

# Crashing the Foreign Car Imports Roadblock

## — BMW Japan Gears Up to Crack Local Market —

By Lüder Paysen

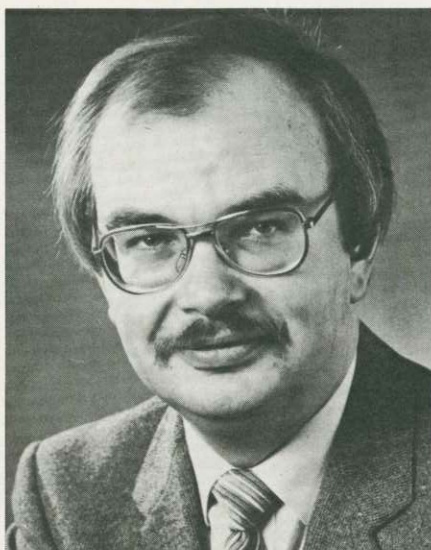
BMW Japan Corp. was launched as a wholly-owned subsidiary of Bayerische Motoren Werke A.G. (BMW) of Munich in October 1981 in an effort to crack the tough Japanese market for high-priced foreign car imports. The new subsidiary was formed from the local BMW importing business of Balcom Trading Company, which was absorbed into BMW Japan Corp. to become the first 100 percent-owned subsidiary of a foreign auto maker in the Japanese market.

The new company then invested ¥3 billion—a record outlay for any foreign auto sales subsidiary—to acquire the business of the Balcom Trading Company, which sold BMWs through its 36 sales and service centers located throughout Japan. To upgrade its marketing capabilities and form a national sales network, BMW Japan has since added 12 outlets and hired 50 new staffers in addition to the 212 retained from Balcom.

In 1982, BMW Japan Corp. achieved an impressive annual registration growth of 45% compared with a net decline of nearly 7.5% for all imported autos. Last year BMW sold 380,000 units worldwide and had an export ratio of 65%. The company's largest rate of increase for sales was registered in Japan.

The original company was established in Munich in 1916 for the purpose of manufacturing aircraft engines. The blue and white BMW logo still represents a rotating airplane propeller. Although BMW employed over 47,000 people in over 50 locations up to the end of World War II, the company was dissolved soon afterwards. Embarking on a new start in 1948, the company came out with a single-cylinder motorcycle as its first postwar product. It again picked up on its tradition of automobile construction with production of a large limousine in 1951.

The Federal Republic of Germany produces four million cars each year, and in 1983 BMW AG will produce and sell more



Managing director Lüder Paysen of BMW Japan Corp.

than 400,000 of the total. And while more than 50% of all the cars produced in West Germany are exported, about 60% of BMW's production is for export. At the same time, however, West Germany is also a significant market for imports; almost 60% of the German car market is under foreign influence, a fact that has made it one of the world's freest markets. Despite this—or perhaps precisely because of this—West German car manufacturers have developed extremely outstanding qualities.

And while BMW AG is actually a very small manufacturer of automobiles compared with Toyota, Nissan, General Motors, or Ford, its profits rank it among the top five automakers in the world. Over the past 20 years these profits have never shown a decrease. In terms of unit sales, BMW ranks sixteenth among car manufacturers worldwide, and with an annual production of 400,000 units for this year, which is more than twice what the firm produced only seven years ago, BMW's output represents 1% of total worldwide production.

### The car import market in Japan

While there has been a significant easing of auto import restrictions in Japan, the share of the market held by imported cars peaked at 2.1%, or 60,161 units in 1979 and has declined ever since.

For instance, in 1980 imported car registrations totaled 44,871 (or 1.7% of the domestic market), then eased downward to 38,362 units in 1981 (1.3%); total sales for 1982 reached only 35,508 units representing a whopping 41% decline since 1979.

Thus, one can safely conclude that the market share for foreign cars in Japan during the last few years ranged between 1% and 2% of the total car market, and is now in a declining phase.

But what are some of the reasons for this, and why has BMW Japan Corp. been able to go against this trend? First of all, the total domination of the Japanese market by domestic manufacturers nowadays is a historical fact and largely the result of effective closure of this market through fiscal, technical and administrative restraints carried out over many years, and at least up until the point when Japanese car makers achieved their current strength. It was only in 1972 that the Japanese authorities abolished the 40% tax on imported autos which had been in existence since after the Pacific War. Also, it cannot be overlooked that the average Japanese consumer knows all too well the success of Japanese products the world over, and fully believes that domestic auto makers produce a superior product.

There is another very basic economic factor: imported cars cost substantially more than domestically made ones, and not all the cars entering this market as imports fit market needs.

