

DEVELOPING PRODUCTS WITH SOUL: THE MARKETING STRATEGY OF CHANEL IN JAPAN

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Chanel has had remarkable success in the Japanese marketplace. Why? How? From all accounts it appears that Chanel has kept true to the principles of good marketing and the 4 Ps. At its most basic, Chanel has always believed in the maintenance of a high-quality product while at the same time altering product content to adapt to changing times and cultures. They are dedicated to giving customers products they will enjoy—the essence of the marketing concept. Thus, Chanel provides luxury goods producers a reasonable outline to follow in their efforts to capture the consumer in Japan.

INTRODUCTION

History

From her first millinery shop, opened in 1912, Gabrielle “Coco” Chanel rose to become one of the premier fashion designers in Paris. Replacing the corset with comfort and casual elegance, her fashion themes included simple suits and dresses, women’s trousers, costume jewelry, perfume and textiles. By the 1920s, her fashion house had expanded considerably, and her chemise set a fashion trend with its “little boy” look. Her relaxed fashions, short skirts, and casual look were in sharp contrast to the fashions popular in the previous decades. Chanel herself dressed in mannish clothes, and adapted these more comfortable (and liberating) fashions to a broader market (FragranceX.com 2006).

In 1922 Chanel introduced a perfume, Chanel No. 5, which quickly became popular, and remains a profitable product of the Chanel organization. Pierre Wertheimer became her partner in the perfume business in 1924. Today this privately held company is owned by the Wertheimer family, and boasts worldwide sales of over \$1 billion per year with about half of that total being generated in Japan. In 2002,

Chanel was ranked as the 116th largest, non-U.S. family held firm in the world (Family Business 2002). Their product lines include clothing, fragrances, make-up and skin-care.

Developing Products with Soul

Chanel’s objective in Japan, as the title of this paper indicates, is to develop products with “soul.” At first glance this might seem to be a strange marketing objective but it points to the very heart of Chanel’s successful marketing program in Japan. The statement “to develop products with soul,” has been articulated by the President of Chanel Japan, Richard Collasse. Chanel cannot produce products with soul in every market it attempts to penetrate. There are certain characteristics that must be present in that market for Chanel to capitalize upon this theme.

The idea that products need to have “soul” is well understood by the Japanese, to quote from Richard Collasse. The reason he says this is because the Japanese culture is so tradition-bound and respectful of its history and mores. So in order for Chanel to develop products with “soul” that will resonate with the Japanese consumer, Chanel must first understand and respect the Japanese culture and heritage of its people (Tokyo International Forum 2003).

Importance of the Japanese Cosmetic Market

The Japanese cosmetics market is the world's second largest (in 2003), behind only the United States. This market is mature; but though it has been flat or even slightly downward in the 1990s, domestic factory shipments "turned up" in 2001 for the first time in four years. Since then the market has displayed a bit of vigor. Also, *imported* cosmetics have posted solid growth in recent years, though their share of the market is still small. Imports grew smartly in 2003, up 13.4 percent from the year before. Additionally, some foreign brands are produced in Japan under license, and when these totals are added in, foreign cosmetics are demonstrating growing strength every year in the Japanese cosmetics market (Jetro 2005; Lloyd 2004; Tsukioka 2006).

Recent years have seen a definite trend toward polarization between higher priced and lower priced products in the cosmetics market. Midrange products have had trouble differentiating themselves and, thus, sales in this price range are down. Consumers are becoming increasingly discriminating in their tastes, and clearly looking to the luxury end of the business with greater frequency (E-Beauty News Online 2003; 2004).

As noted above, despite this increase in imports, foreigners' share of the Japanese cosmetic market is still small, at 9.6 percent in 2003 (See Figure 1). However, there are several reasons for optimism regarding future prospects for import sales growth. Consumer tastes have grown more sophisticated, and imported cosmetics are now every bit as good as, or even better than, Japanese-made products. In addition, the price differential between imports and Japanese products has almost completely disappeared in every product category except perfume. And deregulation measures have lifted restrictions on various ingredient combinations in most cases. Upscale foreign brands, like Chanel, have been developing products specifically for the

Japanese market and deploying aggressive marketing campaigns to "crack" this market. As a result, import growth can be expected in the future as well (Prasso 2003).

