How Foreign Firms Can Succeed

By Nagami Kishi

It was once generally believed that foreign companies could only rarely succeed in Japan. Over the years, many foreign companies have, in fact, stumbled badly while trying to establish themselves in Japan, and many have either withdrawn or sharply reduced their business. In the past year or two, however, the situation has changed greatly, and the number of foreign companies scoring successes in Japan has soared. A typical case is BMW Japan Corp., whose outstanding performance in Japan has recently caught the media's attention in the United States and Europe.

Why then have many foreign companies failed in Japan while many others, especially in recent years, have succeeded?

Inflexible strategy

To begin, let us describe a few of the notable failures of foreign companies in Japan—and then explain where they went wrong. A classic case is a big American toothpaste manufacturer that came to Japan many years ago. The company, Colgate, which had a sizable market share in the United States and Europe, came to Japan filled with confidence and high hopes. To get started, the company dropped huge numbers of free product samples into the mail boxes of Japanese homes. But the product launch was a flop. Why? Because the Japanese people simply did not like the taste and fragrance of the toothpaste—and the company did not change it.

Nestlé has scored a big success in Japan with instant coffee. Its mainline product, chocolate, sells poorly in Japan, however. The reason that Nestlé chocolate failed to become popular in Japan is because its original market strategy was wrong-headed: it sold its chocolate at high prices in supermarkets. In doing so, it was following a strategy which had worked in other countries, that chocolate is for adult consumers. At the time that Nestlé introduced its chocolate into Japan, the Japanese consumer saw chocolate as an inexpensive candy for children that sold only at small candy stores.

Northern Feather Ltd., a Danish down quilt maker, boasts the biggest market share for down quilts in the world. Its business in Japan, however, despite a spectacular start, is now sluggish. When Northern Feather first arrived in Japan, there were no down quilts in the Japanese market. Within a remarkably short time, Northern Feather down quilts became extremely popular.

But Japanese *futon* bedding manufacturers were stung by Northern Feather's great success—and therein lay the seeds of the Danish company's demise in Japan. The Japanese *futon* makers thoroughly studied the response of Japanese consumers to Northern Feather's down quilts, and they designed new products to correct shortcomings pointed out by consumers. In particular, they washed their down twice as thoroughly as Northern Feather did, to remove the raw smell of feathers which Japanese consumers found offensive. They also stitched the covering in check patterns to prevent the down from shifting around inside the cover. And they wrapped the down in vinyl cloth so that bits of feather would not stick out through the cloth cover.

Northern Feather's head office smirked at these changes, labeling them "perversions" of the fine art of quilt-making. The head office in Denmark rejected its Japanese office's requests for product adjustments. As a result, Northern Feather's market share in Japan skidded badly and it now stands close to zero. In all fairness to Northern Feather, it may well be that it was correct in insisting that its product specifications remain unchanged. It may have felt that such changes would have altered the essential characteristics of its product. Still, the fact remains: its failure to adapt to the Japanese market led to its failure to survive in Japan.

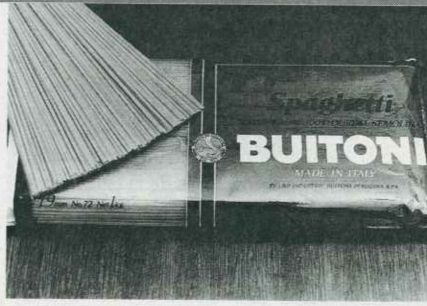
Failures like the ones mentioned above have been numerous. One thing they all have in common is that the head office dictated sales strategies in Japan, but these strategies did not meet the needs or preferences of the Japanese market. The reasoning of these foreign companies appeared to be that because the marketing strategy devised by the head office was a big success in the United States and Europe, it should be a big success in Japan.

When NTT tried to purchase telephone switching systems from AT&T about four years ago, NTT asked AT&T to slightly change the specifications of the system for Japan. AT&T rejected NTT's request, however, reasoning that since telephone switching systems with the existing specifications had been sold all over the world, it was unnecessary to change the specifications for Japan alone. In the end, the negotiations fell through.

Size of market

For their part, foreign enterprises had good reasons for sticking to their head office strategies. In the past, Japan was a small market a long way away and did not occupy an important position in the strategy of global enterprises. And because Japan was not an important market, the staff sent to Japan were not key people in their organizations. They were expected to unquestioningly do the bidding of their head offices.