None of these reasons are really new, nor startling. But there is, in fact, another very important new way of thinking tak-



ing hold in this market—and that is, the well-known stereotype about Japanese car purchasing habits is now reaching the end of its usefulness, meaning that those Japanese who admire or want to own a foreign car simply because it is a foreign, status-symbol product are becoming a rare breed. The immediate result of this is that in the very near future, foreign car makers in this market will have to justify their existence by offering a very distinct image coupled with the level of fit, finish and quality that the Japanese expect. No longer will the choice of a car be based solely on considerations of rationality and functionality; rather, the owner's personality and attitude toward life will have a considerable influence on the purchase choice. A car, in other words, becomes a metaphor for success, intelligence and lifestyle. And, BMW's entry into the market coincides with this evolution of attitudes and lifestyles now underway in Japan.

## BMW Japan's first full fiscal year

BMW Japan has moved fast to address this new mood among Japanese consumers toward foreign cars. Also, BMW has taken advantage of the rising popularity of German cars in Japan, particularly among young Japanese professionals. In terms of total registration, BMW was in third place in 1982 with 5,293 units. This figure is particularly significant because it represents a spectacular increase of 45% when compared with the 3,662 BMW units registered in Japan in 1981. And this trend seems to be continuing in 1983, when our forecast of BMW registrations stands at 6,600 units, representing another 25% increase in a market where the total proportion of imported cars is still in decline. And, because we expect to increase our annual sales by approximately 20% and to be selling 10,000 units annually in this market within the next four years, we will have to drastically expand our dealer network in the years ahead.

What are the main reasons underlying BMW Japan's success in Japan? In summary I see the main reasons as:

1) We sell a product suitable for the Japanese market, 2) we have a deep commitment toward the market, 3) our organization has proven its adaptability to this market and utilizes the best Japanese management team in this business segment, and 4) we have the necessary patience.

Let us look at each of these points a little more closely. On the first and main point, the product: the market in Japan is aware of BMW's high quality craftsmanship, outstanding engineering and advanced electronics, all of which combine



The BMW has become one of the most popular imported cars in Japan's major cities today.

to form a quality, prestige product. A BMW is also viewed as an exclusive non-mass-merchandized automotive product with a high prestige value. Exclusive products, usually of European origin, are quite popular in Japan, as the successful Japanese constantly looks for possibilities to be different from others.

The second reason for our success is our commitment toward this market. This is first and quite obviously apparent in BMW Japan's substantial paid-in initial capital of ¥3 billion, which is one of the largest initial investments ever made for a foreign sales subsidiary in Japan. As a wholly-owned subsidiary, we bring an entirely new attitude into the picture. We can explore and develop here on a long-term basis, whereas an importer, by nature, normally does not have the financial back-up and tends to assume a much shorter, profit-oriented attitude toward the market.

Over the past 18 months, we have invested heavily in marketing and personnel, and toward developing an exclusive dealer network matching our standards in identification and service level. During the next year we will establish a new ¥1.5 billion parts warehouse. And, one of the first things we did when establishing our subsidiary in 1981 was to drop prices for our entire model range by about 10%. Our prices now range from ¥4.0 million to ¥9.6 million or, if converted to the appropriate currency, would be in the same price range as the comparable model in the U.S. or British market.

The third point which has buttressed our success is the adaptability of the overall BMW organization toward the local markets, which in turn is supported by the strong management team we have in Japan. Good products and good ideas are not enough to guarantee success. It needs people who, because of their competence, personal attitude and their achievement-oriented work-style, ensure the success of our products. The management and staff of BMW Japan are mostly Japanese.

There are just two foreigners (myself and the marketing manager) working in this company. Our president is a Japanese with long years of experience in the international consumer product industry. This "local management" policy is reflected worldwide in all BMW subsidiaries. However, to implement such a policy, particularly in Japan, was and still is not an easy task. We retained 212 employees from our previous importer, and during the last 18 months we have recruited 50 new staffers, including new management personnel, from various industries. We believe that we now employ personnel with outstanding capabilities and have established a team with the right spirit to meet the challenges of this market.

However, because of Japan's system of lifetime employment, it was difficult and sometimes impossible to find the type of specialist here that we need. And, of course, it was nearly impossible to get any horizontal movement from one of the Japanese auto firms to us as would be common in the U.S. or Europe. Our solution to this dilemma is training, which is both time-consuming and costly. In addition, we are following the Japanese method of hiring new employees from the outstanding universities who will be steeped in the BMW philosophy and trained in the way we do business. These university graduates, I feel, will form the core management for our future development in this market, and this is the type of investment any foreign firm must make in this market for long-term success.

