it is not particularly good because the customer may order and then decide to “wait to pay”, which makes inventory management very difficult.

Convenience Stores

Convenience stores in Japan are everywhere, and one of the experiments in E-Business here has been to leverage the existing distribution and storage network for delivery and payment. From a business perspective, “conbinis” tend to be a fairly effective alternative, in that they offer reasonable rates and are some of the most technically astute of Japanese companies. Tickets and other representationally, perishable services do particularly well, as do pre-paid cards. (There was already a network in place focused on this).

Convenience store logistics have prevented some of the “EC-Conbini” dream from coming true; customers tend not to have physical goods shipped there for pickup, and

actual operators don't have the space for significant storage, which is part of the reason that the “representational goods” I mentioned above do particularly well.

ISPs (including cell phone operators)

NTT Docomo is the leader in this market, with huge volumes flowing through the payment network on a daily basis. Cell phone providers, while useful for addressing customers on that network, have a number of impediments, including the requirement to list on the provider's “official site”, which have an opaque decision making process and a number of restrictions. This doesn't stop people from being paid for content though, which is what originally drove content to the i-mode service. Percentages paid by businesses/content providers to mobile carriers are usually around 9%, though that has changed over the past year, where DoCoMo is getting into payments for more conventional items as well.

Following the lead of NTT DoCoMo's payment service, Nifty, BigGlobe and others have introduced payment services that can be accessed via a subscriber password. For small payments, particularly online games, this is very popular, but does not have a significant reach. In fact, for businesses, unless you are planning to co-market with one of these companies, I would say that this type of payment system is not particularly important.

Wrapping up on payments, what are three key factors that we have discussed in the course of today's talk? What common points have I used to describe each of these?:

- Ability of the business to be paid in a timely fashion.
- Reach of the customer base.
- Cost related to a given payment transaction.

As a businessperson, these are the key considerations by which you should evaluate any payment mechanism, which is in part why the US Visa and Mastercard companies have been so successful—they have huge reach, yet they also make it very easy to join their network.

Conclusion

Wrapping up today's talk, we have discussed everything from customer acquisition through actual payment processing, the entire “business cycle” excepting logistics and procurement. In the course of today's conversation, I have tried to leave you with a few key points:

- Marketing on the Internet in Japan is somewhat different than marketing in the United States. I apologize for not covering Europe, but as I don't have any expertise in that area, it has not been an appropriate topic for me to dwell on. We have, however, spent a great deal of time examining the most important players in each type of marketing in Japan, and I believe that the “Froggy” case study can be quite instructive.

- Search Engine related marketing is coming to dominate the online marketing space, and by all accounts will continue to do so for the intermediate future.
 - Payment and payment processing are a very complex business, and a businessperson should have at least some understanding of what occurs during that process. Also, depending on the types of goods and services, focusing on the appropriate type of payment can drastically affect your results.
- Finally, I would like to thank all of you for listening today, and hope to take any additional questions you might have in the remainder of our time.