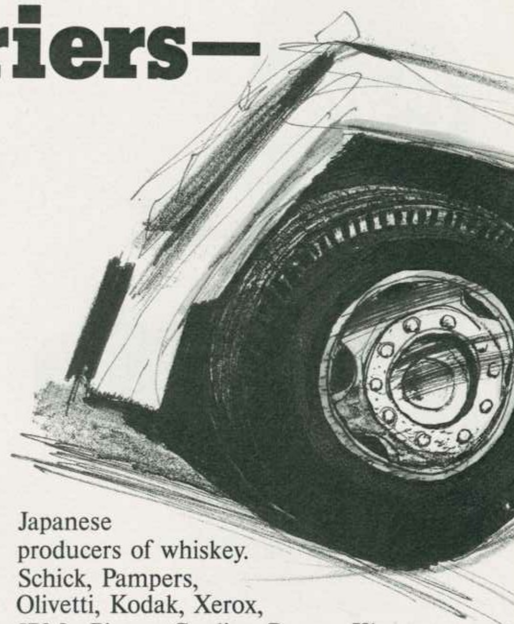
The Japanese Market —Benefits and Barriers—

By Kaoru Kobayashi



At a recent meeting sponsored by the Japan Overseas Enterprise Association, a veteran Tokyo correspondent of an American weekly news magazine told the audience that one of the hidden causes behind perceptions of the alleged "closedness" of the Japanese market is the fact that there have been virtually no reports about successful foreign companies operating in Japan. And that, he suggested, is because the winners don't want to share the secrets of penetrating this attractive and promising market with their competitors.

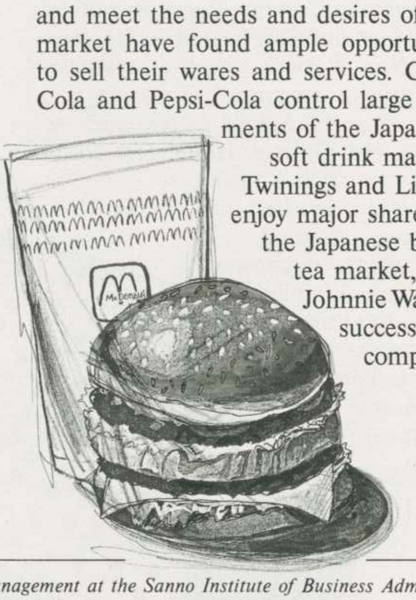
Groundless myth of "closed garden"

Some aspects of the widespread accusations about the Japanese market seem never to change. That is, the adage "A little learning is a dangerous thing" is never truer than in the context of marketing in Japan. Often with only surface knowledge of the requirements of the market, foreign entrepreneurs try and fail to sell their products here. Frequently they blame their failure on the country's exceedingly complex (to their inexperienced eyes) distribution channels, as if the system were established to preclude foreign participants. Or again, they go on about "protectionist" government policies. But the barriers to effective marketing in Japan are created not so much by closed doors as they are by closed minds. Overseas businesspeople read into Japanese companies what they want and expect to see. Self-appointed "experts" with gaps in their knowledge claim that the Japanese market is inaccessible. But such charges are proven groundless whenever a marketer, backed by adequate research, effort, strategy and resources, successfully taps the great potential that the Japanese market offers.

The most lucrative features of the Japanese market are its size and wealth. Crowded on islands that combined have only 1/25 the land area of the United States and 1/23 that of Brazil live about 120 million people producing one-tenth of the world's GNP. They speak the same language, are highly literate with one of the highest literacy rates in the world and earn a per capita income equal to approximately US$10,100.

Annual total savings per household are among the highest in the world at close to 20%. But the Japanese market is not limited to households; corporations here are well-known big spenders. Company expense accounts and other perks alone equal an estimated 1% of the nation's GNP. And this fertile economy is going to be further developed through pump-priming by the current government to meet the demands of the nation's trading partners.

