

# Japan is a Source of Innovation

## – Japanese Consumers are Invaluable for Global Success –

By Werner Geissler

FOR Procter & Gamble, Japan represents an important market with enormous growth potential. In fact, given the relative development of our business here, we expect Japan to deliver growth rates ahead of the global average. However, although Japan is important as a feeder of business growth, it is even more important as a source of innovation for our operations throughout the world. And this function is very much rooted in the deep understanding of the habits and skills of Japanese consumers. We often use the cliché of Japan being different from other countries and the Japanese being different from other people. In their roles as shoppers and consumers, Japanese are indeed different from most other consumers in the world. Understanding and leveraging these differences can add top spin to the innovation capability of anyone doing business in Japan. What are these differences and how can they be turned into competitive advantage?

### ■ Demands Perfect Quality

First of all, they are demanding perfect quality and operations. This forces our product designers and developers to look for the best available materials concerning product formulations and packaging. It forces them to provide optimal solutions in terms of ergonomics, storage and disposal. Importantly, it requires our manufacturing system to deliver perfect quality with zero defects. We have found that a total quality approach which at first glance appears to be more expensive is in fact more cost efficient as there is much less or ideally no re-work required across the entire chain from raw material suppliers to the consumer. Consequently, we are increasingly taking the quality standards in our Japanese factories as the norm for all our production sites around the world. Once you weave top quality into the basic fabrics of the supply chain it inevitably becomes a cost-optimized system.

### ■ Precise Communication of Needs and Wants

Japanese consumers are not merely demanding. They are also excellent at articulating what they like or dislike about a product or packaging operation. We have experienced numerous times that, when approached appropriately, they come up with invaluable suggestions on how to improve operations or even totally new product ideas. These can vary from marks on the side panel of our hair care bottles to help people with limited eyesight to sense with their fingers which type of product they use to different bottle shapes for dish washing detergents which prevent the wet bottles slipping through the hands of a consumer when doing the dishes. Leveraging this capability of Japanese consumers to precisely communicate their needs and wants is a key ability of our Research and Development (R&D) and Consumer Research people. Our Technical Centre in Japan has thus become an important contributor to our global innovation stream and we carefully select top talents from around the world to spend a few years here in Japan to get firsthand exposure to these consumers.

### ■ Different Advertising Styles

Japanese consumers also have different habits when it comes to advertising and communication. They watch on average more TV and commercial advertising than, for example, consumers in Western Europe. This

requires different advertising styles and different rhythms of campaign renewal. Our TV commercials have to be more entertaining whilst being informative; they have to change more often whilst retaining a certain “look” and identity of a brand. This requires a constant dialogue between creatives and consumers to identify relevant insights and situations that can be used to present products in an appropriate context. As a result of these different habits, the build-up of awareness of a new or improved product is totally different in Japan



P&G's Japan Headquarters and Technical Center in Kobe, Hyogo Prefecture

compared to the United States or Germany. Whilst in Japan it sometimes takes less than four weeks to reach a 70% “I know this brand” level, it takes more than six months, if not more than a year, to reach this same level of awareness in the United States or Germany. We have exported many of the advertising commercials developed in Japan to other regions to benefit from their strong communication impact.

### ■ Importance of Consumer Relations

Japanese consumers are very vocal about problems or a mismatch between expectations which may have been triggered by advertising or packaging and actual experience. They do not hesitate to immediately contact the manufacturer to demand restitution or, if they feel their demands are not being met or adequately dealt with, are easily ready to escalate things. They often contact the media or authorities as well. Conversely, if dealt with appropriately, they are particularly appreciative and become even more loyal to a brand or company. Therefore, it is important to consider the people interfacing with consumers as a potential source of strategic advantage. At P&G, we have highly qualified experts doing this work who closely collaborate with R&D and Marketing to ensure consumer feedback and input is smoothly and permanently shared and turned into better executions. Again, this “high maintenance” requirement may appear as a burden but when coped with properly it becomes a huge benefit. As a result, we have globally learned from the Japanese way of interacting with consumers.

### ■ “Split” Preferences and Behaviors

Japanese consumers are somewhat “split.” On the one hand, they go for the best possible deal and often buy products only when they are on special offer. That behavior has contributed to the on-going price erosion we have seen in Japan for an extended period of time. For perspective, a pack of detergent which 15 years ago used to cost more than ¥1,000 now costs less than ¥300. At the same time, these same value conscious consumers indulge in premium products. Japan is by far the largest market worldwide in terms of skin

usage habits in most household goods categories are simple and straight-forward, these consumers follow a very sophisticated regimen, if not to say ritual, in personal beauty care. In many cases, it takes them up to seven distinct steps to obtain the desired end-result.

