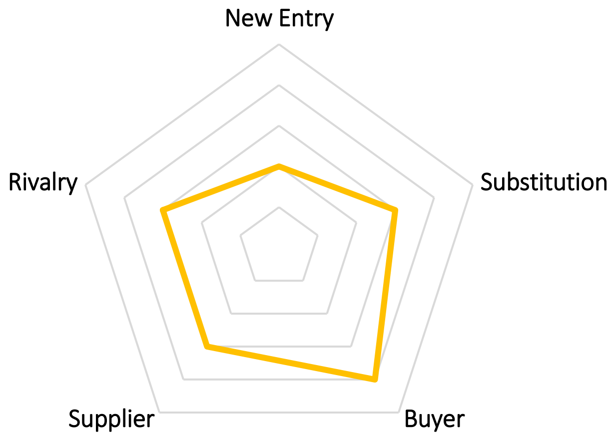
JAPAN



- **Bargaining Power of Buyers:** High
- **Bargaining Power of Suppliers:** Moderate
- **Threat of New Entry:** Low
- **Threat of Substitution:** Moderate
- **Industry Rivalry:** Moderate

PORTER'S FIVE FORCES

Bargaining Power of Buyers

Overall, it is much difficult for Japan's buyers to bargain for the price or rewards of our client's products. Therefore, I give it high score.

The total number of main retailers (have minimal 5 stores or minimal 3 million € turnover) in Japan is bout 162, which is a median number comparing to other countries. It seems that the bargain power of the buyers should not be too high or low. However, the top 1 company, AEON Group, only contains 4.0% of the market share, the top 5 contains 12.9% market share, and the top 10 contains 18.0% market share, then other 152 main retailers and small retailers compete for the left 82% of the market. Therefore, the difference in the power of the main retailers is not large.

The sale of retailing is about 46.37% of the total consumer payment in 2017, with $7790.94 sales per capita. And the sale is expected to be 46.37% of the total consumer payment in 2022, with $10,146.46 sales per capita, an increase of 29.70% comparing to that in 2017.

However, the culture in Japan is that the connection between banking institutions and non-financial corporations is much tighter. Japanese banks are frequently shareholders in companies, which makes difficult to switch from issuers of the cards.

Bargaining Power of Suppliers

Our team has determined that the suppliers for fintech companies compete on a global level rather than regional or national due to the nature of the industry, fully dependent on digital technology. Data base, tech and money support don't vary a lot in different suppliers. Product is not unique (Standardized products). Therefore, supplier power is fixed.

Threat of New Entry

Overall, it is a little easier for new entrants to enter into the market of Japan. Therefore, I give it a low score.

The financial credit openness in Japan is 1, and it allows wholly-owned subsidiary as a master franchisee and joint venture. But with the master franchise, it is difficult to find business partner. So joint ventures or licensing agreements is common. However, its culture to have long term local partner/distributor relationship may add entry barrier.

The total consumer payment transaction is JPY 214,047.1 billion in 2018, while the credit card transaction is 66,853.0 billion (27.73%) and store card transaction is 257.0 billion (0.10%). And people expect the total consumer payment transaction will increase to JPY 248,636.8 billion in 2023, while the credit card transaction is 87,937.0 billion (35.37%) and store card transaction is 225.0 billion (0.09%). Although the store card market share decrease, the retailers encourage the co-branded cards, which may lead to opportunity for new entrants.

Besides, government passed the revised banking act on 26 May 2017, and it will come into effect in spring 2018, encourage the collaboration between banks and Fintech enterprises. Which may encourage the new entrants.

In the World Bank's starting a business ranking, Japan is 93 among 190 countries.

Threat of Substitution

Overall, the power of substitution is a little low in Japan. Therefore, I give it a moderate score.