A total of 57 different countries/areas exported some sort of cosmetics to Japan in 2003 (See Figure 2). On a value basis, the leading exporters were France (share 32.6 percent) and the United States (share 24.6 percent), which together accounted for 57.2 percent of total imports. Another prominent exporting nation on a dollar basis was Italy, which climbed to a 5.5 percent share with a product mix primarily of perfume and eau de cologne. Imports from the United Kingdom have also grown steadily. Accordingly, imports from EU nations together account for 51.8 percent of all imported cosmetics.

In 2003, France solidified its spot as the top exporter to Japan, within the three main cosmetics sectors (skincare products, perfume and eau de cologne, and make-up), with higher Japanese import levels than the preceding years (Figure 3). Specifically, France's exports of skincare products to Japan grew by 13.5 percent (share 37.2 percent), along with perfume and eau de cologne with an increase of 21.7 percent (share 56.1 percent), and makeup cosmetics with an increase of 9.7 percent (share 46.0 percent), as compared to the previous year.

Thus, it seems clear that there is a wonderful business opportunity in this growing market for a savvy foreign firm. Fortunately for Chanel, they have recognized this opportunity early on and have formulated a sensible and successful marketing program to fill a clear-cut need in the marketplace. The following pages outline their plan of attack – a classic example of an organization utilizing the 4 Ps of marketing: product, price, promotion and place.

PRODUCT

Coco Chanel was born in 1883. She died in 1971. She was, to quote the writer Edmonde Charles-Roux, "of another century," yet managed to revolutionize her own; by affording

FIGURE 1
Imports' Share in the Japanese Cosmetic Market (US dollars in billions)

	1999	2000	2001	2002	2003	Yearly Change
Domestic Shipments	12.6	12.1	12.2	12.2	12.2	100.2
Imports	.92	.96	1.04	1.14	1.3	113.4
Total Market	13.5	13.1	13.2	13.3	13.5	101.3
Imports' share	6.8%	7.3%	7.9%	8.6%	9.6%	

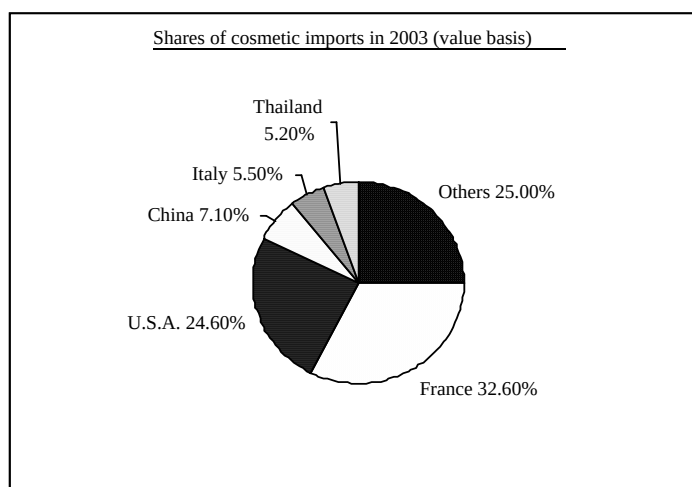
By Category (2003)	Perfume and eau de cologne	Makeup Products	Skin Care Products
Domestic Shipments	.46	2.99	5.3
Imports	25.0	29.0	.42
Total Market	.29	3.2	5.7
Imports' share (previous year)	84.2% (77.9%)	7.7% (6.9%)	7.3% (7.3%)

1 USD= 118.032 JPY as of 10/02/2006

Source: *Yearbook of Chemical Industries Statistics*. (2003).

Tokyo: Tsuisho Sangyo Chosakai.

