

# Words from the Wise

By Shozo Hochi

The following two interviews with executives of two very different companies highlight some of the challenges faced by foreign companies doing business in Japan. They both indicate that it can be a rewarding experience for firms willing to couple flexibility with patience.

## Blazing Trails in Electronics



Jack L. Osborn, vice president of TRW Overseas Inc.

**Question:** *What are the major activities of TRW and TRW Overseas Inc.?*

**Osborn:** TRW Inc. is a diversified American company, with approximately 90,000 employees and 350 factories throughout the world. We are active in four major areas of business: electronics, automotive, energy and information systems, which in TRW's terms mean databases. In the energy field, TRW Inc. builds oil pumps that pump 15 to 20% of the entire world's oil supply. In the automotive field, we are the largest independent manufacturer of engine valves and steering gear in the world. On the electronics side, our company is involved in commercial electronics, such as electronic components and semiconductors, but we also build spacecraft and satellites. *Pioneer I*, the first spacecraft to leave ever the solar system, was built by TRW. We are also the second-largest American developer of software, and we are very much involved in software for spacecraft and for military satellites and various communications systems, especially defense communications systems. For the sake of comparison, our annual sales are about \$6 billion, or nearly the same as Sony Corporation's.

**Q:** *What are the major activities of TRW Overseas Inc.? When was it established here?*

**A:** TRW Overseas Inc. has been involved in business in Japan for over 30 years. TRW Overseas Inc. is the business development and liaison office of TRW, established in 1981. Under Japanese law, we are set up as a branch office. In fact, this office is the business development office for TRW in all of Asia, not just for Japan. We do business development activity in Korea, and I assist in the management and the business work for

our Taiwan electronics facilities. We also operate in Singapore where we have factories. Personnel from this office go as far as New Delhi. There are about 40 people at our Tokyo office.

**Q:** *What kind of factories do you have in Japan?*

**A:** Our major factories in Japan are automotive factories producing automotive parts for the Japanese automobile industry. They are run as independent subsidiaries of TRW under the name TRW Tokai. All these factories are 100% owned by TRW, with about 800 employees in total. In addition, we have a joint venture, in which TRW is a minority participant, with Daido Steel Corporation. We also have joint ventures in the electronics field with several Japanese companies in such areas as electronic connectors and resistors. In one case, we transferred the production technology to Japan; in the other they manufacture based on our specifications.

A lot of the work we do is actually in imports to Japan. For example, we have had a relationship with NASDA, the Japanese space agency, for over 20 years. We also import semiconductors into Japan, so we are very familiar with the current semiconductor issues. It is important to add that we are *not* a major semiconductor company, but we do a very respectable business in Japan in the semiconductor field. Seven years ago we installed a special directional finding security system at Narita (New Tokyo International) Airport, for the Ministry of Posts and Telecommunications. Again, we didn't build that in Japan because it required special technical know-how. TRW is the leading company in the world in the directional finding field.

**Q:** *Do you think criticisms of Japan as a "closed" market are valid?*

**A:** I think that for foreigners generally it is very difficult to understand the complexities of the Japanese market. It's very difficult for foreign firms who want to do something that a Japanese firm is already doing. This has been true especially in the past five or six years. The situation for foreign firms who entered the market very early on is of course quite different, but these days the most successful foreign firms are those who are doing something new and different.

**Q:** *What has been the most difficult problem TRW Overseas Inc. has had to face in doing business here?*

**A:** Well, it wasn't really a problem, it was more of a challenge, in introducing a new product to Japan. It was our power supply, a box that is the brains of the electric current supplied to computers. To introduce our engineering services and our manufacturing into the Japanese market, we had to adopt a combination of the American and Japanese ways of doing business. We are happy that we received our first major order within nine months, a major order to build tens of thousands of this power supply. Fifty percent of this struggle was in building up the confidence of our Japanese manufacturers and the other 50% was in terms of convincing our management that there really was an opportunity to be involved in the Japanese market in that field.

**Q:** *Does TRW Overseas Inc. have any plans for diversification in Japan?*

**A:** We have expansion plans, but not diversification plans. We are hoping to build a small engineering design center here in the very near future. In addition we are bidding for the security systems work at the Kansai airport.

**Q:** *What is the importance of the Japanese market in TRW's global strategy?*

**A:** My personal opinion is that in order for TRW to remain successful in commercial electronics, it has to meet the challenge of the Japanese market and be able to build the products that Japanese companies will want to buy. As has been said so many times, if you can be successful in Japan, you can be successful anywhere in the world.

**Q:** *What is your most important role as chairman of the 80-member high-technology committee of the American Chamber of Commerce in Japan?*

**A:** I think the most important role today for the chairman of the committee is to make sure that emotional points of view expressed by American companies are evaluated in the clear light of fact, so that when the chamber takes a position on a high-technology issue, all emotion is removed and just the cold facts are discussed.

**Q:** *What would be your advice for a foreign company hoping to enter the Japanese market?*

**A:** I think the most important thing to say to foreign companies is: "Don't use middlemen. Send true company employees who really understand the products. You have to come to Japan and meet the business community face to



face to build up personal relationships." So my advice would be: "If you are going to send people to Japan, select them very carefully." ●

## Smoothing the Way for Foreign Firms



Luciano Cohen, president of PMC Co., Ltd.