In Japan, the total consumer payment transaction is about JPY 241,047.1 billion in 2018. Among the 241,047.1 billion, 140,411.6 billion (58.25%) is cash transactions, 49,665.1 billion (20.60%) is ATM transaction, 10,258.0 billion (4.26%) is pre-paid transactions, 1,188.0 billion is debit transactions. Therefore, the room left for the credit card and its similar product is not large nor small, which means the substitution threat is a little low.

Besides, the government encourages the cashless and cards payment method for the Tokyo Olympic Games 2020.

In the forecast, the total consumer payment transaction is about JPY 248,636.8 billion in 2023. Among the 248,636.8 billion, 120,809.0 billion (48.59%) is cash transactions, 43,627.1 billion (17.55%) is ATM transaction, 15,767.0 billion (6.34%) is pre-paid transactions, 1,721.4 billion is debit transactions. Therefore, people in Japan are expected to decrease the usage of cash and cash related financial products, which leaves more room for credit related products.

Industry Rivalry

Overall, the competition in fintech industry is a little high in Japan, but still leaves plenty of room. Therefore, I give it a moderate score.

In Japan, the market size of the fintech is estimated to be $715 million by 2021, more than 15 times comparing to US $45 million in 2015. And there is no specific data about the number of fintech companies, but according to the fintech association of Japan, there are 72 fintech companies in 2017, which is 46 in August 2016. Besides, the fintech investment is about $154 million during 2016, more than doubled of 2015. Therefore, although the financial system in Japan is well developed, the fintech is in the emerging stage and has a large potential market. The FAJ, a government organization, is now placing pressure on banks to fund more fintech startups, which is great to solve the funding problems. And Fintech is selected as one of 5 strategic sectors for government. However, the banks in Japan have great power, with 103 commercial branches per 1000 square kilometers, which add some barriers to the development of the fintech.

For the potential product, the store cards transaction value is declined by 4.3% to JPY 268 billion and is expected to decline to 228 billion in 2023. The number of the store cards declines by 7.2% to 1.44 million and is expected to decline to 1.061 million in 2023. Among the store cards issuer value in 2016, Takashimaya Co Ltd contains 87 billion (31.07%) and the top 3 issuers take up 79.84% market share, which means the market declines and the competition is relatively low. However, since all the issuer stop to issue new store cards, which is design for the high-income target customers and only for its own store before and encourage a shift to co-branded cards, among the top 32 retailing, hotels and airlines companies, 24 have co-branded cards, 10 are issued by the top 3 credit card issuers, which means the market is in the beginning and there is much room for compete, and there is opportunity for companies like Synchrony.

In the World Bank's easy of doing business ranking, Japan is 39 among 190 countries.

IMPLICATIONS FOR SYNCHRONY

Japan is another country which could be considered as an ideal market for Synchrony.

Firstly, financial infrastructure is well developed, and government are now encouraging a move towards cashless transactions for the Tokyo Olympic Games 2020, creates potential market for financial cards products. Besides, it encourages new financial collaboration between banks and fintech enterprises, placing pressure on banks to fund fintech startups and allows both types of foreign companies, master franchisee and joint venture. which may create an opportunity.

Secondly, although cash payment still takes up 58.25% of total consumer payment, the market share of it is decreasing. Besides, even though people realize the convenience of mobile wallet, they still not used to use it. Then the substitution threat of cards product becomes lower.

Thirdly, there are 162 main retailers with no monopoly power, since the top company only takes up 4.0% of the market share, which makes a low bargain power of buyers. And the culture of long-term local partner relationship is what Synchrony looks for as well.

Last but not least, there are only over 72 fintech companies, which makes a lower competition, especially when the market size of the fintech is estimated to be $715 million by 2021. For the potential product, since the retailers stop issuing new store cards which designed for high-income people in their own stores before and encourage the usage of co-branded cards. The potential market for Synchrony to develop is great.

In a word, Japan is a well-developed country with stable financial environment, great market potential for cards products and lower buyer power, which is recommended to invest.