### ■ Never Ending Renewal and Continuous Improvements

By and large, Japanese consumers are not per se loyal to a brand. Especially the younger “Nintendo” generation is constantly looking for news and permanently trying out new things. As a consequence of this amazing volatility success can never be taken for granted and the sustainability of business progress is a constant challenge. It requires never ending renewal and continuous improvement efforts to maintain consumer loyalty. This need for providing new stimuli all the time leads to a totally different, much higher paced innovation rhythm than in most other countries of the world. To deliver this more intense stream of news requires different capabilities, systems and structures. Testing of



Werner Geissler receiving the award of the Excellent Consumer Oriented Company from the Ministry of Economy, Trade and Industry of Japan in March 2004. P&G Japan was the first foreign-affiliated company to receive this national recognition in its 14-year award history.

care and cosmetics as well as luxury goods. An “average” consumer has no problem spending ¥15,000 for a skin cream after she had just refused to spend ¥315 on a laundry detergent. This is not to say that Japanese consumers are not interested in brands in more mundane categories. Conversely, of all the developed countries Japan has probably the lowest share of “no name” or so called private labels. Consumers are very status-conscious and a brand is an important carrier of image and trust. We see a similar dichotomy in terms of habits. Whilst

new ideas has to be done much faster through virtual tools or via the Internet. A vast amount of innovation has to come from external “suppliers” such as universities, independent research laboratories, packaging and raw material suppliers, retailers or other manufacturers. Thus, the capability to connect with the outside world and leverage external sources for the development of new ideas is a fundamental capability to ensure continuous success in Japan. Again, we are naturally leveraging this skill to feed our innovation programs globally.

## “Turning Silver into a Golden Opportunity”

Demographically, Japan represents a challenge as well as an opportunity at the same time. On the one hand, there is the phenomenon of the low birth rate and a stagnating, if not shrinking, population as well as the fragmentation of families. These trends require adjusting product portfolios and package unit sizes. On the other hand, there are plenty of opportunities. For example, as there are on average fewer children per family, the spending per child is considerably higher than it used to be. Also, somewhat related to this, is the phenomenon of grandparents doing the shopping and showering their grandchildren with gifts or other child-related products that a normal family was unable to afford in the past. Likewise, the aging of the population causes problems, as consumption in many product categories is shrinking as a result. However, at the same time this offers great potential for totally new products and services catering to the needs of elderly people. We call this “turning silver into a golden opportunity.” Essentially every industry can benefit from this trend, from wealth management to fitness equipment, from personal care to shopping aids. Convenience stores with their ready-made meals and home delivery services are capitalizing on this shift in consumer base in a major way.

## “Consumer is Boss”

For any company which in one way or another is in the service business, Japan is an excellent learning ground. The consumer is indeed boss or, as the Japanese say, “*okyaku sama wa, kami sama desu*,” the “customer is god.” Nowhere else is the consumer treated with such a degree of respect and politeness as in Japan. Everyone, from the receptionist or lift girl to the head of an organisation, is totally committed to providing perfect service. Starting with an enthusiastic welcome at the entrance and ending with profusely apologizing if a

Table 1 Demographic Comparison between Japan and the United States

	Japan	US
Population (million)	128	290
% of aged under 20	19%	28%
% of aged over 65	19%	12%
Number of Households (million)	49	107
Average size of family	2.6	2.7

Source: Procter & Gamble Far East, Inc.

consumer’s wish could not be met – each employee gives every customer the feeling that she is the most important client ever and that there is nothing more important in life than satisfying their needs. Acquiring and practicing these attitudes and skills is not only relevant for those parts of our business where we have intensive interactions with consumers (e.g. counseling in the context of our beauty care business), it is also shaping and affecting the general mindset of an organisation. It influences the way we treat our external business partners and how we deal with each other internally. Our corporate motto of “touching lives – improving life” is certainly reflecting our experience and observations in Japan as to what that really means and how to reach a standard of excellence in serving consumers, stakeholders and employees.

## More Frequent Shopping Habits and Demands for Supply System

Japanese consumers have also different shopping habits versus most other consumers in the industrialized world. They can choose from more stores (on average of 10 within one kilometer from their home) and they shop more frequently (on average 3.4 times a week compared with once a week in the United States). Due to shopping by bike or just walking to a store and due to different storage capacity at home, the package sizes are smaller and more compact than elsewhere. More importantly, as shoppers can pick from a large number of outlets they are unforgiving as far as out-of-stock items are concerned. Whilst in the United States, it is acceptable (or the norm) for up to 20% of products to be unavailable at any given

point in time, this figure is close to zero in Japan. To achieve this level of near-perfect service requires totally different supply systems. It would be wrong to categorize the Japanese approach as good or bad versus the U.S. model. The Japanese system is designed to deliver effectiveness or perfect service whereas the typical Western model is more often aimed at maximum cost efficiency. Again, also in this area, the Japanese way of doing business has been a significant source of learning and inspiration for P&G in the rest of the world.

## If We Win in Japan We Can Win Anywhere Else in the World

Japanese consumers are highly demanding. But, dealt with appropriately, they can bring the best out of an organisation and that in turn can be leveraged globally for competitive advantage – provided the Japanese way is considered an opportunity (which it is) and not an annoying peculiarity or anomaly. P&G has certainly learned a lot and exported a lot of the knowledge it has accumulated over the past 30+ years in this country. We are in fact convinced that if we are able to win in the very demanding Japanese market we can win anywhere else in the world. That alone is of immense value and worth the occasional frustrations and setbacks everyone is certain to suffer now and then in this country. **J.S**

Werner Geissler, formerly president of P&G’s Northeast Asia operations based in Japan, was recently appointed Group President of P&G’s Central and Eastern Europe, Middle East & Africa operations.