Bitter Experience Will Conquer the Barrier

by Masaaki Aoki and Satoshi Yoshida

A bitter experience often leads to criticism. In the current world-wide recession, featuring low economic growth, unemployment and inflation, major economic powers accuse each other of various sins of commission and omission.

Most Japanese economists, businessmen and even government officials think Japan's sluggish domestic demand, which encourages export-oriented economic development, is due to the current high U.S. interest rates. The United States and European countries, on the other hand, complain that Japan's overwhelming export drive causes unemployment in their own countries, while access remains difficult for foreign businesses trying to respond by getting into Japan.

But a bitter experience does not necessarily always lead to criticism. As well as the government's effort to open the Japanese market, spontaneous attempts have long been made by foreign business companies in Japan in an effort to "conquer" the market through keen competition, strong strategy and tremendous patience. Foreign businessmen here, ironically, are not so critical of Japanese business practices. Rather they seem to be more intent on expanding their business activities. This is a story of those efforts through bitter experience to conquer the Japanese market.

Sluggish Domestic Economy; NTBs

"Do you speak Japanese in your business?"

"I can speak just enough Japanese to get into trouble, not enough to escape!"

The conversation has begun with the controversial issue of the Japanese language. Linguistic problems seem to be one of the so-called non-tariff barriers to foreign businessmen in Japan when they seek access to this market.

"I feel very comfortable in using interpreters in the company. Translation provides not only American but also the Japanese staff a chance to think while it is going on and also prevents long, lumbering, disconnected types of conversation."

G. Robert Baker, ten and a half years resident in Japan, made this comment in his fancy Japanese-style office next to Hibiya Park, the central business area in Tokyo. He is the chairman and representative director of Dow Chemical Japan Limited and has recently become corporate representative director for the parent company, Dow Chemical—the first such director to be appointed in Dow's worldwide organization.

"We have recently made an additional commitment to Japan," said Mr. Baker,

Rates of market saturation for foreign-born products

Items	Producers (Brands)	Nationalities	Market Share	Product Status
< Food and Beverages >				
Carbonated beverages	Coca-Cola Co.	U.S.A.	60%	F.A.
Instant coffee	Nestlé Alimentana S.A.	Swiss	63%	F.A.
Black tea	Unilever Ltd. (Lipton) R. Twining & Co. Ltd.	U.K. U.K.	27% 23%	I I
Dried soup	CPC International Inc. (Knorr)	U.S.A.	84%	F.A.
< Fast-food restaurants >	McDonald's Corp.	U.S.A.	2nd rank in sales in the entire Japanese food service industry	F.A.
< Paper products >				
Tissue paper	Kimberly Clerk Corp.	U.S.A.	20%	F.A.
Disposable diapers	Procter & Gamble Co.	U.S.A.	50%	I
< Chemical products >				
Plastic foam products	Dow Chemical Co.	U.S.A.	30%	F.A.
First-aid plasters	Johnson & Johnson	U.S.A.	31%	F.A.
Films	Eastman Kodak Co.	U.S.A.	20%	I
Deodorizers	American Drug	U.S.A.	59%	F.A.
< Machinery & electric appliances >				
Bulldozers	Caterpillar Tractor Co.	U.S.A.	43%	F.A.
Computers (of more than 500 million yen/unit)	I.B.M. Corp.	U.S.A.	40%	F.A. : I = 80% : 20%
Copy machines	Xerox Corp.	U.S.A.	20%	F.A.
Typewriters	Olivetti	Italy	35%	I
Electric shavers	Braun A.G.	W.Germany	10%	I
Fluorescent lamps	N.V. Philips	Netherlands	31%	F.A.
Instant cameras	Polaroid Overseas Corp. Eastman Kodak Co.	U.S.A. U.S.A.	66% 19%	I I
< Sporting goods >				
Golf balls	Dunlop	U.K.	55%	F.A.
< Household and miscellaneous goods >				
Safety razor blades	Warner-Lambert Co.	U.S.A.	70%	I
Records	Polydor International GmbH	Netherlands	16%	F.A.
Stem wine glasses	Owens Illinois Inc.	U.S.A.	60%	F.A.
Tupperware	Rexall Drug & Chemical Co.	U.S.A.	30%	F.A.
Camping Stoves	Application des Gaz	France	67%	I

(Notes): I = Imported
F.A. = Manufactured by foreign business affiliates in Japan, including 100%-owned subsidiaries
L = Manufactured under licence in Japan

pointing out Dow's fundamental policy change by referring to increased flexibility toward licensing, technical collaboration in scientific technology and expansion of the relationship with its Japanese counterparts through various types of joint venture.

Under Dow's global strategy, which seeks by the end of this decade to have 40% of its assets, investment and business involved in speciality and high value-added products, Dow Japan Limited is now seeking a "new dimension" of joint ventures in such areas as bio-sciences and pharmaceutical goods.

