

Doing Business in Japan is Excellent Challenge for All Top Businessmen

Hans-Joerg Liermann, Director of Kenko Brenntag Ltd., is now trying to take some advantage from the current severe recession in Japan's petrochemical industry.

Like many foreign businessmen in Tokyo, he points to the "structural" problems faced by the local petrochemical industry, such as a very complicated distribution system, production overestimates and the administrative guidelines or regulatory hurdles imposed by the Japanese Government. The 40-year-old German businessman is certainly critical of Japan's business practices through his experience of hard competition in the Japanese market. But he is still very happy about being here, saying: "doing business in Japan is an excellent challenge for all top businessmen."

The following is an interview with Mr. Liermann.

Q: Will you briefly describe your business? Is your company a German and Japanese joint venture?

A: Yes. Brenntag is the chemical division of Stinnes which is the trading arm of Veba. The latter parent company is the biggest West German conglomerate. We just have increased the paid capital from ¥200 million to ¥450 million on the majority of the shares. Kenko Brenntag is engaged in chemicals, petrochemicals, plastics, fine chemicals, chemical derivatives, product distribution and trading. I am in charge of the Far East and Southeast Asian markets.

Q: Are sales going well?

A: We increased our turnover last year by about 65% to about ¥8.5 billion. But we are not very happy with the gross profit.

Q: Is that due to the recent recession that has hit the chemical industry in Japan?

A: We have to follow a weak pricing policy to maintain and hopefully increase our market share. But, particularly, as everybody knows, petrochemicals were very severely hit. The paint business was bad and PVC, polyvinyl chloride, was relatively bad because of sluggish demand on the plastic side.

On account of the petrochemical indus-



try in Japan and many other areas, they were so severely hurt that considerable part of production capacity has been or will be closed down, and will not start operation again. To an importer and distributor like us, this could bring advantages and disadvantages to some extent.

Q: You said there were both advantages and disadvantages for foreign capital in the severe recession of the Japanese petrochemical industry. Can you give concrete examples?

A: Let me first start with the advantages. Producers here in Japan will decrease their investment and look for reliable importers which are linked to foreign groups like we are. They will close down production simply for cost reasons. This is an advantage for us.

Secondly, many end users who were not attracted formerly to foreign trading companies are now coming to us and asking for products. They are realizing that in quality and qualifications foreign trading companies are at least equally as good as Japanese companies, which very often charge end users even higher prices than those of foreign traders. We now enjoy the full confidence of Japanese end users. This is the big advantage for us.

Q: What are the disadvantages?

A: We are concerned particularly about the lower growth rate in chemical demand. On top of this, of course, petrochemical and raw materials prices have dropped sharply because of Japanese government regulations. Particularly, market prices here dropped by well over 25% and consequently this will depress or has already depressed many aspects of the import business.

Interviewed by Satoshi Yoshida & Masaaki Aoki, economic correspondents of Kyodo News Service

Secondly there were good prospects for chemical imports from mainland China. I've been myself four times to China to negotiate, but besides weak prices in Japan we have lost a certain target for import into Japan due to the enormous shipment delays out of China. But we are quite happy that we will be able to export chemicals to China and also have transit business there.

Q: The recession, especially in the petrochemical industry, in Japan is said to be a "structural" recession, which means the cost of crude oil has become too high to be absorbed by better management. This is supposed to be a phenomena in all oil consumer countries like West Germany and even the United States.

A: From my point of view, to a certain extent the fault lies with government regulations. I think the power of MITI (Ministry of International Trade and Industry) did not work well for the petrochemical industry. They allowed a far too optimistic estimation in building up the capacity of big integrated ethylene plants and did not follow up enough later to establish what were the market realities. It was purely a paper estimation which was not revised quickly enough to avoid these big structural problems.

And if one looks back at the annual results of the chemical industry, world leading companies in Japan did suffer severely. The ten leading chemical groups had very, very bad results last year. These are not only groups predominantly working in the petrochemical field but in the much wider chemical field of Japan.

I also think, besides the structural problems, if you look at the chemical market as a whole, there are practically no products in the world which are as high priced to end users as those in Japan. This is not just a structural problem on the production side, but also is due to many faults of the distribution system in Japan, keeping alive a lot of people between producers and end user, leading to higher costs.

Q: Many foreign businessmen have complained about the complexity of Japan's distribution system. You are not an exception?

A: I don't think it is too complex, but it

simply requires the full knowledge and understanding in the "Japanese way" to adopt distribution methods which will suit the Japanese end user and to some extent the producer's interest. Producers of almost every basic chemical products do have the means to form invisible acting cartels and in emergency cases will request the formation of legally authorized producers cartels to prevent their industries from collapsing because of too much domestic foreign competition for the reason of oversupply. This often results in many kinds of pressures on end users by producers of their authorized distribution companies and this prevents end users to give more and more fair purchasing portions of chemical commodities of foreign companies. Consequently, to great extent, the Japanese chemical industry has been able to keep chemical product prices as high as possible. With so many wholesalers and go-betweeners intervening, the end users have to pay for that.