FIGURE 2
Principal Exporters of Cosmetics to Japan by Country



Source: Japan Tariff Association. (2003, November)

Japan Exports and Imports-Commodity by Country

FIGURE 3
Leading Cosmetics Exporters to Japan by Category and Country (US dollars in millions)

Perfume and eau de cologne			Make-up products			Skin care products		
Ranking	Country	Value	Ranking	Country	Value	Ranking	Country	Value
1	France	137.7	1	France	114.2	1	France	156.4
2	Italy	45.7	2	Italy	47.4	2	Italy	139.0
3	U.S.A.	26.2	3	U.S.A.	24.0	3	U.S.A.	33.6
4	Germany	16.5	4	Germany	19.4	4	Germany	16.2
5	Switzerland	9.5	5	Switzerland	8.8	5	Switzerland	13.5

1 USD= 118.032 JPY as of 10/02/2006; Source: Nomoto, K. (2004, April 2); Japan's Cosmetic Imports

women the sort of comfort and ease hitherto reserved to men's fashions, she contributed to the emancipation of women. In 1920, Paris was the world's capital of the arts and Chanel established herself in that world as the arbiter of elegance and good taste. Her story is a succession of milestones in design: from the famous *N°.5*, the first perfume ever launched by a couturier, one that became legendary, to the black dress and the ubiquitous tweed suit. More than a signature, she imposed a way of life (Benaïm 1996). Over the years, Chanel has been synonymous with "high quality, high-image, prestige". It's always the same words. It doesn't matter what year it is. And it doesn't matter if it's a young person or an older person (DiGiacomo 1997).

Richard Collasse, President of Chanel in Japan, though a linguist by training, certainly seems to have a good handle on both *Coco* and modern-day marketing thought: "In the world of the 19th century, Coco Chanel wanted to work for herself. In the 20th century, she suggested what clothes and accessories the ideal woman of the future should wear, and how she should live her life. She was a person whose influence went beyond clothing to impact the very lifestyles of women. Protecting this spirit of hers is the basis of our product development. While maintaining leadership as a pioneer, seeking new adventures is the major role of our designers and all other creators. In other words, we adopt the approach of having a strong philosophy and maintaining tradition, while also creating new things that suit the contemporary woman, and lead her onwards. We always want to stir up new winds of change. Karl Lagerfeld, our resident designer, always says, quoting from Goethe: 'Make the best possible future from the elements of the past'. Since we have this ideal approach, started by Coco Chanel, it's important that we apply it to coming trends. Ultimately, we're aiming to 'develop products with soul'" (Kopp 2003; Tokyo International Forum 2003).

And he continues: " 'maintaining a brand' might appear a static concept. In reality, however, it's extremely dynamic. If we just

leave it as it is, it will disappear from consumer awareness and cease to be a brand. Even if we have a history of a hundred years, it's still important that we nurture our brand each and every day, and re-examine it without complacency – while remaining steadfast to our philosophy. And strategies have to be properly set to this end" (Tokyo International Forum 2003). It is this kind of thinking that has 52 percent of Japanese women in their 20s owning Chanel products (Townes 2006).

High-end products in Japan have always enjoyed a strong market because of the very specific emphasis that Japanese people place on quality. The Japanese have quality in their DNA, it is really something that they understand (Karasaki 2006; Foreign Press Center 2006). "[Indeed], the Japanese are sensitive to things. They understand the goodness of our products beyond their appearance or brand image. And for that reason they are an important market for Chanel" (Tokyo International Forum 2003).

Let's say you buy a garment and a thread comes out of it. The French would cut the thread off themselves, then wear the garment. An American would wear the garment without noticing the thread. The Japanese would take the garment back to the shop and complain that it was damaged. Japan is a market that makes such demands. We have also raised the level of our quality to meet this" (Tokyo International Forum 2003).

But it is not just product quality that accounts for the success of Chanel in Japan. The Japanese consumer is traditionally more interested in skincare than in make-up and fragrances. In fact, skincare products in Japan account for the largest market share in the cosmetics group. This is in striking contrast to Western countries where make-up preparations have the largest share of the cosmetics market. In effect, Japanese women look to enhance their beauty, as opposed to the Western beauty standard of creating a new image. Thus, Chanel places a major emphasis on their skincare lines (Beauty-on-line.com 2003). Chanel

operates on the principle that for the Japanese consumer true beauty incorporates beautiful skin. Therefore, Chanel sees to it that its cosmetic's colors that are marketed in Japan are tones of a more subtle variety. Also, many of their skincare products focus on "natural" looks and a light, non-oily feel, aimed at making their skin more attractive (Nomoto 2003).