Endowed with few natural resources, Japan has long been an important market for foreign producers of foodstuffs and industrial raw materials. It has also been an important consumer market. Customer-oriented entrepreneurs from abroad who are determined to identify and meet the needs and desires of the market have found ample opportunity to sell their wares and services. Coca-Cola and Pepsi-Cola control large segments of the Japanese soft drink market. Twinings and Lipton enjoy major shares of the Japanese black tea market, and Johnnie Walker successfully competes with Japanese producers of whiskey. Schick, Pampers, Olivetti, Kodak, Xerox, IBM, Pierre Cardin, Pyrex, Kleenex, Scottie and Contac are only a few examples of foreign brands that have become household words in Japan.



The most recent available statistics indicate that 5,661 foreign firms have made direct investments in Japan totaling US$6,065 million. By far the majority are American companies. A 1984 MITI (Ministry of International Trade and Industry) survey of 2,268 foreign firms in Japan found that 500 firms were in manufacturing, 384 in commerce and 96 in other fields. Of the parent companies, 474 came from the U.S.A., 394 from Europe, 91 from Asia and 63 from other areas. But one of the striking facts revealed by this annual report was that the net after-tax profit of the companies surveyed averaged 1.9%, rising to 2.2% for manufacturers, that compared favorably with 0.8% and 1.3%, respectively, for domestic Japanese companies.

This profitability of foreign firms doing business in Japan is further borne out by another study of European corporations operating in Japan undertaken by Tokyo-based PA International Management Consultants on behalf of the EC Commission. According to the booklet, *Selling to Japan from A to Z,* the study came up with some surprising results: "The report concluded that the company representatives feel that there is really almost nothing the Japanese government can do to open the Japanese market. They view the resolution of this prob-

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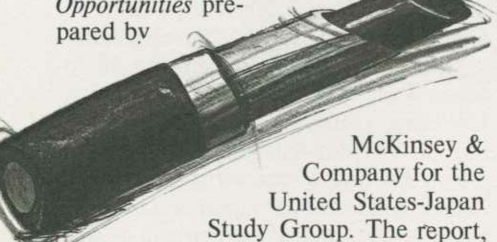
lem and achieving success in Japan as tasks which have been levied upon their own companies."

Obstacles and opportunities

The commonly held myth that the Japanese market is "a huge, perhaps rich, but entirely closed garden" was proved an utter fiction by a recent study entitled *Japan: Obstacles and Opportunities* prepared by



McKinsey & Company for the United States-Japan Study Group. The report, which denounced the prevailing misconception of a "tightly controlled Japanese market," seemingly was not well received by those concerned with entering Japan. One suspects the naked truth about the easy accessibility of the Japanese market comes as uncomfortable news to some, for it exposes their own insufficient efforts.

One of the most striking revelations of this conscientious study is that the total volume of U.S. exports to Japan is greater than generally perceived, and that the penetration of U.S. exports into the Japanese market is also greater than popularly acknowledged. U.S. exports account for a little less than 20% of all products Japan imports, and this figure is almost the same as Japan's penetration (20%) of the United States. The report declares that Japan, "though a difficult and fiercely competitive market, is far less controlled than commonly believed and in fact, is no more closed or controlled from the legal standpoint than some Western markets."

The study's conclusion is worth quoting at length: "Viewing quotas in perspective, Japan restricts just 27 product categories of which only five are nonagricultural items. This compares favorably with other countries' nonagricultural quota categories (e.g., the United States' six, West Germany's 11 and France's 27 nonagricultural items). In terms of overall tariffs, Japan's average of 3.2%, which includes recent reductions, is below most developed nations including the United States and European countries."

The study identified four important areas where foreign firms have been winners in the Japanese market: resource-driven products; technological leads; "new-to-Japan" concepts; and differentiated marketing strategy aimed at special market niches.

Typical examples of the successful use of resource-driven products are the oil companies. Mobil, Esso, Shell and Caltex are all familiar names to the Japanese.

