

# Acceptance Abroad

## CASE STUDY 1 YKK do Brasil

# Fasteners to Open the Future

**Y**oshida Brasileira Ind. e Com. Ltda., or YKK do Brasil in short, is located in the suburbs of Sorocaba, a hilly town of 350,000 about 90 kilometers west of São Paulo. A wholly-owned subsidiary of Yoshida Kogyo K.K. (YKK), a company that commands more than 50% of the world fastener market, it stands on a vast site acquired in anticipation of future expansion.

The 34,000-square-meter factory bristles with 1,100 zipper-making machines operated by some 600 workers. Investments made in the plant since it entered operation in May 1975 add up to the tune of US\$8 million. Sales in 1987 are expected to reach \$37 million. The high-quality zippers supplied by this plant are playing a big role in Brazil's efforts to export clothes, bags, shoes and other finished goods. But of course, Rome was not built in a day.

Around 1975, when nylon fasteners were first sweeping the world market, YKK settled in Brazil with a parcel of plastic zipper production equipment. In those days, however, metal zippers still claimed 95% of the Brazilian market. Puzzled by YKK's investment, local clientele raised an outcry. In the end, YKK was driven to adding metal zipper equipment. The resistance was not as baffling as it might seem at first glance. At the time, locally made low-quality nylon fasteners were flooding the Brazilian market. Nylon fasteners had earned a bad name.

But YKK do Brasil changed all that. Coming in with superior production know-how, the company eventually succeeded in completely altering the pattern of demand. That plastic zippers now have a market share of 60% in Brazil shows just how farsighted YKK's demand forecast was.

In Brazil, economic policy changes often, and drastically. Enterprises need time to adapt. And to crown it all, the government restricts imports of goods similar to those produced indigenously in order to protect domestic industry.

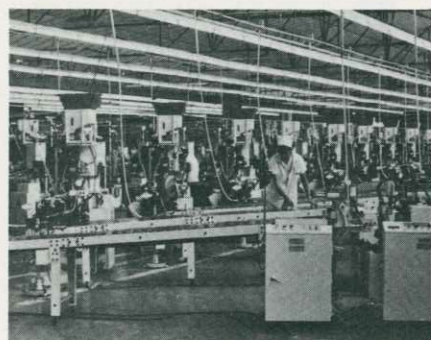
YKK do Brasil was no exception. The company had the greatest difficulty in procuring machine parts and such raw materials as flat wire and monofilament. After relying at first on imports from Japan, it now procures these materials 100% locally thanks to the technical guidance it has extended to local makers, who even supply raw materials to their competitors.

One of the deciding factors for putting an overseas venture on track is management. This was all the more true in Brazil, where shifting policy and a strained economy made the judgment of knowledgeable local staff essential. Japanese staff alone would not have done the trick. While adopting the strong points of Japanese-style bottom-up management, the company transferred managerial rights to local staff as much as possible through "managerial localization." Today, there are only 14 Japanese staffers, five on the business side and nine in production.

The way YKK do Brasil settled in Brazil was rather unique for a Japanese firm. When Sorocaba, a commercial town on the way to São Paulo, came out with a plan to attract industry by setting up an industrial park in its suburbs, YKK do Brasil was quick to respond. The venture provided stable employment opportunities, and served as a pilot enterprise for the new municipal policy.

Since its inauguration, YKK do Brasil has reinvested all its returns locally, and has branched out into other lines. For example, it has participated in the *cerrado* development project, a joint undertaking by the Japanese and Brazilian governments to open up virgin territory. On a 11,000-hectare tract of land it owns for the *cerrado* project, YKK do Brasil is putting its profits into Brazil's agricultural development.

The Brazilian government's import restrictions, aimed at improving the country's balance of payment position and fostering domestic industry, still make procuring machinery and parts a chronic difficulty. To overcome this problem,



YKK do Brasil contributes greatly to Brazilian efforts to export various products using zippers.

YKK will promote production of such equipment locally. YKK also plans to build plants in various regions of the country by capitalizing on government tax incentives for siting in underdeveloped areas. These plans, once put into action, are expected to create new employment and assist Brazil's resource and industrial development.

The establishment of YKK do Brasil has made it possible to put YKK brand fasteners on the market in a country where imports of completed fasteners are banned. It has also positioned YKK to develop a vast market backed by promised population growth and rising per capita incomes, as well as to establish a key processing export base favored by reasonable wages and self-sufficiency in materials.

With the recent surge in the yen, Japanese enterprises are being forced to shift from their conventional Japan-centered corporate strategy to a new pattern of production "nuclei" scattered throughout the world. Although buffeted by accumulated debts and violent economic fluctuations, Brazil is a land of major resources with great growth potential. Chances are good that it will evolve into an important export base in years to come. It is YKK do Brasil's goal to develop this promising country into a "nucleus" of YKK's worldwide strategy. ●

(By Yutaka Ikegami, vice president, Yoshida Brasileira Ind. e Com. Ltda.)