The company, established here in 1953, already holds more than 20% of Japan's polystyrene product market, about 10% of low density polyethylene (according to Ministry of International Trade and Industry statistics) and is eager to expand business activities further through joint ventures with its affiliates: Asahi Chemical Industry Co. Ltd., the biggest chemical company in Japan, in chemical products; Teijin Limited in bio-science; Otsuka Pharmaceutical Ltd. in pharmaceutical goods and Mitsubishi Corporation in a Saudi Arabian ethylene center project.

"One of the key elements for a successful joint venture," said the former president of the American Chamber of Commerce in Japan (ACCJ), "is having both partners able to bring something of substance to it."

Other key elements were that both partners should have:

— common interest in the new business
— compatibility of the people involved, channels of communication and understanding so that joint performance truly represents both partners in a fair and equitable manner
— recognition of the value and need for local business methods and practices.

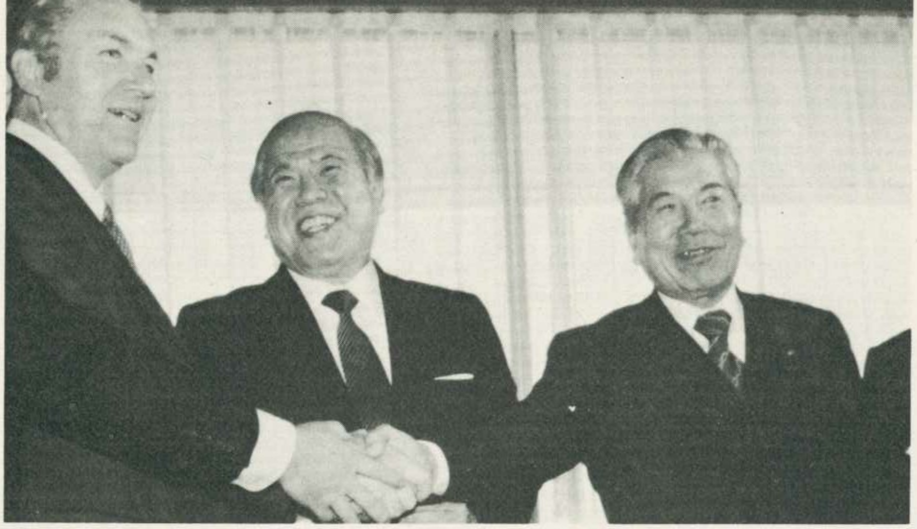
These are perhaps well-perceived elements for building up joint ventures. And Mr. Baker added, "There is a difference of approach to the commitment in Japan."

"An employee is seen as a source of investment, not a source of expense. You have to make a permanent and lasting commitment to people. And Japan requires considerably more patience than doing business in the United States. The approach is rather a long-term one. Unfortunately, the huge up-front costs are a bit frightening to newcomers who may be small- or medium-size companies."

Asked if these are trade barriers to foreign business in Japan, he answered, "I have constantly said the greatest non-tariff barrier in Japan today is the sluggish domestic economy."

Investment Both Ways

Just about a year ago, Material Research Corporation (MRC) of Orangeburg, New York, began a feasibility study on investing in integrated circuit-related production in Japan. The company has now reached agreement on a land contract with Oita Prefecture in Kyushu known as "Silicon Island."



MRC President Dr. Sheldon Weining (left) and Governor Hiramatsu of Oita Prefecture (center) celebrate conclusion of a land contract

MRC supplies high-purity materials, ceramic and equipment for application of thin metal and ceramic coatings called "sputtering," related to integrated circuits, electronics and telecommunications companies worldwide, including Japanese firms like Mitsubishi Electric Corp., Fujitsu Ltd. or Nippon Electric Co.

"Investment is a strong medicine to assist in easing trade friction between the United States and Japan and it should be as open as possible," said Dr. Sheldon Weining, the founder and president of MRC, on one of his frequent visits to Japan.

Oita is one of the 15 regions involved in Japan's technopolis project. This plan is a new idea for regional development and has been called "A vision for the 1980s." A technopolis is an intensively industrialized complex with high-technology enterprises related to integrated circuits, computers and other electronic instruments.

"Both local and central governments have been extremely cooperative and helpful in our efforts," Dr. Weining said. "We have an office in France and the time consumption for investment in Japan is almost the same as in France."

The company will invest $2 million in the first stage of construction which is scheduled to begin in the latter half of this year. This figure is not small and is even "a bit frightening" compared with MRC's annual net income of $4.4 million in 1980.

But Dr. Weining, a former academic from Columbia University and New York University, explained, "I don't perceive any problems for those doing business in Japan. Rather, we would like to marry our know-how to the excellent Japanese technology to create a very strong situation."

Claiming himself a proponent of free trade, he called for investment by Japanese companies in the United States to redress the trade imbalance between two countries.