Technological prowess can also enable overseas firms to enjoy comfortable market positions, as has indeed been the case in plastic engineering, liquid crystals, mainframe computers, copying machines, Teflon and pharmaceuticals. For example, we barbecue and prepare Japanese *okonomiyaki* pancakes on Teflon-coated electric pans. Our 40,000 drycleaners throughout Japan use Teflon-coated shirt pressing machines every day. Contac, Bufferin and Band-Aids are found in most Japanese families' first-aid boxes.

The third-product and service-entry area, concepts new to Japan, also offers abundant examples. Instant coffee, be it Nescafé or Maxwell, was once unknown to Japanese consumers. Today, it is a daily necessity. Safety razors, such as Schick and Gillette, completely eliminated traditional Japanese *kamisori* razors. Fast-food chains, too, have prospered. McDonald's, unknown to Japanese families only a short time ago, now takes pride in being the most profitable and productive of all McDonald's operations, contributing 36% of McDonald's business outside the United States.

The fourth area, the "special niche," again provides ample evidence that far-sighted entrepreneurs can catch the pulse of the changing Japanese consumer market. For instance, Louis Vuitton luggage is not confined to the top income or age bracket in Japan, but is carried daily by young women in every profession.

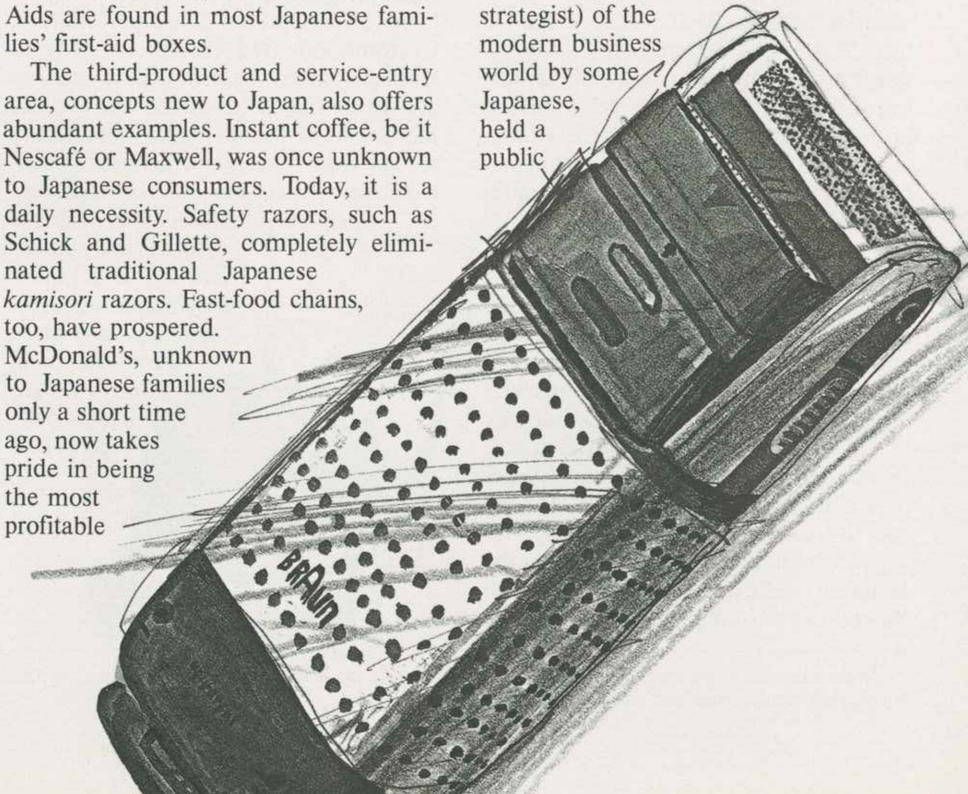
Success factors of winners identified

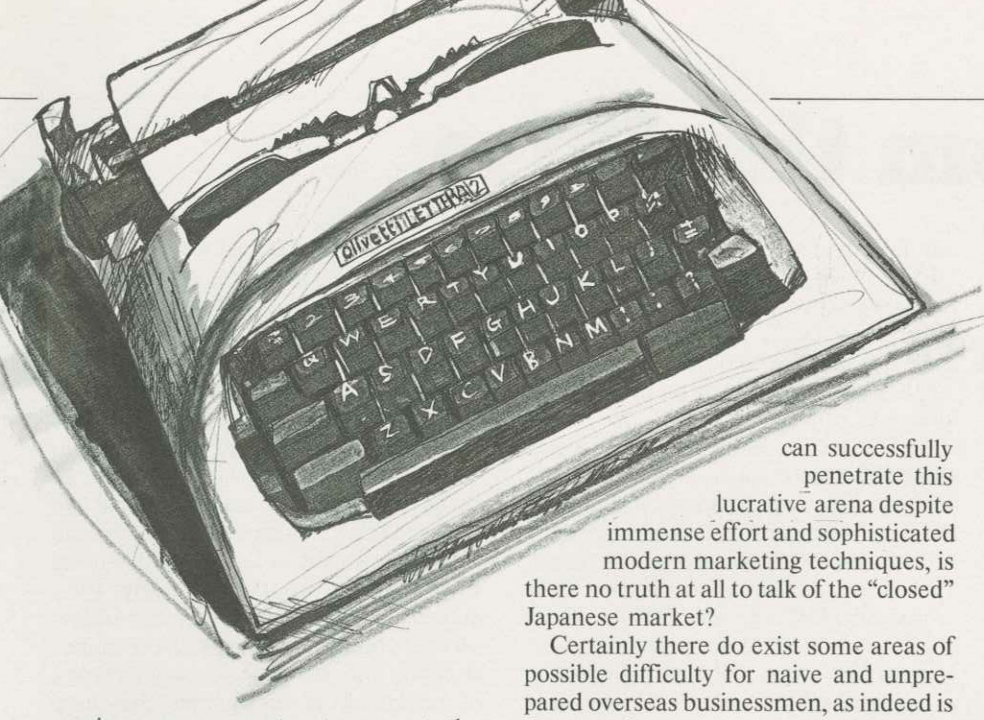
McKinsey's Trade Study Group report identified three key factors common to all successful entrants to the Japanese market.

Success factor No. 1 was commitment. The report frankly states that the U.S. firms that have achieved long-term success in Japan have made significant commitments of time, money and effort, and have solved the delicate human relations problems that naturally arise from cross-cultural differences.

Success factor No. 2 was creativity. Here creativity means flexible adjustment to local tastes, and strategic maneuvering to adapt to local preferences. The report quoted Wella's success in hair care products as a familiar example of a creative approach to the Japanese market.

The last big success factor in Japan is competitiveness. Dr. Michael Porter of the Harvard Business School, an authoritative strategist who has been nicknamed the "Sun Tzu" (ancient Chinese military strategist) of the modern business world by some Japanese, held a public





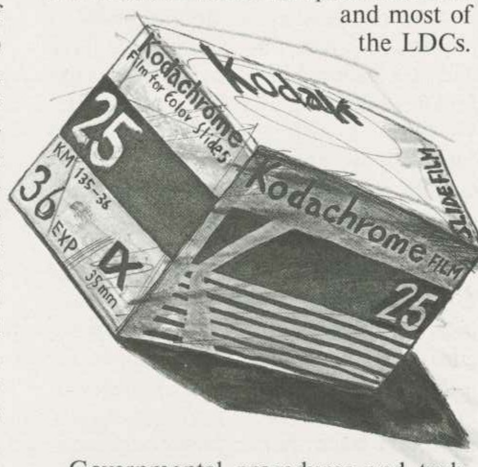
seminar on corporate strategy at the Hotel Okura in April 1983, attended by more than 400 businessmen. "If you can survive in this very fierce Japanese market," he told them, "you can be a winner anywhere in the world."

