

Foreign Businessmen Must Come into Japan If They Want to Sell in Japan



Mr. Mark A. Zimmerman

Interview with Mr. Mark A. Zimmerman, President of the American Chamber of Commerce in Japan, 1981

Foreign businessmen wanting to sell in Japan "must come in Japan with very strong investment in both manufacturing and marketing to cope with changing market here," according to a leading American businessman operating here for the last five years.

Mark A. Zimmerman, President of the American Chamber of Commerce in Japan (ACCJ) through 1981, said in an interview, "Just having a *sogo shosha* (Japanese general trading house) is inadequate for strong penetration."

"You can have joint venture, you can have a distributor arrangement, but you must be here. You must make your product suitable for the Japanese market."

"That's not always possible, however, because of either legal problems or different standards," said Zimmerman, who is General Manager and Japan Representative for Winthrop Laboratories and Vice President and Representative Director for Sterling-Winthrop Inc.

Both Winthrop Laboratories and Sterling-Winthrop K.K. are wholly-owned subsidiaries in Tokyo of Sterling Drug Inc., a New York-based multinational diversified drug company with working capital and annual sales topping \$796 million and \$2 billion, respectively.

Winthrop, capitalized at \$100,000, deals with drugs for hospitals and clinics under marketing partnerships with five

Japanese pharmaceutical firms—Daiichi Seiyaku, Yamanouchi, Sankyo, Torii and Shionogi, while Sterling-Winthrop, capitalized at \$1.42 million, produces in Japan consumer products like Phisoderm, a skin soap, and other toiletries.

Following is the question-and-answer session with the 43-year-old U.S. businessman who holds a B.A. degree in economics from Stanford University and is married with three children.

Q: How much were your sales here last year and how much staff do you have at these two companies?

A: Winthrop Laboratories, with 72 employees, sold about ¥10 billion (\$46.51 million) in fiscal 1980 ended November 1, up 26% over the previous year, while Sterling-Winthrop sold about ¥1 billion (\$4.7 million) ahead 35%. It has 28 employees.

Q: What difficulties do you face in penetrating the Japanese market?

A: Some of our key patents expired last year. As a result we face many "copy" drug makers in Japan, the problem common to all companies here, including Japanese companies who invent a new drug. The copy drug makers have no R&D investment to amortize so low prices. It's hard to increase sales here because of copy drugs.

Q: What else?

A: Acceptability of foreign data. Even if studies are finished for a new drug in the United States, Britain, France and West Germany, we cannot apply to the Japanese Government using the data until the drug has been approved for marketing in those countries. Every new drug requires a test of whether a substance causes cancer, taking at least two years and costing about \$1 million. So if we do the test in the United States and want to use this study with the Japanese Ministry of Health and Welfare, they say "no." Why? Because this drug is still waiting for new drug approval (NDA) in the United States. So, we have to wait until the drug is approved in the United States. So this means a long delay. So if a drug has a big potential, then I have to repeat the study in Japan

and spend another million dollars.

Another problem common to all foreign pharmaceutical companies is standards, a kind of test that must be done for approving drugs. The Japanese Government must join in the setting of international standards for all types of pharmaceutical, chemical and cosmetic approval. When a foreign pharmaceutical company wants to import into Japan, if a substance is not listed as approved, then, they have to ask for administrative guidance, sometimes requiring full repeat testing.

The third problem which affects all the companies, Japanese and foreign, is the short post marketing duration of patent rights. Drug marketing approval usually requires seven to ten years. So, by the time you have marketing approval, say in 1981, the drug will only enjoy five to six years of patent protection. So, in the United States and Japan, they are now discussing the possibilities of making the patent start when the drug is marketed and this would be very helpful.

Q: Were you successful in penetrating the Japanese market?

A: In the category we are in, very successful in those market segments, but in general terms, very inadequate. In Japan, it's impossible for us without manufacturing facilities and 200-300 retailmen to do our own marketing. So, as a result, we can only market those products which are sufficiently unique and different. If we had our own operation here, then we could market also products we think have opportunity. And also, indications are different. For example, in Japan some products cannot be prescribed for the same indications as in the United States because of social differences. It's a very complex question.

Q: Do you have any other advice based on your experience?

A: In the case of manufactured goods, it's very helpful to have a manufacturing plant here. In our consumer products, we see that every day. In our "Wet Ones," a moist towelette, we made a special formula for Japan different from the United States. It has a different perfume for



Japanese housewives and is becoming a very successful product in Japan. Japan has everything different, different specifications and different quality control (QC). California lettuce cannot be sold in Japan because the Japanese Ministry of Agriculture, Forestry and Fisheries has very rigid standards. My point is that Japanese must relax standards where possible. If it's safe for American consumer, it should be safe for the Japanese consumer.