As our last reason for our success I mentioned "patience" in approaching and penetrating this market. I cannot overestimate this one aspect. There is no doubt that the Japanese market is difficult to penetrate. Nobody can normally expect to earn a "fast buck" or gain a fast turnaround on investment. In our case, the patience is closely related to the establishment of a distribution network in Japan. Balcom Trading has a dealership organization consisting of 36 BMW sales and





A BMW shop located along a main street of Tokyo.

service outlets, which we have at this time increased by another 12 outlets.

We expect to increase our sales by approximately 20% to 25% annually, and to do this we will also have to expand our dealer network considerably in the years to come. This will not be an easy task by any means, as the network of Japanese car dealers is traditionally and financially closely linked up with the domestic car makers, who maintain a very strong grip on the existing car dealer network. This makes it virtually impossible for BMW to consider using the existing car dealer network in Japan and has forced us to develop a network completely on our own, which takes time, money and a long-term commitment.

## Innovative leasing plan

In Germany and in other overseas markets, BMW sales have been substantially boosted through introduction of a finance plan in the form of leasing. After a full investigation of the Japanese market, we realized that the concept of car leasing is quite underdeveloped in Japan and that none of the leasing programs available meets our requirements. Therefore, we have recently introduced to the Japanese market a completely new approach toward leasing, primarily aimed at corporate customers, that includes financing and maintenance at highly competitive monthly rates. The first of its kind in Japan, the plan is being offered in co-operation with a top Japanese leasing company and is available at BMW's retail outlets nationwide.

## Roadblocks remain

An article about our operations in Japan cannot end without touching on the problem of non-tariff barriers. While I will not comment in general terms about the economic and social barriers, whose total effect is to limit all foreign invest-

ment in Japan, I believe there is a historically proven tendency in Japan towards preference for domestic products. This is no doubt related to Japan's policy of seeking self-sufficiency, and at times even the government bureaucrats have promoted such policies. But the fact remains that BMW Japan—like other foreign auto importers—still faces substantial barriers in penetrating the Japanese market. A commodity tax on landed cost, sizable dealer markups, and inspection and freight costs also severely reduce the competitiveness of foreign imports.

Let me be more specific. Our models, which are already homologated in our factories in Germany for this market, have to pass the type (= model) approval required by Japanese law. The type approval requirements are somehow associated with a certain volume of imports. For our products the usual system is the "Type Notification," which requires, in addition to certain tests to be performed in Japan, a tremendous amount of administration work, which we feel is unjustified and could be reduced considerably.

In addition, and this is really only a minor nuisance, although the type approval has already been granted for the model, each imported car has to be inspected individually by the Local and Land Transport Office before it can be licensed. Besides being something of an embarrassment for the buyer and for us, this is to a certain extent an unfair practice, since domestically manufactured vehicles do not need such a final inspection. I believe self certification stating that the car complies with the approved type would be totally sufficient in this regard.

We understand that the Japanese authorities are trying to rationalize and streamline the homologation requirements. And while we appreciate these efforts, no specific details on the changes to be anticipated have been disclosed so far.

The real villain for us, however, is the requirements and procedures that apply to

car imports depending on the number of cars imported at a time. The simplest format of the three different types of import procedures is assigned to low-volume importers, the so-called parallel or "grey importers," who import BMWs but are unauthorized to do so by us. And this has very real safety and product liability implications for us as the subsidiary of the manufacturer. This is because from our experience these imported "grey" BMWs under the low-volume system are most often not professionally homologated for this market. In addition, we really cannot see why we should be required by law to go through the very expensive Type Notification Procedures, comply with all Ministry of Transport requirements, and provide full services and parts support, when at the same time a loophole exists which allows domestic-based importers to bring in BMW cars which do not comply with Japanese specifications. Appropriate services are not provided for these BMW models, which are often a potential threat in terms of safety requirements. While there exists a possible danger of mechanical problems in these unauthorized imports and they do take away sales from us, they are not the real problem. The real problem is that these so-called grey imported BMWs damage our image here.

We have consistently requested the Japanese authorities to end the parallel import system. As of today, our approaches have not been successful, and it may be that these unauthorized imports, which are substantial in number, could serve as a vehicle to limit our future success in this market.

But we believe that, regardless of these restrictions, our approach to this market is on a successful track. We have demonstrated a strong commitment to the Japanese market by making a substantial investment of funds and resources in our new subsidiary. We view ourselves as a contributing member of Japanese society, "not offering something to everyone, but something more to some."

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