Keys to Success for Imported Consumer Goods in Japanese Market

By Masayoshi Furuya

Japan is now discussing problems related to barriers to foreign products entering the Japanese market with the United States and West European countries. We should like to review the prerequisites for the success of imported products, especially consumer goods, in this market. We will make reference to specific examples in an effort to delve constructively into the distribution system and business practices in Japan.

It is first necessary to state briefly the characteristics of the Japanese market.

(1) The Japanese market is large and has high growth potential. Per capita gross national product is nearly US$10,000; the population exceeds 110 million. The market is also characterized by the existence of consumers in relatively high income brackets on the average.

(2) Powerful domestic manufacturers engage in fierce competition in most sectors of the market. As a result, there are frequent model changes and new product announcements, shortening product life cycles.

(3) Advertising and publicity activities using the highly developed mass media have a significant impact on sales.

(4) Consumers are very demanding, not only concerning the commodities themselves, but also regarding incidentals such as packaging and after-sales service.

In the following, we shall discuss several foreign products that have achieved success in this challenging market.

1. White Horse whisky

White Horse is the most popular imported whisky in Japan, and in recent years has posted large sales increases. The whisky market is extremely competitive, with nearly 400 domestic and foreign brands on sale. The reason for White Horse's success in the face of this competition is the stress Jardine Matheson and Co. (Japan) Ltd., the sole agent, and the foreign supplier have put on advertising and publicity. Advertising and publicity expenditures for White Horse increased

nearly nine times from ¥40 million in 1979 to ¥350 million in 1982. The cost has been shared equally by the foreign supplier and the Japanese importer.

In most cases, advertising and publicity expenses for imported goods are left to the Japanese importers. Especially in the case of consumer goods, whose sales depend to a large extent on effective advertising and publicity activities, it is very difficult to match domestic competitors, either quantitatively or qualitatively. The White Horse case would suggest that one key to expanding sales volume of imported goods in Japan is active assistance by foreign suppliers in advertising and publicity activities.

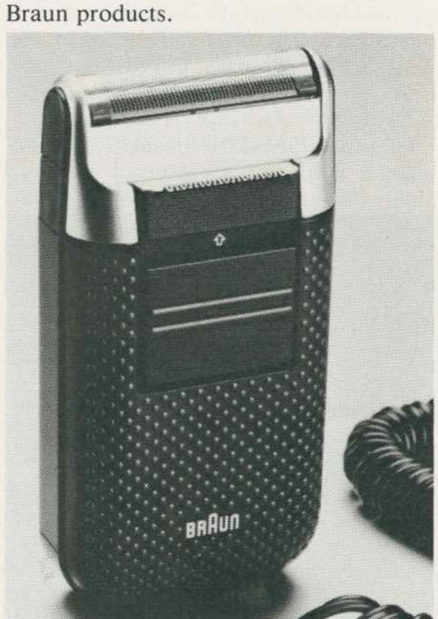
Another reason for White Horse's rapid sales growth has been the active expansion of distribution channels for sale to clubs, bars and other commercial customers through domestic agents and liquor shops. At present 80% of White Horse's sales in Japan are to commercial customers, indicating that the task for the future will be to cultivate demand from the general consumer.

2. Braun electric shavers

Swiss electric shaver maker Braun entered the Japanese market in 1962 at a time when electric shavers were just beginning to be sold in the country. There was thus no competition from Japanese manufacturers, making new entry easy.

Even so, for about five years Braun did not try to cultivate the Japanese market on its own, but instead entrusted sales to Hattori & Co., Ltd. (Seiko). In this manner it sought to build up distribution channels and accumulate know-how about the Japanese market and distribution business. In 1968 Braun Electric Japan (now Braun Japan) started importing and selling its products on its own. Since then the firm has consistently concentrated its marketing efforts on electric shavers. At present the company has an 18% share of the Japanese market on a value basis and a 10% share of all shavers sold, clearly indicating the relatively high price of its products.

The reasons why Braun has succeeded in securing a stable market in Japan include high product quality in function and durability as well as in design, and the consistent emphasis on quality in its advertising. Braun shavers also do a good job with Japanese facial hair, and the company has an established quality image in the Japanese market. Its shavers are often sold at shops affiliated with domestic electric shaver manufacturers, testifying to the strong consumer demand for Braun products.



Product differentiation can thus be seen as another key to success in the Japanese market. There are many ways to differentiate a product, including emphasizing price, performance, technique, durability, or design. Braun shavers have won out in competition with both domestic and other imported shavers by attaching importance to function and durability.

It should be added that Braun has also sought to sell commodities in Japan that suit the characteristics of the market. For instance, battery-powered products sell better in Japan than products using alternating current, a fact reflected in the Braun product mix offered here.

Immediately after their successful penetration of the Japanese market, foreign products will be facing strong competition from similar and newer Japanese products.