Q: Any additional advice for prospective foreign businessmen wanting to penetrate the Japanese market?

A: I think they should fight the Japanese Government when they become difficult. Go to the U.S. Embassy, American Government and work with them to force Japan to internationalize because it's for Japan's own good. Sometimes, I think more sensitive intelligent officials in the Ministries of International Trade and Industry; Finance; and Health and Welfare understand that Japan must change but they need pressure from outside to help them push the more conservative, more old-fashioned Japanese bureaucrats. You must realize that changes are good for Japan because fighting all the time with Europe and the United States about trade is not helpful to either country. We believe, at least in the American Chamber of Commerce, the U.S.-Japan relationship is very, very important for the future of the world and if we have economic conflict, instead of economic cooperation, then the U.S.-Japan political and defense relationship comes under attack.

Q: What do you think about the argument whether the Japanese market is closed or not?

A: At the Government level, people like Prime Minister Zenko Suzuki and Chief Cabinet Secretary Kiichi Miyazawa really think Japan is open. The problem is "You Americans don't try hard enough." That's

what they really feel. But that's not right either. The truth is somewhere in the middle. Both sides have to move more to the center so that understanding is created.

For instance, Japan signed the GATT (General Agreement on Tariffs and Trade) agreeing to allow foreign companies to bid for government contracts. In the agreement with the United States, Japan allows the bare minimum—30 days to submit a bid which must be in the Japanese language. Japanese is not an international or "GATT" language. GATT languages are French, English, Spanish and German. Bids should be allowed in GATT languages and allow not 30 days but 60 days because foreign bids require overseas technical evaluations. The 30 days are too tight and is an incredibly short time for a foreign company. So, Japan must move more open in spirit as well as in theory. Japanese Government procurement assumes a close relationship between Japanese Government procurement officials and suppliers that takes time for foreign companies to achieve especially for advanced projects.

Stop being like a clam. Open a little bit and allow internationalism to enter. For example, in the Ministry of International Trade and Industry, there should be an Investment Promotion Office to allow foreign companies to go for one-stop assistance in site selection, land procurement, prefectural and regional development authority, tax assistance, industrial parks, and finding good people. There is nothing like that. The Japanese Government "allows" foreign business to enter Japan but doesn't welcome them.

How many prefectural governors have gone to the United States, saying "please come and invest in our prefectures?" The answer is none.

Q: Japan's *sogo shosha* send people to

every corner of the world to sell highly competitive Japanese products suitable in foreign countries. Why don't you make similar efforts in Japan?

A: If you take the approach that Japan is a fortress in the cultural sense, you have so many things which make foreign companies unwelcome. Foreign companies have many international investment options, commit their efforts in other parts of the world, in domestic market and sometimes move away from Japan because they feel that the barriers are so difficult, requiring too much cooperative commitment. American anti-trust law doesn't permit the *sogo shosha*. In Congress, we have pending legislation to allow the creation of export trading companies. But that's only a beginning stage. A country like the United States provides Japan with start-up technology, defense shields, creative research and the biggest market she has. Japan has an obligation to be sensitive to the impact of her export competence.

You, at the same time, appreciate that your market is the most complex in the world not so much in terms of official barriers as in terms of attitude and customs.

Q: How do you think such attitudes and customs should be corrected?

A: You should try and make the Japanese Government policy one of encouraging foreign participation through transparent policies, internationalization of standards, elimination of tariffs and processes as soon as possible, and elimination of Japanese domestic political policies that keep foreign products out of this country. Japanese Government and business should unite in an effort to promote greater foreign participation in the Japanese market.

The distribution system should be opened up. By that, I mean foreign producers looking for distribution in Japan should be given an encouragement rather than have to fight for five years to establish human relations.

You must learn to open the clam and welcome foreigners into the Japanese structures so that they will be encouraged to make an effort. That's what I'm talking about.

Q: How did the Japanese recession affect your business here?

A: Well, our business is more influenced by drug price reductions—18% last year. So, we had to reduce our selling prices. That really hurt our business. That's not just Winthrop. It was all Japanese companies' feeling. In some cases, there were 50% reductions.

I think pharmaceuticals tend to be recession-proof to a certain extent. However, in general terms the Japanese business slowdown has the effect of making Japanese companies even more export-oriented, exacerbating the trade imbalance problem. ●