One seemingly small, but important factor to keep in mind when it comes to marketing to the Japanese consumer is that there are actual differences between Asian and Caucasian skin possibly due to biological, dietary, cultural, or climatic reasons. Therefore, a product that is consumer tested in the U.S. may generate different results or complaints of skin irritation in Japan. It is important for manufacturers to adjust or to develop products with the different needs of local customers in mind. And it is because of this very factor that Chanel has an R&D facility in Japan in which to refine their products to meet Japanese consumer standards. Collasse noted that Chanel is, "looking at our efforts in innovation, we established our own R&D unit in Japan, since this country unquestionably has the most advanced technology in cosmetics. We made this investment because we concluded that we needed to develop products not only for Japan, but the global market" (Jetro 2005).

When it comes to packaging, Japanese consumers demand perfection as well. Exporters of cosmetic products should know that packaging, for example, is very important to Japanese consumers. In general, compared to consumers in other countries, Japanese consumers appreciate not only the content but also the external appearance of a product they purchase. Package design, product texture and color are closely examined before purchase (Nomoto 2003). Another criteria that the Japanese consumer is concerned with is the safety in products they either use or consume.

The Pharmaceutical Affairs Law regulates safety issues in the cosmetics industry in Japan. This law, in short, stipulates a pre-approval system. A company which intends to

manufacture or import cosmetics must obtain a license (kyoka) from the Ministry of Health, Labor and Welfare (MHLW) for each manufacturing plant or business office. Applicants are requested to submit applications to MHLW through the appropriate local government offices. The standard processing period is approximately two to three months. The law does not yet permit a foreign manufacturer to make direct applications from overseas for a license to export cosmetic products to Japan. Thus, a foreign manufacturer that wishes to export its products to Japan first must find a qualified Japanese importer or representative, or set up a Japanese subsidiary themselves (Nomoto 2004a).

Upon receipt of the manufacture or import license, the applicant company may then file notification of the product to be manufactured or imported. If all approvals are met, the product may be imported or manufactured. But, compliance with the Pharmaceutical Affairs Law with its myriad regulations can be tedious and time-consuming (Pacific Islands Centre 1998). This law also regulates advertising and labeling. In other words, this law is designed to provide for vigilance on the part of government officials when it comes to ingredient choices and product safety (Nomoto 2004a; Yakuji Nippo 2004).

While Chanel targets customers primarily from the teen to the middle-aged customer, the Japanese population is graying rapidly. This graying society is giving rise to the emergence of a new consumer group: the "silver-age" users. The population over 65 years of age accounted for 17 percent of the overall population in 2000, a figure which is expected to rise to a remarkable 25 percent by the year 2015, making Japan the most rapidly aging society in the world. This silver age group will form a very important end-user group in the near future (Nomoto 2003).

To address the needs of this "graying" population, cosmetics manufacturers, including Chanel, are focusing their research efforts on so-called skin-whitening cosmetics, which

whiten the skin and prevent wrinkles and freckles caused by ultraviolet rays. And though their main target customers for these products are middle-aged and older adults (age 40 and over), demand has been spreading for these products to younger adults in their 20s and 30s, and even into their teens. Manufacturers do not want to miss out on these latter consumers. Thus, cosmetic makers, are pursuing research at a fever pitch to better understand the mechanisms of skin and of skin roughness. They are using biotechnology to extract high-performance ingredients from natural substances, so they can commercialize these as active ingredients that are safe, inexpensive and available in consistent quantities. In addition, a variety of skincare products have been launched that make use of functional ingredients such as amino acids, coenzyme Q10, collagen, rice and even soybeans, and these products have become popular (Jetro Marketing Guidebook 2005; Kopp 2003).

In general, then, the major decision-making criteria adopted by Japanese cosmetics consumers are (1) reputation, (2) quality, (3) safety, and (4) value (Jetro Market Guidebook 2005). In addition to these four factors, fashion is an important criterion, but a somewhat unpredictable one (Agence France Presse 2005).

Chanel is fully aware of these criteria and, so it appears, to have successfully adapted to them.

