

# Prescription for Success



By Harold M. Todd  
President, Nippon Vicks K.K.

**The head of a foreign subsidiary engaged in manufacturing and sales of OTC drugs in Japan reveals his panacea for the Japanese distribution system headache.**

Having just returned to my office after attending our annual New Year's party for manufacturers and wholesalers in our industry, I decided that it was an ideal time to put some reflections on paper on Japan's distribution system.

In the first place, Japan does not have a distribution "system" any more than does any other country with a highly developed commercial infrastructure. I am always amazed at the broad and undefined accusations that the "system" for the distribution of goods is one of the non-tariff barriers which somehow excludes foreign firms from business success in Japan. I do not want to ramble off, however, into my views about those who are relatively innocent about business practices anywhere, the uninformed or those who cry wolf whenever the neighborhood dog barks at a passing cat.

One of the Portuguese priests who participated in that futile attempt in the 17th century to Catholicize Japan observed that Japan had a wonderful distribution as "anything that is produced in one part of the country can be purchased in any other part of Japan." Not many countries can make such a claim even in this modern age of transport and consumer demand. I have, myself, been the benefactor of a further change that has taken place in the last 15 years in which it can now be said that any goods for which there is a reasonable consumer demand that are produced in any part of the world can be purchased throughout Japan, perhaps not in any rural village, but most probably in the nearest city.

I said earlier that distribution systems do not exist in developed commercial situations simply because what one really finds are a complex of distribution practices that evolve and develop over decades and even centuries in older countries. These practices cannot be said to be uniform within an industry, an area or even within the branch outlets of a single product chain. They are formed by necessity and are modified by changing needs, financial situation, political circumstance,

cupidity, entrepreneurial ingenuity, competitive struggle, weather, storage capacity, ignorance, and accident as some of the visible aspects of a tapestry which defies absolute and complete analysis and understanding. In the United States, Cuban cigars cannot be imported or sold yet Russian vodka can be purchased anywhere and Iranian oil may well be the raw material of the gasoline you may buy at any given time for your automobile as an example of the influence of political expediency.

## Intelligent Marketing and Luck

The industry in which our company is engaged is the manufacture and sale of OTC (over-the-counter) drugs. We have sold some of our products in Japan since 1954 but our wholly-owned subsidiary was not formed until 1964 and we did not have our own factory until 1968. At first our products here were manufactured and distributed by one of the smaller of the Japanese drug companies but in 1964 we separated in a friendly way, first taking over sales and distribution responsibilities and finally the manufacture of the products.

This may sound as though we were quite a vigorous company with flourishing sales and an employee infrastructure capable of managing a growing enterprise, but it was not like that at all. By the early part of the 1970s our sales finally reached a level of around \$3 million, but with some 265 employees and greatly underutilized manufacturing capacity we were weighed down by the burden of accumulated losses, interest on debt and no clear future strategy for developing the kind of business we have today. Through all those years of difficulty and disappointment the one steadfast support we could always count on was our wholesalers.

When we took over our own distribution in 1964, we had already established a reputation for the requisites which make products worthy of their handling. They knew that we were a company which had achieved success in other major countries and through some intelligent marketing and luck, our products were well-known among consumers despite the fact that sales were small in volume. They knew we would be there if something had to be re-

turned and they had some expectation that some day we might well be successful. While these may seem to be rather homely considerations, they are probably all that would be needed for a foreign company to build a distribution network that would be capable of getting their products within easy reach of every prospective customer in Japan.

## Building Personal Relationships

At the beginning of this article, I mentioned the New Year's party for manufacturers and wholesalers of proprietary drugs. It really is not just a party but a rather significant and important annual event. It is the one time a year when the top executives all come together to exchange appreciation for the relationships that make us a part of an industry. Manufacturers who will be introducing new products and devising new marketing tactics to steal market shares from one another and wholesalers who are always engaged in fierce competition, on this one day engage in a warm camaraderie which affirms that whatever twists and turns may come in day-by-day commercial activities, we are all in this together and we will all be here next year like contestants shaking hands before a competitive match.

As the only foreigner it might be thought that I would be isolated at a traditional Japanese affair of this kind. The fact that I am a foreigner neither reduces nor enhances the place of our company and our products in the industry. This year, knowing that I would be writing this article, I reflected on how much I am made to feel a member of the group as I extended New Year's greetings in Japanese or English or both. I am not special nor is our company unique in being able to enjoy these relationships and benefits. Any foreign company can do the same if they work hard enough to gain the trust of the community of business partners necessary to success.

It is often said that things must be done 'the Japanese way,' but people who say that rarely know what the Japanese way is or whether, indeed, there is such a thing. As foreigners, whatever we do will always seem foreign, just as whatever a Japanese does is Japanese. In fact, we are quite

different in how our company works compared to all our competitors. Our margin structure is quite unique, our payment terms are widely divergent from the customs of the industry, and even the physical method of collecting each month is quite efficient from our standpoint but must seem cold and unfriendly to our customers.