The McKinsey report was able to uncover four other fundamental traits of winners in Japan. First, they are able to tailor their products to the demands, tastes and very particular requirements of Japanese consumers, as Playboy products have in appealing to the Japanese ego. Second, most have cautiously selected Japanese counterparts to complement their original strength. Diner's Club worked with Japan Travel Bureau as their partner at an early stage, and Pfizer appointed Taito as their original collaborator. Third, as pointed out earlier, all have made heavy up-front investments and retailored their product lines and specifications to specific local needs. Fourth, they have effectively delegated authority to local management. Xerox is now under the leadership of Yotaro Kobayashi, who originally came from Fuji Photo Film. Seven-Eleven Japan has attracted 2,000,000 customers a day to its 2,828 stores through the excellent leadership of Ito-Yokado's Toshifumi Suzuki.

The real culprit?

Having refuted the widely shared view that the Japanese market is heavily guarded by visible and invisible trade barriers and protected by the all-powerful MITI in close collaboration with another equally influential institution, Keidanren (Federation of Economic Organizations), and having challenged further the misconception that no foreign enterprises can successfully penetrate this lucrative arena despite immense effort and sophisticated modern marketing techniques, is there no truth at all to talk of the "closed" Japanese market?

Certainly there do exist some areas of possible difficulty for naive and unprepared overseas businessmen, as indeed is the case in any overseas market entry game. But these perceived difficulties are not necessarily as big as the ones internationally-oriented executives usually encounter in approaching other foreign markets, and are far less burdensome than those in some European countries and most of the LDCs.



Governmental procedures and technicalities have been greatly streamlined since 1975. Numerous quality bilingual consulting and bridge-building business services are now available. To cite just one example, most of the Big Eight CPA offices have bases here. Japanese medical services are world class. International educational facilities are available for the children of expatriate businesspeople. No under-the-table money is required to expedite deals. City streets are safe at midnight.

So why does the perception of closedness persist among many overseas businessmen? For example, Neil Chessanow writes in his recently published *The World-Class Executive* that "More Americans have more problems trying to negotiate in Japan than in any other place beyond our national borders." The U.S. Department of Commerce estimates that for every successful trade agreement between an American and a Japanese firm, 25 commercial transactions fall through. In some cases this may be due to technical matters: market-entry barriers to foreign exporters, inability to find local distribution channels and the like. But the truth of the matter, he writes, is that a major culprit in the high failure rate is culture. Most Americans board their Japan-bound flights with little or no comprehension of what makes the Japanese "Japanese." Chessanow is absolutely right.

Research confirms that except in West German firms, no substantial, adequate orientation programs are provided for expatriates prior to their transfer to Japan. That would suggest that if you are ready to be patient enough to study in advance some of the major cultural differences and follow the wisdom of Drucker's Law, you will ultimately be able to enjoy success in the Japanese market. What is Drucker's Law? Professor Peter F. Drucker, guru of management and frequent visitor to Japan, used to say, "You will not be frustrated if you allow yourself to double the time usually required to process your business in the U.S.A."

The following final tips may be useful for companies considering investing in the Japanese market:

1) Find a good bilingual interface facilitator to help you enter the market.

2) Buying out Japanese companies is far more difficult than building your own outfit, because of different equity situations and the emotional involvement of employees.

3) Effective human resources management and building and maintaining trusting relationships are the most critical elements to doing business in Japan.

4) Make a detailed analysis of the market and be ready to serve the demanding, quality-conscious Japanese consumers.

5) Punctuality in delivery is vital in satisfying distributors and consumers.

One story springs to mind when thinking of the present position of the foreign businessman in Japan. Two salesmen from Europe visited a less developed country at the same time several years back. One of them cabled home, "PLS FORWARD FIVE MILLION SHOES BECAUSE NOBODY WEARS ANY SHOES HERE." The other salesman sent a telegram to his office, saying "IMPOSSIBLE TO SELL ANY SHOES BECAUSE NOBODY WEARS SHOES HERE." Which message you send from Japan is entirely up to you. ●