PRICE

Recent years has seen a definite trend toward polarization between higher-priced and lower-priced products in the cosmetics market (Jetro 2005). More and more consumers want quality and luxury, and will pay for it. Indeed, Japan has carved out a reputation as one of the best markets in the world for luxury goods (Webb 2003). In fact, according to Prasso (2003) and Towns (2006), surveys have shown that luxury items are "must haves" among young Japanese consumers. He found, for example, that about 94 percent of Tokyo women in their twenties own at least one luxury goods item by Louis

Vuitton, 92 percent own a Gucci product, 58 percent own Prada and, as noted earlier, 52 percent own a Chanel item. In an article by Koji (2004), a Goldman Sachs analyst stated, "the Japanese market is, by far, the most important nationality for the cosmetics industry". Chanel's high pricing structure reflects this hunger for quality and luxury in Japan.

Chanel is benefiting from a new trend in the marketplace. For the second half of 2002 and onward, growing numbers of women in their late 20s and 30s, as well as middle-aged and older women, are actively seeking personal counseling, and are willing to pay more for value-added products and services. This has led to a surge for higher-priced cosmetics that offer these services. Thus, many exclusive brands have been introduced into those department stores that rely on face-to-face counseling as a marketing technique (and thus support a higher price) (Jetro Marketing Guidebook 2005; Karasaki 2006).

DISTRIBUTION

There are many channels through which cosmetics are distributed in Japan. Which channel a company selects depends upon the type of cosmetic under consideration. Cosmetics in Japan can be distributed through drugstores and/or mass merchandisers (usually via wholesalers), cosmetics specialty stores, door-to-door sales, department stores and in some cases through company-owned stores. Many foreign luxury brands, like Chanel, have focused on opening "counter corners" at major department stores, which include face-to-face counseling marketing programs of advice-giving. This concept has proven very successful. A company like Chanel is successful not only because of their prestigious image and their emphasis on providing product benefits the consumer wants, but also because the higher end stores provide consulting services using skin diagnostic equipment and scientific data, plus enhanced services such as professional makeup artist demonstrations and instruction (Jetro Marketing Guidebook, 2005).

For its products to be delivered to the consumer in the most expeditious way, and without losing control of the distribution process, Chanel employs a direct-selling franchise system. In this system, Chanel deals directly with its own accounts, thus bypassing the middleman, a distribution format favored by most cosmetics manufacturers. In this way, the manufacturer carefully and tightly controls the distribution end-points for a firm's products. This system also helps firms to control the training process of the beauty consultants who work to satisfy the highly demanding consumer who wants individual counseling services in the department store or the cosmetic shop (Nomoto 2004b).

It is clear then that Chanel finds the use of middlemen anathema to their distribution efforts. To emphasize this point, in December 2004, Chanel opened its own 10-floor store, a "palace of glass" at the ritziest of all address in Tokyo—the Ginza. This is in addition to three other stores in Tokyo and one in Osaka (Expatica 2005).

Chanel's business has continued to grow at such a steady rate that in 2003, it decided to build a new distribution center that is triple the size of the former one. This six-story distribution center with a gross floor area of 23,000 sq. meters – where just about all of Chanel's products are located – is in Funabashi, Chiba. Chanel's president, Richard Collasse, said the company decided to build the center in Funabashi because of its location near both Tokyo and Narita International Airport, and because the prefectural and local governments were very helpful (Chiba Government Report 2005).

PROMOTION

Since Japanese consumers insist on learning everything about the products that they use, promotion plays an important role in the way a Japanese woman chooses a product; in particular, the manner in which she views Western European luxury products. Thus, Japanese consumers love information, they are

avid readers and rely heavily on word of mouth among friends and family. Japanese media is always seeking to discuss new products, especially those associated with lifestyle appeals, as "it's the brand image that compels the purchase" among Japanese women (Sanchanta 2004).