We do not participate in programs devised by wholesalers to increase their sales at times they need additional cash flow nor do we offer them any of the usual opportunities to increase their profitability. On the other hand, we work hard at building our personal relationships and in explaining why we establish certain policies and follow somewhat unusual practices.

At times we have had awful battles during which the most influential wholesalers would threaten to boycott our products or we have implied we would take some punitive action in return, but these are family fights rather like a husband and wife who shout at each other over some triviality only to be remembered and commented on at a later time with amusement. Indeed, they become events which, in the end, contribute to the closeness and solidity of the relationship.

At the end of last year, I heard that our sales manager wanted to have a year-end party with the presidents of our top four wholesalers. These parties are part of the traditional Japanese activities and are a burden on everyone as they must attend

dozens of such events with old school chums, company friends, and business associates of all kinds. The month of December for Japanese is filled with nightly parties, far more alcohol than anyone enjoys and more morning hangovers than anyone can be expected to tolerate. Still, it is something no one can escape.

I suggested that it might be kinder not to add to the burden as company presidents particularly are required to attend too many functions of this kind. If one were held though, I wanted to attend because I personally like and appreciate these men. They accepted an invitation with alacrity, however, and one man traveled down from Tokyo for this one dinner. It was like a family reunion as we chatted, drank *sake* from one another's cups and reminisced on the big events of the past, laughing over the fights and expressing the sincerely felt appreciation for the basic relationship and our interdependence.

## Sincerity and Determination

We are now branching out into a new field of distribution which will require the appointment of wholesalers who will overlap to some extent with our present wholesalers. They will not appreciate the new competition and will wonder if we are intentionally undermining that portion of our business that they depend on. In the end it will be all right if we continue to consult with our existing wholesalers to

get their understanding of what we are doing and why. We will sincerely draw them into the problem and get their advice and help, and rather than disrupt our existing network this process will contribute to the further strengthening of our relationships.

Is there a message in all this? Are the pointers to why some fail and some succeed evident? I think so. The key is sincere openness and character, both as individuals and companies, one to the other. Those that are looking for a quick deal, one time profit, or for the risk to be borne by the other party will be left with that last recourse of paranoiac complaint that 'the system' is rigged against them.

Finally, I can only speak of the industry that I know. I would not like to be an importer of fresh beef, sugar, tobacco or metal baseball bats. On the other hand, with the experiences I have had, I imagine even those things could be done in time if patiently explored with sincerity and determination. ●

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*Nippon Vicks K.K., where he holds the presidency, is a wholly owned subsidiary of Richardson Vicks International, Inc. Its sales now exceed \$50 million and the business has been profitable for the last 10 years.*

# Personalized Marketing

By Hiroshi Takeuchi

"Small is beautiful" seems to be as true in consumer goods as in most other things since the oil crisis nearly a decade ago.

Because the oil crisis pushed the prices of steel, petrochemicals, and other energy-intensive materials sharply upward, manufacturers redesigned their products to make greater use of lightweight materials and to cut their costs. At the same time, the electronics revolution has now made it possible to use a tiny chip where massive computers would once have been needed. As a result, the entire look of our industrial society has shifted toward a lighter, thinner style.

This shift toward lighter products has reflected the shift in consumer preferences. In today's affluent Japan, most people already have a surfeit of consumer durables and other consumer goods. Consequently, there has been a waning of our

material acquisitiveness and possessiveness. Typical objects for this material acquisitiveness in the past have been automobiles and television sets. Yet most of us now have most of what we want. Of course, there are many things in the stores that we would like to have, but this desire is quickly transferred to other objects in a few days if we go without.

To be a proper object of material acquisitiveness, the object itself must be substantial and have a sense of permanence about it. It must be something which seems worthy of our lasting devotion, and something which enhances us with its possession. Yet in the absence of material acquisitiveness, we make our purchases not as part of a long-term strategy for improving our standard of living but as an almost impulsive act.

In a way, this material acquisitiveness

was a product of our less-affluent society. The housewives of an earlier age identified strongly with their rice cookers. These heavy cast iron rice cookers were their kitchen companions and their unflinching support. Yet today's rice cookers are electric-heated fancy aluminum gadgets, and there is little emotional attachment. They do not possess the sense of substance that the old-time rice cookers did and, readily purchased for their chicness, they are just as readily discarded at the first malfunction.

## Changing Mores

Not satisfied with the light and convenient, today's shopper now demands a measure of creativity and an air of culture. For example, it is apparently fashionable for young mothers to come to afternoon PTA meetings in sports attire,