**Question:** *How long have you been in Japan now?*

**Cohen:** I came to Japan in 1967, so it's about 20 years now. I first served as president of Olivetti Japan, and I was here for about 10 months making preparations before I assumed that position.

**Q:** *What are the major activities of PMC?*

**A:** Well, PMC stands for Promotion, Marketing and Consulting, and this company was created to assist foreign companies who are looking for possibilities in the Japanese market. Some want to sell their products on the Japanese market, others want to sell technology; some want to sell directly, others want to sell through distributors; some of them want to establish joint ventures with manufacturers. We help these companies to find the right solution. We start from basic market research, make step-by-step technical recommendations, and then we bring them up to the point where they can do business in Japan. After that point, we can help to form marketing plans, promotion and publicity plans, help a company make contact with retailers, all those needed services.

In the beginning, even large companies start small, or maybe our client is a large company but its business operations here in Japan are small. So we allow our clients to use our office space, use our staff on a part-time basis, help them to find local financing and arrange other services until they become big enough to be fully independent.

**Q:** *How long has PMC been in business?*

**A:** It started in 1974; I joined in 1980. I really don't think there are any other companies here quite like ours, not in terms of the full range of services we can offer.

**Q:** *How many companies have used your services?*

**A:** I don't have the actual count, but quite a few. In the past 12 years, maybe 150 companies have sought our services, and of course, new inquiries are coming almost every day, mostly from European-based firms. We don't carry out any pub-

licity for our company, but our satisfied customers recommend us to others.

**Q:** *Can you give some examples of companies that have successfully entered the Japanese market through the arrangements of PMC?*

**A:** Yes, one is Cassina, an Italian furniture manufacturing company. They started a joint venture company in Japan about five years ago. The furniture is modern, quite costly and based on Italian designs. Cassina's annual sales currently amount to roughly ¥2 billion. Another of our clients is an Italian ski boot manufacturer. They took over from an agent and the transfer was carried out without pain. The first year was very successful.

**Q:** *What sort of commission do you charge your clients?*

**A:** We don't work on a commission basis, we receive fees calculated on how much time and effort we put into helping a company. Our estimates are submitted to a client in advance, and based on his agreement, we go ahead with our plans.

**Q:** *What do you see as the special characteristics of the Japanese market?*

**A:** I think customer loyalty to a supplier is a very important point. Customers are also much more demanding, in terms of quality, service and delivery schedules, than are customers in the rest of the world. Another point that distinguishes Japanese business practices is that if goods are not sold, they are returned to the manufacturer, who accepts them as a matter of course. Of course, this means the manufacturer will lose money.

**Q:** *What are the positive differences in doing business here in Japan?*

**A:** I think the fact that it is such a challenge is a positive point in itself. You always have to plan in advance if you want to be and stay competitive. Another advantage of this market is that it contains some 120 million people with a very high average income level. It's also a very unified market, so it's not very difficult to say that products that sell well in Tokyo will also sell well in Fukuoka. So if a company has good products to offer, they can be sold in large quantities throughout the country.

**Q:** *Do you mention all these things to your clients?*

**A:** Of course, that's what our function is.

**Q:** *What has been the most difficult problem for PMC so far?*

**A:** The most difficult problem has definitely been finding the right people to act as consultants for our clients. There is not so much movement of experienced personnel between companies here, although that has been changing in recent years. We don't usually hire fresh univer-

sity graduates; we prefer staff who are experienced in business themselves so they will know where the problems and pitfalls lie and help our clients to avoid them as much as possible. At the moment, our staff here at PMC includes four partners who are experienced in both legal and business fields, as well as several engineers and general businesspeople.

**Q:** *Do you do anything like headhunting?*

**A:** No, not really.

**Q:** *Due to the aging of society and the recent rapid appreciation of the yen, some think there will be more experienced people on the unemployment lists. What do you think of the short-term future of the job market here?*

**A:** To begin any new business here, you must hire younger people. They are needed to go out and find customers, to do all the running, walking and listening customers require. In larger companies, those experienced, older people can make very useful contributions.

**Q:** *What are your main concerns for the future as president of PMC?*

**A:** My main concern is related to the fact that the Japanese import figures don't increase fast enough. Even though foreign companies are trying to bring in and sell good products, it is never easy to obtain a good market share. In spite of a lot of effort and good will on the part of the Japanese government and a lot of organizations, the monthly and annual statistics show that there is not much increase in Japan's imports. Japanese manufacturers want to produce things themselves under license, so that whenever a product begins to sell well the importer makes an attractive offer to manufacture the product under license. You will note that most foreign products that have important market shares are manufactured in Japan under license.

**Q:** *What do you see as the solution to this problem?*

**A:** The solution is that there should be more foreign companies who actually come to Japan and try to develop a market by themselves, rather than through imports. Only a manufacturer with his own sales organization can be successful in Japan because of the size of the market. More foreign companies must invest directly in this market.

**Q:** *Do you have any advice for a foreign company hoping to enter this market?*

**A:** As I have just mentioned, come yourself. Don't expect to make a profit in the first year. You must invest, you must be patient, you must work very hard and you must have good products which can compete here. It's brief advice, but I think it's the key to doing business successfully in the Japanese market. ●