

“Things Take a Bit Longer In Japan.”

Interview with Alfred Dienst,
 president of Hoechst Japan Ltd.,
 by Roslyn Hayman

West Germany's Hoechst AG is one of the world's largest producers of chemicals, boasting a network of operations in over 130 countries.

The first Hoechst dyestuffs made their way into Japan over a century ago, around the start of the Meiji Restoration—with pharmaceuticals following shortly after. But despite its participation in several joint ventures in Japan after World War II, it was not until 1966 that Hoechst itself fully took over Japanese marketing operations and established its first wholly-owned subsidiary in Japan.

Today, Hoechst Japan Ltd., with its seven subsidiary companies engaged in manufacturing, importing and marketing, embraces a staff of over 2,800, handling some 8,000 types of products for combined annual sales totaling around ¥100 billion.

“If you look at our share of the world sales of Hoechst, we are small, at a mere 2-3% or so,” says Hoechst Japan's President Alfred Dienst, who came to set up the Japanese operation in 1966 and has presided over it ever since.

“But this is produced by a smaller number of personnel than the average, and our productivity is relatively high.”

Mr. Dienst, also chairman of the German Chamber of Commerce and Industry in Japan, was one of six persons recently to receive a special commendation from the Japanese prime minister for their contribution to expansion of Japanese imports.

A fluent Japanese speaker, with nearly 17 years' experience in Japan, he said the key to success in the Japanese market is “to try hard.”

Q: You say that Hoechst Japan's share of Hoechst's worldwide sales is small. Yet it seems Hoechst was rather late in setting up operations in the Japanese market.



Alfred Dienst, president of Hoechst Japan Ltd.

A: We should be bigger if we had started earlier.

After the World War II, Hoechst started to invest and to reorganize themselves where it was easiest—in Europe, and South America, for example, where there were groups of Germans. Certainly Japan was not the easiest market to become active in. In the old days we had no organization, no people...the language, everything was unfamiliar to us.

We founded a joint venture in the pharmaceutical sector in 1956 and another for polyvinyl acetate dispersions in 1962. In those days, before the liberalization of the

mid-1970s, you could not undertake production without having a partner. But those were rather hesitant and slow beginnings, so practically the real new start was in 1966 with the foundation of Hoechst Japan.

Q: What were some of your biggest difficulties in those early days?

A: One difficulty was that our first joint venture partner was perhaps not the most appropriate.

If you talk about joint ventures, choosing the right partner is very important. If there is any imbalance, then the partnership cannot work. If the partner is too

big, or too small, or if the intentions or the interests of the partner go astray, then it is difficult to conduct a joint venture. So you need to be sure the intentions, level and way of thinking of the partners are more or less along the same lines.

One of my first tasks—not a pleasant one—was to break away and find a new joint venture partner.

Q: *How do you feel about working in joint ventures? If it had not been for Japanese government regulations regarding joint production, do you think you would have gone it alone?*

A: There are various reasons for going into partnership, in any country, but even more so in Japan. For instance, you may exclude a possible competitor by tying up with him. Or you may gain access, through partnership, to raw material resources. You may be able—and this is particularly important—to use the technical staff of the partner. In the original phase of our activities, it was not so easy to find good technical staff.

If you can do everything yourself, if you have people, excellent technology, and if you're so strong you need not fear a competitor, then you do it on your own.

Q: *How about the complex Japanese distribution system? What kind of obstacles have you faced there?*

A: Actually in the pharmaceuticals sector we established our own sales network. I think we may have been the first foreign company to do that.

A disaster was predicted. Everyone said we'd never be able to get the dealer connections and set up our own distribution network. But it worked, and we made some headlines.

Of course we have to operate within the Japanese distribution system. In some sectors we, too, work with a first dealer, a second dealer and a third dealer, and they cost money, they have their margins.

But some high prices also have their rationale. As you know, it's said that sales of a certain Scotch whiskey, volume-wise, went down in Japan when the price was lowered. It was no longer a cherished product when it was practically the same price as Suntory—people may have thought why buy Scotch if Suntory is just as good?

Q: *What was your secret in setting up a sales network? Why did your strategy work?*

A: It worked because we were able to avail ourselves of a number of Japanese collaborators. People who had good insight into the Japanese distribution system and who helped us to build up the dealer connections.

We took over one person our first partner discarded—he knew a lot of people in the pharmaceutical business—and made him managing director. Plus a number of other personnel.

But it wasn't easy. The personnel were a bit afraid to go from a joint venture into a fully-owned foreign venture. We had to spend long hours discussing it with them. But with a certain determination, and with advice from Japanese friends—not all of it good advice, as we found out later—we were able to establish ourselves.

Q: *Have you found recruiting staff in general more difficult in Japan than in other countries?*

A: Oh, definitely. In other countries, personnel might change easily from one company to another. Here it was difficult to find the right staff. What we found in the beginning, of course, were people who maybe knew a foreign language. So for a position where we needed an excellent salesman, we might have a former teacher, for example.

In the course of time, as we established our reputation, the situation has changed. Now, every year, we get better people. Which also poses problems, as you may get young people better qualified than their managers. Fortunately it's not quite so black and white, because we have also taken some staff as so-called intermediate employment—not straight from university—and what you call *amakudari*: we have a number of former government officials in our organization now. And we do have some excellent managers.

