

Section 8

● Improvement of Market Efficiency

1 Trend toward networking in transactions

Transactions on the network (online transactions, “e-commerce”) are expected to help improve market efficiency. For example, in an e-commerce market, companies can participate in the market regardless of the number or size of their stores. Consumers can also gather product information and compare prices without geographic restrictions; this reduces uncertainty due to the information mismatch and enables needs-based diverse transactions.

2 E-commerce for general consumers

The market size of e-commerce for general consumers in 2004 was 5.6 trillion yen (a 27.5% increase over the previous year), and the share of e-commerce overall was estimated at 2.1% (**Table 1-8-1**).

There is an expectation that the market mechanism will function more effectively with e-commerce. If this is correct, prices in e-commerce will be lower than those in the conventional market.

When prices are compared between online stores and real stores, the prices at online stores were lower than those at real stores (**Figure 1-8-2**). In particular, this dif-

ference is significant when the online stores are listed on the price-comparing sites and portal sites. On these price-comparing sites and portal sites, the prices at various stores are directly compared against each other, so customers jump to the lowest price. This suggests the possibility for a price-competition mechanism that will speed up price fall.

However, the clear price difference between online stores and real stores disappears in adjusted prices which take into account the shipping charges and point discount systems. This indicates that real stores and online stores may be competing against each other in terms of the actual prices including such factors as point systems and shipping charges.

3 Online auctions

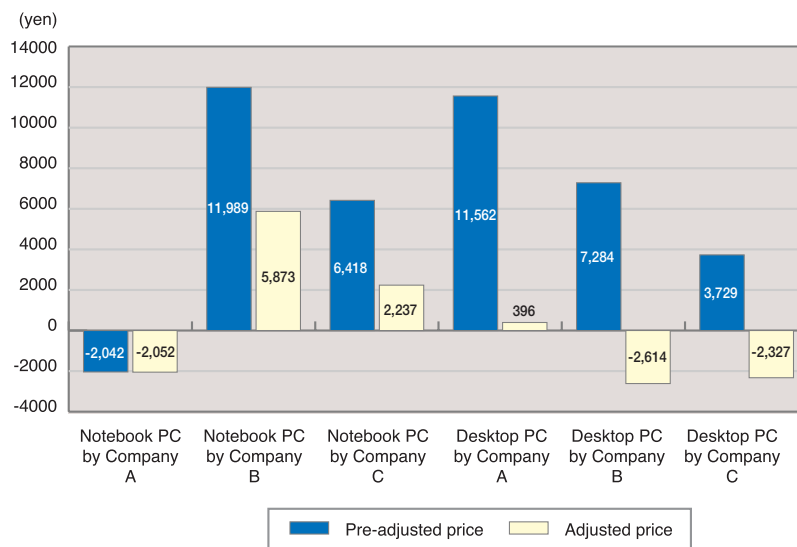
Through the progress in networks, including the Internet, online auctions whereby consumers and small-size companies directly carry out transactions have grown very rapidly with the total amount and number of distributed items drastically increasing. The total amount of distribution at online auctions (the total amount of money paid) was 582 billion yen in FY2003 and 784 billion yen in FY2004, an increase of 34.7% over the previous fiscal year.

Table 1-8-1 Breakdown of e-commerce and mobile commerce for consumers

Goods and services segment	E-commerce for consumers			Mobile commerce for consumers	
	Market size (100 mill. yen)	% of e-commerce (%)	Compared to previous year (%)	Market size (100 mill. yen)	% of mobile commerce (%)
PCs and related products	2,620	16.6	111.5	50	1.9
Household appliances	1,190	1.8	141.7	20	1.7
Travel	6,610	4.7	139.5	630	9.5
Entertainment	4,210	3.5	127.6	2080	49.4
Books & music	2,070	6.7	150.0	720	34.8
Clothes & accessories	1,830	1.4	111.6	340	18.6
Food & drink	2,990	0.7	136.5	230	7.7
Medicine, cosmetics, health food	2,220	4.1	144.2	360	16.2
Hobbies, sundry goods, furniture	3,420	1.3	132.6	550	16.1
Cars	6,560	5.2	108.8	220	3.4
Real estate	10,490	2.4	115.0	200	1.9
Finance	3,210	1.0	149.3	210	6.5
Finance (banks, securities)	2,110	16.8	144.5	—	—
Finance (life and other insurance)	1,100	0.4	159.4	—	—
Various services	9,010	1.6	141.2	4100	45.5
Total	56,430	2.1	127.6	9710	17.2

(Source: “Reality and Market Size Research on E-Commerce,” Ministry of Economy, Trade and Industry, Next-Generation E-Commerce Promotion Council, and NTT Data Management Research Center)

Figure 1-8-2 Difference in average price between online stores and real stores



The figure shows the difference: average price in real stores — average price online

(Source) "Survey on ICT and Buying Behavior"

Section 9

● New Movement in Content Distribution

1 Current situation in content distribution

Music and image contents can be delivered directly to the users as digitized data via network. These contents themselves are intangible properties such as knowledge and information, so they are more "friendly" to network transactions compared to physical, tangible properties. By progress in broadband and the establishment of fixed-charge systems, the Internet is positioning itself as the content-distribution medium. At present, various companies are working on a variety of content distribution businesses via the Internet.

2 Music content distribution

Due to the popularity of portable digital audio players and the start of music distribution services to mobile phones, the music distribution service market through the Internet is growing rapidly. Record companies had

revenue of 1.85 billion yen through pay music distribution services through the Internet in 2005.

One of the attractive features of the Internet music distribution services is that it is relatively easy to obtain songs that used to be difficult to find or purchase in the past including those had just been released and were not well-distributed. Such a long-tail market is considered to be supporting the rapid growth of the music distribution service market.