A person who served as the Japan representative of a European pharmaceutical company about a decade ago reminisces: "In those days, our compa-



ny's Japanese subsidiary was a training ground for the company's future middle-echelon managers. Generally speaking, this was the prevailing philosophy of foreign companies doing business in Japan: Because we are a global enterprise, we should have a Japanese office. Since Japan is a small market, though, we would be satisfied if the Japan office did only so-so business and avoided a big loss."

It was thus natural that foreign companies did not put as much energy into their Japanese subsidiaries as into other foreign subsidiaries around the world. And given a meager budget, it was only natural that the Japanese subsidiary was unable to do good business in Japan.

There were problems, too, with the Japanese employees of foreign companies in Japan. The number of Japanese interested in working for foreign companies has increased in recent years. From the mid-1960s to the mid-1980s, however, Japan enjoyed high economic growth except for the oil crises, and Japanese business corporations hired competent Japanese for high wages in great numbers.

Foreign companies doing business in Japan, meanwhile, gave top priority to hiring those Japanese that spoke their language. This screening standard eliminated candidates with strong business skills, however. In those days, there were very few Japanese who could speak and write good English and also had strong business skills.

Top-ranking Japanese companies had posted competent staff who were good at foreign languages at their overseas branches. Yet in the world of corporate Japan, those posted abroad were not regarded as belonging to the elite group of employees qualified to climb to the top of the Japanese corporate ladder. No matter how competent they might be, employees of a Japanese company who had been away from the head office for many years were at a great disadvantage compared with those who had continuously worked at the head office, and had been establishing the "personal contacts" that are of paramount importance in Japan.

The upshot was that foreign companies found it very difficult to hire competent Japanese staff, which in turn weakened their competitiveness. Moreover, the relative weakness of the managements of foreign companies in Japan led to their keeping silent even when things were not going well; they were reluctant, or unable, to sway the head office to change their strategy to meet the requirements of operating in Japan.

In those days, the Japanese government also took measures to help Japanese companies compete better against foreign companies. This, too, placed foreign companies' subsidiaries in Japan at a great disadvantage against their Japanese competitors.

Price of neglect

Things have changed greatly in the past several years. One after another, foreign companies have had great success in Japan. The biggest reason for this turn of events is that Japan has become the second-largest economic power in the world, with a major consumer market which modern corporations neglect at their peril.

In discussions with top foreign company executives in Japan and with board directors from head offices, a few refrains are invariably heard. "Japan accounts for more than 20% of the aggregate GNP of the industrialized democracies," they say. "It is only fitting that 20% of our company's sales should come from Japan." And: "Our company's share of the world market is 20%, but our company's share in Japan is 5%. This is unreasonable. We would like to control a market share in Japan as big as our company's world market share."

In the past, a major American automobile manufacturer exported large, left-hand drive cars which were totally inappropriate for narrow Japanese roads. When the manufacturer was told that such big cars would not sell in Japan, it replied that it could not change its specifications in order to sell a few hundred cars in Japan and that it could not help it if American-specification cars would not sell in Japan. Things have changed greatly since then.

BMW and Daimler-Benz each sell 40,000 cars annually in Japan, some 8% of their worldwide sales. With Japanese sales increased to such an extent, specifications can be modified to make cars suitable for the Japanese market. Confident of selling their cars in Japan, companies are willing to make the required investment.

Italy's Buitoni Co. is producing special packages of spaghetti for export to Japan. The reason: Japanese people eat half as much spaghetti as Italians. After careful market research, Buitoni found it necessary to make smaller packages to meet Japanese consumer demand.

As the Japanese market has grown so big that it can no longer be neglected, foreign companies try to manufacture products that satisfy particular Japanese demand. When they find there is a reasonable chance to sell a large volume of their products profitably in Japan, they naturally begin to work out a marketing strategy targeted at the Japanese market. This strategy generally focuses on an attempt to manufacture products that are suited to Japanese tastes and preferences.

Learning a lesson

Procter & Gamble Co. is a good example of a foreign company that has had a resounding success in Japan, although only after experiencing great initial difficulties. In its early days in Japan, P&G simply could not turn a profit. At the time of the oil crises, in particular, the company suffered big losses, and the United States head office had to inject huge sums into its Japanese subsidiary.

In addition to this bitter experience, P&G was to suffer yet another setback in Japan. This time, however, it learned a valuable lesson, changed its marketing strategy, and set the stage for later success with other new products.