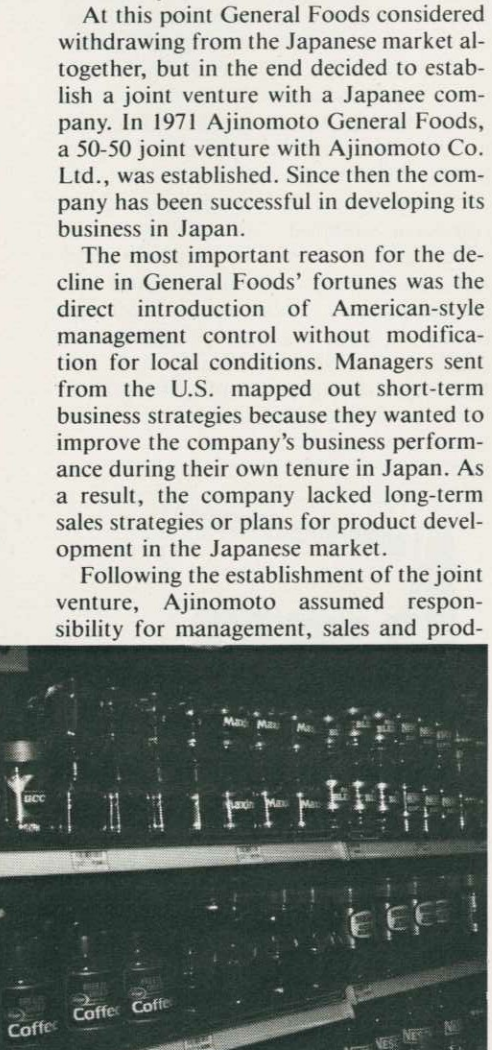
3. Ajinomoto General Foods instant coffee

Ajinomoto General Foods is an example of a foreign company establishing a joint venture in Japan to improve its understanding of Japanese market characteristics. General Foods Corporation of the U.S. opened a Japanese branch office in 1954 to manufacture and sell instant coffee. Instant coffee was new to the Japanese market, and General Foods' product sold fairly well at first. Later, however, business declined as Japanese and other overseas makers rushed to enter the instant coffee market. The company's market share, at one point 85%, declined to 15% by 1970.

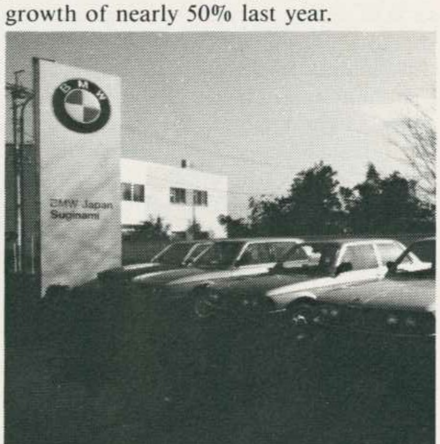
At this point General Foods considered withdrawing from the Japanese market altogether, but in the end decided to establish a joint venture with a Japanee company. In 1971 Ajinomoto General Foods, a 50-50 joint venture with Ajinomoto Co. Ltd., was established. Since then the company has been successful in developing its business in Japan.

The most important reason for the decline in General Foods' fortunes was the direct introduction of American-style management control without modification for local conditions. Managers sent from the U.S. mapped out short-term business strategies because they wanted to improve the company's business performance during their own tenure in Japan. As a result, the company lacked long-term sales strategies or plans for product development in the Japanese market.

Following the establishment of the joint venture, Ajinomoto assumed responsibility for management, sales and product distribution, while General Foods retained responsibility on technical matters. The product is now distributed through Ajinomoto's extensive distribution channels. The joint venture's share of the Japanese instant coffee market has recovered to about 20%, with its sales increasing nearly 600% in the eight years since it was established.



A recent case of similar success being achieved in the Japanese market following the adoption of Japanese-style management has been BMW. In establishing a Japanese subsidiary in 1981, the German auto company appointed a Japanese as its president. The company registered sales growth of nearly 50% last year.



4. Additional Factors

In the preceding paragraphs we have reviewed factors responsible for the success of several foreign companies in the Japanese market. Another important factor contributing to successful market penetration is the selection of suitable products. The first point in selecting a commodity to sell in Japan is to choose one that does not yet exist in the local market. Products of this type have included tissue paper (Kimberly Clerk Corp. and Scott Paper Co., both of the U.S.), disposable diapers (The Procter & Gamble Co., the U.S.) fast foods (McDonald's Corp. and Kentucky Fried Chicken's Heublein Corp., both of the U.S.) and coffee makers (N.V. Philips Glaeinlampenfabrieken, Netherlands).

Secondly, products should suit Japanese needs. For instance, sportswear sold in Japan must use sweat-absorbent cloth appropriate for the warm climate. For electric home appliances and kitchen utensils, factors that work to increase sales include colorful designs and the use of rich color variations, as well as the adoption of sizes and designs fitting Japanese lifestyles.

If an imported product proves popular in the Japanese market, domestic manufacturers will quickly come out with similar products, touching off intense competition. Foreign manufacturers and Japanese importers must maintain close communication, to accurately judge Japanese consumer tastes and market trends for quick response. At the same time, they need to develop long-range sales strategies and pricing policies.

Japan is a large market with a wide spread of consumers possessing substantial purchasing power. They do not discriminate against imported goods in their purchasing decisions. Given the considerable potential of the market, foreign companies are bound to do well if they sell goods of excellent quality and design at reasonable prices, maintain a sustained sales effort, and provide adequate after-sales service. ●

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