But still, let's say in the managerial class between 40 and 50 or so, there is some lack of sufficiently trained and experienced managers.

So to build up the structure was particularly difficult in the beginning, but it does become easier to find the right people as you become better known.

Q: *How much of a barrier have you found government regulations here, especially with regard to pharmaceuticals?*

A: Japan has strict rules, along with the United States, for registration of pharmaceuticals, pre-clinical and clinical testing. Unfortunately they are not on an international norm, so for years and years we've had to repeat tests here in the country—not because test results outside are bad, but because they're just done on other guidelines.

It's ridiculous, for instance, to ask for stability tests here in Japan if they've been done outside—because testing equipment in either case is the same.

And I don't think it makes sense if we test something in Germany for 24 months and the Japanese say it has to be 27 months.

Of course, I'm not talking about clinical tests—clinical tests have to be done in the country, because for instance the diet in Japan is different from the diet outside. But pre-clinical test data should be accepted from outside—and I think Japan is on the way to do that. Though there's still a lot more to be done.

There is no doubt that the government—whether it was the Ministry of International Trade and Industry or the Ministry of Health and Welfare—helped its own industry to grow, that a number of restrictions were introduced in the past to shield off competition which was too strong.

But these discriminatory restrictions are gradually disappearing and we have to understand that you cannot just change the whole setup in a country from one day to the other. Though sometimes it seems to be taking a little too long.

Q: *What effect on Japan's international trade relations will the removal of such barriers and the opening up of the Japanese market have?*

A: If you look at these barriers, the so-called non-tariff barriers in general, you have to split them into three. There is



Hoechst Japan Ltd. in Tokyo



Hoechst's headquarters building in Frankfurt, West Germany

what one might call the cultural barrier—the thinking, people's tastes, the language, even the distribution system—and this is something you can't change. You can't tell the Japanese, as somebody wrote in a book, that if they had no Japanese language things would be easier.

Then you have the other sector that is politically motivated. A lot of trade friction comes under this. If there was no unemployment in the United States or Europe, people would not complain as loud as they do now. If Japan's Liberal Democratic Party could get the necessary votes regardless, they wouldn't pay the high allowance they do to the rice-growers, and would perhaps let more agricultural products from overseas in.

So here, too, one has to show a certain understanding. The West would do itself disfavor if it insisted on its way regardless of the political consequences in Japan.

The third group is made up of testing norms, rules and regulations, sometimes unwritten, and is very often influenced by discretionary decisions by people ranging, let us say, from an inflexible official to a chauvinist who says: "No, I won't let this product in."

As I always tell Japanese government officials and businessmen, if you take all those NTBs of the third group away, it may not change the balance of trade much, but it will take all the emotions away. And this would be very good for Japan.

Q: *What advice would you give European businessmen seeking to sell their products in Japan?*

A: The first advice I'd give them would be to try harder. And also to have patience—because things take a bit longer here in Japan.

Also to adjust their products, their

ways of thinking, their behavior to the market in Japan. For instance, the Japanese buy with their eyes, so much greater care has to be taken with the packaging, the make-up of a product. You have to meet high standards and different standards for your product. You cannot just say what is good for us in Europe must be good for Japan. You have to adjust to the Japanese way of thinking, not they to yours. And this means you should never start out without a very solid market analysis.

Another thing that is very often underrated is the competition in this market even among Japanese companies. Some people in Europe think Japan has such harmony—that the government organizes practically everything and that every company cooperates with its competitors in perfect harmony. That is not the case. The rules of competing are perhaps a bit different, but the competition among Japanese companies is tremendously tough. That's something anyone wanting to do business here should realize.

Also in certain sectors, if you really want to be successful, you have to think of production in the country. As you know, some Japanese manufacturers work with almost no stock. Their suppliers early in the morning deliver the parts and materials used in production during the day. So when you think of the delays that can occur if important raw materials have to be delivered 17,000 kilometers round the world, in many cases you have a much better chance to do business the moment you produce here.

This doesn't go for all products—for certain high price products you can deliver by air, so it doesn't matter so much.

Q: *As regards your own company, what*

do you see as the future direction of Hoechst's operations in Japan?

A: Hoechst Japan is relatively smaller than, say, Hoechst U.S.A., but we feel we are better off because we are specializing in certain sectors. We are concentrating on so-called fine chemicals, dyestuffs and so on, and this I think will also be the route for the future.

We prefer to license out mass production, like plastics for example, and feel we should stick to specialized, high added value sectors and high technology, in keeping with the future directions of the Japanese economy.

I don't know if you know, but practically 50% of the raw material used in silicon computer chips throughout the world—a highly delicate material requiring a desired impurity of one part in a billion—is produced by Wacker, who belong to the Hoechst group. And beyond that the Japanese user may often have even more rigorous standards.

We feel we have to submit to these standards—otherwise we can't do business. And we are thinking of producing this material here in Japan. If we want to really get into the big business, and if the silicon island of Kyushu is starting to work, then I think we have to be nearby in order to supply our products.

We have to adjust to the kind of industrial development taking place in Japan. ●

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