Its second setback came with paper diapers, a hugely successful product for P&G in the U.S. and many overseas markets. In Japan, however, its paper diapers suffered a miserable defeat after

Japanese manufacturers designed new diapers in response to the appearance of the American product on the market. Within a short time of the introduction of these Japanese products, P&G's market share for diapers in Japan—like Northern Feather's market share for quilts—fell sharply.

As in the case of Northern Feather, Japanese manufacturers had studied the defects of P&G's paper diapers thoroughly, made innovations and won over Japanese consumers. Unlike Northern Feather, however, P&G fought back. It studied the mentality and preferences of Japanese consumers and changed its products to suit Japanese needs and tastes. As a result, P&G gradually regained its market share.

The next time P&G introduced a new product in Japan, sanitary napkins, the company studied Japanese consumers' preferences from the very beginning, working out specifications suitable for Japanese consumers.

How have foreign companies worked out successful marketing strategies in Japan? Basically, they have recruited competent Japanese and put them in key positions. BMW owes its success in Japan not only to the excellent quality of its cars, but also to the fact that it headhunted a top-echelon executive from a big Japanese company and had him fashion a marketing strategy attuned to the Japanese market.

Delegating authority

Jacobs Suchard, a Swiss chocolate manufacturer, has enjoyed remarkable success in less than a year after beginning business in Japan in the autumn of 1989. Jacobs Suchard's former Japan representative, a German who returned home in September, recruited three Japanese managers to be in charge of marketing, sales and accounting/finance, and gave them the authority they needed to work in their own way. This has been the secret of the company's great success in Japan. Today, Jacobs Suchard Japan has more than 80 employees, all hired by the three Japanese managers who were entrusted with the task of recruiting the entire work force. Says the former representative: "The safest way is to have the Japanese managers screen job applicants with their own eyes."

Perhaps the most crucial factor in the creation by foreign companies of successful subsidiaries in Japan, however, is the fact that the Japanese market is now large enough for foreign companies to send high-ranking, competent managers to Japan. These high-ranking executives, with authority and power, can adopt the sometimes drastic strategies necessary to succeed in Japan.

It is only natural, after all, that a foreign company should succeed in business in Japan, if competent managers draft a thorough strategy and conduct marketing according to that strategy. Because Japan is now such an important market, executives of foreign companies often visit their Japanese subsidiaries. These executives thus get to know the actual conditions in Japan at firsthand. If they spot a problem, they can take prompt action to resolve it. This, too, contributes to getting things rolling in the right direction.

Several years ago, IBM Japan established its Asia-Pacific headquarters in Tokyo to control operations in the region and to facilitate smooth communications with the head office. Poor communications, due in part to the time difference between Japan and the U.S., had often been the cause of trouble between IBM Japan and the U.S. head office. The Tokyo headquarters eliminated the time lag problem, and did indeed improve communications between IBM Japan and the head office in many ways. The step allowed IBM business in Japan to take a turn for the better.

I would not want to give the impression that all foreign companies in Japan are doing good business. Of course they are not; the obstacles to success remain daunting. Even today, a good number of foreign companies are trimming down business or withdrawing from Japan after suffering failures. Securities firms, for instance, have had an especially difficult time.

Believing that Tokyo would become an international financial market, as many as 50 foreign securities firms came to Japan, one after another, without ascertaining what their real prospects would be. Already, several of them are in disarray, having no clear-cut strategy about how to crack the Japanese market. More than half of the foreign securities firms now operating in Japan are in such a miserable state that it would not be surprising they pulled out any time.

Eager to adapt

Increasingly, foreign companies are adopting Japanese-style personnel administration out of eagerness to adapt to the Japanese corporate climate. This probably works to the advantage of most Japanese employees of foreign companies, but it also has an unanticipated side effect on some young, ambitious Japanese at these companies. Many such young people joined the foreign company in the belief that foreign companies provide opportunities to climb the corporate ladder, no matter how young the employee. In a fully assimilated foreign subsidiary in Japan, however, such opportunities do not normally exist, and such companies have been losing some good young employees as a result.

Foreign companies must use ingenuity in their own "Japanization," trying to meld the merits of both their own and the Japanese corporate systems.

Needless to say, a foreign company's success in Japan presupposes the high quality of its products and services. The experience of foreign securities companies should be a cautionary tale; they rushed to Japan in hopes of a quick profit, but without a clear-cut strategy and a distinct corporate identity by which to reach their goals. Rents in Tokyo are the highest in the world, and personnel costs have risen to a level comparable to those of Europe and the United States. One thing is sure—if foreign companies come to Japan believing that everything will be smooth sailing once they get here, they are in for a rough ride.

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