But we believe that this has been greatly changed particularly since the inflow of foreign capital began.

Many more foreign companies besides the "majors" will settle down here and the Japanese chemical industry will have to face more international competition in the production and trading field.

Q: Besides the distribution system, what is the most difficult problem in gaining access to the Japanese market?

A: We don't have any big problems. The only problem we are concerned about is how to stay competitive and to succeed as a chemical distributor. Very simply, you need a lot of money. You have to finance yourself in 95% of the cases or more.

Q: Does that mean greater financial risk?

A: Yes. You have to avoid bad debts. There are certain factors to consider in entering the Japanese market. One is the enormous financial resources you will need. The second is the unavoidable risk from dishonored bills which is big in Japan. The third risk is, even if you have written contracts with Japanese end users, they don't honor the contracts when the market situation turns worse.

Q: How about the problem of personnel?

A: Very good as far as my company is concerned. Japanese decision-making is different from Western countries. It takes longer. But once you reach a clear decision, they will follow exactly what you intend and expand it through business activities.

We use English at the company meeting every Friday, and basically we don't have any communication problem since they speak English very well. They are paid higher salaries than in my West German company including bonus. We pay a monthly salary, two months extra bonus, plus attendance charge. The company has

not introduced a lifetime employment system, but has written contracts with workers. But they are very chauvinistic and feel loyalty to the company.

Q: Are there any difficulties outside your company?

A: All the customers since I came here one year ago have a high regard for my company. We behave just like a Japanese company and this is very important in establishing a business here.

Q: You said you have been to China four times. Can you comment on the Chinese market? What is the biggest difference from Japan?

A: I think there are enormous differences between China and Japan. I would stress three points. First, political factor is dominant in the Chinese market which many times we cannot forecast from a business viewpoint. Second, Japanese management has an established international standard of handling commodities or doing business quickly enough for foreign traders. The third difference is that not only middle but also top management is conducted by younger people in Japan. The older generation in business has declined very quickly and this is one of the reasons for the success of many Japanese enterprises, I think. Whether he is a graduate from a national university or a private university, he is evaluated basically on his ability and capabilities. Young people are given chances and responsibilities here in Japan.

Q: Japan is now the top trader with China. Do you think China will become a big market in the near future?

A: We think the Chinese market is very bright. Japan will ultimately achieve the top Chinese market share, but many European companies are negotiating with China and are very often highly appreciated by their Chinese counterparts. Competition by foreign companies in the Chinese market will certainly become very, very severe. But it is good that it should be based on free competition.

Q: Besides China you are in charge of the Southeast Asian area. What is the future prospects for this area?

A: I could say there is a big potential for the market. Southeast Asian countries continue to record the highest GNP (Gross National Product) growth rates in the world. American companies will continue to enter this area now dominated by the Japanese. American and other foreign companies are interested not from a profit but from a volume point of view. There is a foreseeable demand in Southeast Asia more than in Europe, which is held back by low GNP growth rates and inflation. These days inflation is one of the important factors you have to consider in the direct overseas investment.

Q: Do you think Japan has made enough overseas investment to avoid trade friction?

A: Overall investment by the Japanese petrochemical industry started quite recently and has a good reputation in Italy, Spain and Ireland. Overseas direct investment mostly came from necessity on the Japanese side and I think it needs further development and effort if you compare the 55-60% of total profit from overseas by West German companies and only 5-8% in Japan.

Well-known joint projects like the Mitsui petrochemical project in Iran, Mitsubishi in Saudi Arabia and Sumitomo in Singapore, which are very good projects I think, will succeed if political problems can be solved and stable supplies of crude oil are available to Japan. But I think direct overseas investment will become more difficult because of the inflation problem. Japanese main investment will be focused on Southeast Asia where foreseeable demand is expected to be high or mainland China through government negotiations.

Q: Can you tell us about your private life? You seem to be a very busy person. Do you enjoy your life here in Japan?

A: Time is very limited. I come home at seven or eight o'clock every night since I have to make reports and send telex messages to the main office in West Germany. I play tennis on weekends, but usually I have very busy days.

Q: So you are a workaholic like the Japanese?

A: Well... being in Japan as a businessman is an excellent challenge to me. If you succeed in Japan as businessman, you will be a top manager in the world. ●

Comments on the Interview

Mr. Yoshitaro Nemoto, a managing director of Mitsubishi Chemical Industries, says, from a producer's viewpoint, "We do not believe that there is a so-called 'invisible cartel' among producers, because, if there were, we would not have to worry about the rapid increase in chemical imports and would not have to ask MITI to initiate an ad-hoc meeting on petrochemicals with United States and Canada."

Mr. Torao Takayama, and executive of Sekisui Chemical Company, a leading user of basic chemicals, on the other hand, tells the interviewer, "The lower the price is, the better, as long as the supply remains stable. In this context, imports seem to be less stable in some cases to the extent that they cannot be compensated by price reductions."

Chemical trading companies see the issue to be more simple. Says one executive of a major trading company who asked not to be identified, "We sell import chemicals as long as our users request them. If there is no need, then there is no trade."