According to Lloyd (2004), being a prestige brand such as Chanel is hard work. She states, "not only do the (cosmetics) products need to be outstanding in their pharmacological qualities, but they need to stay in front of the consumers through substantial print advertising, beautiful counters, and other forms of marketing". For example, special attention is paid to effective wall "gondola" displays and seasonal floor displays, all the while ensuring consistency in the image of Chanel in design and display of products, right up to the point of sale" (Global Cosmetic Industry 2003). While image may appear to be "everything," Chanel's drop in sales in the late 1990s caused Chanel to reconsider its marketing strategy. This strategy ran counter to what many people believe is Chanel's unique advantage, namely its very high-end image. Richard Kuras (then CEO of Chanel) felt that the drop in sales reflected a feeling that the brand had become too snobbish. Thus, his strategy was to bring Chanel "down-to-earth," to "lower the threshold" that separated the average consumer from the company's products. "Our cosmetics were brought down from the exalted heights and stood shoulder to shoulder with domestic products, in a bid to meet consumer needs" noted Kuras. In the case of fashions, similarly, "customers changed and started to wonder whether brands suited them or not. The exalted image tended to put customers off. So we went back to our starting point. We remembered that Coco Chanel had made clothes for the working woman" (Japan Times 2002). Thus, Chanel focused more heavily on point-of-purchase informational displays (Shanchata 2004). They also made the atmosphere of the boutiques as well as its fashion shows more open, and gave customers the opportunity to see and touch products. In the old days, Kuras stated, "our fashion shows used to attract about 300 people

at most. We thought that [now] more people ought to see living garments and clothes that suit the body. But if we put on fashion shows, for example, in [lower end] unsuitable places, the brand image would collapse. The Tokyo International Forum is very well suited to this new image of Chanel, as it seats 1,000. It's a 'top brand', in the sense that the buildings are beautiful, and they introduce a high level of culture. We chose it as a place that suits Chanel's shows. This is our strategy" (Japan Times 2002). In other words, Chanel never lost sight of its powerful brand image while managing to open its market to a broader audience.

As noted earlier in this paper, another example of Chanel's approach toward bringing its prestigious brand "down to earth" can be seen in the opening of its new, and large, flagship boutique in Tokyo in late 2004 (it's the company's largest shop in the world). This ten floor, luxurious high-rise building, made of glass, is banking that Japan's appetite for luxury is as hungry as ever. Indeed, this is not your average boutique. It features a concert hall, a restaurant by celebrated French chef Alain Ducasse and 1,300 square metres of shopping space with designer items sold nowhere else in the world. Designed by American architect Peter Marino, the 56-metre high building has a massive curtain wall of glass that encapsulates a nest-shaped block of aluminum in Chanel handbags' signature tweed pattern. The glass façade lights up the Ginza each dusk to dawn with 700,000 embedded light-emitting diodes. In what is billed as a world first, the façade itself doubles as a television screen to broadcast to passers-by (Fashion United 2004).

The boutique comes at a total investment of USD 240 million (EUR 180.4 million), a level of opulence believed worth it to build what Chanel has hoped to be "the heart of luxury in Asia" (Fashion United 2004).

This boutique has started out well. For example, on the day of the grand opening, eager shoppers lined the block outside the store in the

early hours in the hopes of purchasing designer items from the "Ephemere de Ginza" product line, which was exclusive to the store. Indeed, the pearl-strewn white tweed jackets or bags in this product line were available only in this one store in a limited edition (Menkes 2004). More than 200 people filed into the store as soon as the doors were opened, and the crowds were so large that staff had to limit the number of people in the shop at any given time (Web Japan 2005).

Thus, it appears that Chanel's promotional activities are as much geared to being an investment in the future as it is at generating sales today.

CONCLUSION

This paper demonstrates that Chanel in Japan has had considerable success. Chanel, with its reputation for elegance and quality is the type of foreign company that is a perfect fit for the demanding Japanese consumer.

Chanel developed a marketing strategy, specifically designed for the Japanese market. They followed classic marketing principles as embodied by the 4 Ps. The Chanel nameplate is known all over the world for its high quality; at the same time, it priced products to enhance that image, and distributed them in a unique way. They also promoted themselves aggressively and carefully.

Japan is a country where traditions endure. Chanel understands this as they, too, have a long and consistent history of fashion relevance in the markets they serve. Consequently, in Japan, they are developing "products with soul" for a marketplace that demands products meet the tests of quality, value, fashion and, most of all, relevance. This is how Chanel is "cracking" the Japanese market.

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This article was assisted by Boo Shin Yoon and Brenda Torres of Fordham University.