As far as MRC's investment is concerned, he stressed there have been no major barriers. But he emphasized the importance of mutual investment as alternative to the "reciprocity bills" now before the U.S. Congress.

Do as Romans Do

J.C. Johnson and Son Inc., generally called "Johnson Wax," of Wisconsin, have a 100%-owned subsidiary in Oiso, Kanagawa Prefecture, about two hours drive from Tokyo. Johnson Wax in Japan hold a 37% market share in floor wax, 30% in room fragrances and 20% in car wax. Its market share in floor wax is Japan's highest, while Johnson's car wax and fragrances hold second highest share in the local market. The floor wax market in Japan is currently a $2 billion a year business.

"About 20 years ago when Johnson began to sell polishing waxes and fragrances here, there was no response from customers, as Japan had no custom of enjoying fragrances or polishing their houses and furniture with wax," said current

President Fujio Mikuriya of J.C. Johnson and Son Inc.

Japanese president Fumio Mikuriya.

The company at the time decided on a 10-year project to localize its market strategy, through innovative new fragrances attractive to Japanese, penetrating Japan's conventional distribution network and diversifying its commodity services.

Mr. Mikuriya explained that Japanese prefer rather stronger fragrances which "kill" smells, while Americans favor weak fragrances which "absorb" smells. The company invented a new range of fragrances called "SHUT" which "shut up" strong smells particularly in the toilet.

"This was 10 years ago and since then Japanese have changed their attitude toward smells. Recently they prefer more gentle and weaker fragrances, like Americans," he said.

Johnson at first delivered only to big stores like supermarkets without going through wholesale dealers. The Japanese distribution system, often criticized as very complex, usually contains many levels of wholesale dealers between manufacturers and retail shops.

"If we did business only with American-style supermarkets we could deal with only 45% of the market. The remaining 55% are retail shops. And we wanted our target to expand."

So this totally American-capitalized company entered the major market of 9 million retail shops, as well as dealing with 10,000 supermarkets all over Japan.

"First we were in trouble, but gradually both big stores and retail shops encouraged us. Throughout it has been nothing but patience and trust in each other."

Johnson Wax have 67 subsidiaries in 45 countries, each managed by local executives. Their principle is localization of business in each country, based on the old proverb "When in Rome, do as the Romans do."

Johnson in Japan received an award from the parent company five years ago. The award is named "This We Believe."

Changing Japanese Practices

Warner-Lambert Company of Morris Plains, New Jersey, also hold 70% of the Japanese shaving market under the name of "Schick". They introduced the first "injector type" to the market in 1960 and have taken the lead in safety razor blade sales.

Mr. Reizo Watanabe, customer services manager, said the secret of conquering the market was "trying to change Japanese customs."

Watanabe said that Japanese men used to shave at night with soap when they took a Japanese-style hot bath. Through constant TV campaigning and advertisements using shaving foam and stainless razors, Schick has advocated that smart men shave in the morning using shaving foam and razors with exchangeable blades.

Mr. Jay M. Gwynne, President of Warner-Lambert K.K.

This strategy derived from the company's "bottom-up management." Warner-Lambert in Japan is run in such a way that ideas will flow from employees in the lower tiers of management up to the top. Each employee has his own ideas about how the work can best be improved and discusses this in a group. When the ideas are accepted and implemented in company programs, each employee can share a better working atmosphere and becomer more interested in his job.

There is also a company now trying to change Japanese consumer tastes in food. Mr. Paul C. Debry, president of CPC (formerly Corn Products Company) Japan Ltd., said, "What we did at first was to educate Japanese housewives."

Since traditional *miso* (soy-bean seasoning) soup has been very popular, Western-style corn-mixed or consomme soup was a totally "strange food" to Japan. It was in 1963 when CPC International Inc. set up a 50-50 joint venture with Ajinomoto Co. Inc., manufacturer and distributor of food products, amino acids and special chemicals.

"We spent 45% of our budget for Japanese TV commercials and sales promotion," said Debry, a long-time resident of Japan, who is representative director of Knorr Foods Co. Ltd.

"Eighteen years ago when we entered Japan, there were big differences from other countries." He explained that Japanese housewives then were more careful about prices. One pack of Knorr soup sold at ¥90 (about ¢40). Now the price is ¥190. The firm's Japanese business associates insisted: "Nothing over ¥90. It is a magic price for us." Today, Japanese wives don't care so much about prices. Rather, they will buy if the quality is better even at a higher price.

There are also big differences in taste between Japan and other countries. "We did an extended feasibility study and we changed the formulation of Knorr soup. For example, the soup here is more bland than in other countries. In Europe or Latin America they like more spicy soup."

Knorr today has an 84% share of the dried soup market. CPC has a 21% share for canned soup and 19% of the mayonnaise market.

Mr. Debry emphasized that business strategy not only in Japan but also in other countries should be based on long-term management strategy with a lot of patience to find and develop relations with good partners. ●

Mr. Paul C. Debry, President of CPC