

From Rickshaws to Robots

Peter McGill talks with Jonas Goro Gadelius, son and successor to the founder of one of Japan's oldest foreign firms

"It takes tenacity and patience to break into the Japanese market," warns Jonas Goro Gadelius, chairman of Gadelius K.K., a successful Swedish engineering and machinery distribution firm in Japan.

As the son of one of the pioneers of Western trade with Japan, Jonas Gadelius should know. His father Knut Gadelius started business operations in Japan in 1907, just at the time Japan began building its industrial muscle and badly needed foreign equipment and technology.

From its early days as an importer of everything from match making machines to fire extinguishers, Gadelius K.K. has developed to a point now where two thirds of its turnover comes from manufacture under license in Japan of specialized equipment for the energy, pollution control, marine engine, steel, pulp and paper industries. Over the last decade, four joint ventures with Swedish and U.S. companies were set up to sell industrial parts and machinery in Japan. Most recently, a robotics division was formed with the aim of becoming one of the leaders in the Japanese market.



Jonas G. Gadelius, chairman of Gadelius K.K.

The lure of the East

When a young and enterprising Knut Gadelius began scouting for business opportunities in the Far East in the 1890s, he found little if any direct connection between the market and Swedish industry. At that time most of the trade with Scandinavia from the region was handled by big British and German traders. With no direct shipping line from Sweden to the Far East, transporting goods was both costly (adding at least 25% to the price) and risky. Long delays, damage to cargo in transit and pilferage were common.

Knut Gadelius originally came to the

Far East on contract for a German tobacco plantation in Sumatra in 1886. When his term was up, he traveled home via Singapore and Malacca and reported his findings to the Swedish government and industry. He seems to have wasted no time in setting up on his own, for in 1890 a Gadelius company was launched in his home town of Gothenburg, on the west coast of Sweden.

In 1896 he made his first trip to Japan, an eye-opener in many ways. His son now recalls "My father had about the same opinion about Japan as everyone has now: very difficult. No one spoke Eng-

lish, it was very complicated to reach the industries. At that time you didn't have the present marvelous transportation system: you had to go by rickshaw if you left the cities."

The first Gadelius office was set up in 1904 in Singapore, with the aim of capturing a slice of the booming China trade for Swedish companies. Three years later, the Swedish East Asiatic Company was launched, opening up direct shipping services all the way to Japan on a regular basis (thanks in no small part to Knut Gadelius' pressure).

In the same year Japan had unexpect-

edly won its war with Russia, boosting industrial activity. "My father thought the time was ripe to enter Japan in a more concentrated way than just through an agent," Jonas Gadelius recalls. "So in 1907 the first office was opened in Yokohama, and in the same year a branch in Osaka." A year later, Japan head office was moved to Tokyo, where it has stayed ever since.

Japan was different

Knut Gadelius "lit up" Japan with Lux gas lamps from Sweden, after he had already introduced the innovation in Malaysia and Singapore. He contributed greatly to modernizing the Japanese fishing fleet with "hot bulb" type engines from Swedish firms Penta and Bolinder (three years ago on his visit to Japan, the Swedish king received a gift and letter of thanks from The Fishing-Boat Engineers' Association of Japan for the deal). "He also brought in some fire pumps..."

The Great Kanto earthquake that flattened Tokyo, causing a rash of fires that ripped through the timber buildings of the city, killed thousands in 1923. Many more would have died had it not been for the courage of a Gadelius employee, Ivar Nordmark, who kept off the fires from a stretch of the Sumida river with Ludwigsberg extinguishers Gadelius had imported from Sweden. By spraying the area, he succeeded in getting thousands of people down the river to safety. Nordmark later received distinguished awards from the Japanese and Swedish governments for the feat.

Knut Gadelius first reckoned that he could break into Japan by selling the same products he had been so successful with in Singapore and other parts of Asia. But he quickly realized that "Japan was a different market, with the ambition of being much more industrialized."

From this came the gradual emphasis on steel and machinery, rather than going in for general trading in toys, porcelain or textiles, areas where Japan was very big before the Pacific War. "Particularly during the World War I, Japan took over many of the markets in the Far East from the British and the Germans, who were then busy fighting in Europe, and its industry developed rapidly," explains Jonas Gadelius. "About that time, my father got several important agencies from Sweden in power generation, steam turbines, both for marine and land applications, and for electrical and mining equipment."

The current stress on local manufacture in Japan came about as a result of Japan's defeat in the Pacific War. "When we started again, we were only a handful of people, with a few agencies and few licenses. And we had some goodwill in some of the industries. That was about all."



A decision-making meeting at Gadelius K.K.

New postwar directions

Gadelius' Japan operations were in the same state as Japan's own industries: in ruins. "The government, together with the occupation forces, had to start the wheels rolling again. There was no real foreign exchange available, so Japanese government policy in the fifties was to save on foreign exchange and catch up technologically. This they did by encouraging industries to buy licenses as much as possible. We had to follow this."

Gadelius had most of its agencies in "strategic industries" such as power generation. "The power industry here could not rely on equipment coming half way around the world. They had to have locally produced boilers and auxiliary equipment in order to safeguard production of electric power."

Another area Gadelius entered was the then booming pulp industry. "There's a lot of steel construction, tanks, digesters, railing and piping, things which you cannot drag half way across the globe. If you sell such plant you have to be prepared for local manufacture. This could not be done by our Swedish suppliers."

"They could produce drawings in English, but they could not adapt them to Japanese material standards, material safety standards, earthquake and wind factors which are needed here. So they required us to do it, and we had to build up competence and resources in these fields. If we could just import, it would be much easier. But the market demands local manufacture, which costs us a heavy investment in personnel—to have all these engineers who could undertake all the technical tasks involved."

Most of the 1,500 employees in the Gadelius Group today are university trained engineers and specialists. With its "lifetime employment system" for the big companies, Japan lacks the labor mobility that is present in most other advanced countries. "To get staff is a great

problem," Jonas Gadelius admits. "But we have the advantage that we are rather big now, and we can get in touch with the universities. It's a big headache though for foreign companies just coming in."

Another factor pushing Gadelius toward local manufacture was having to compete with Japanese industry. "In order to be successful here, you have to meet them pricewise, and you can only do that by locally producing."

The system: pros and cons

Jonas Gadelius points to a much ignored area of Japan's economy which allows makers big cost advantages over their foreign competitors: the subcontracting system.

"They have a total system of manufacturing in this country, utilizing smaller makers as subcontractors. So we had to follow suit and we are also using small and medium size companies."

This system makes Japanese industry very competitive. "I do not believe Western companies can become more competitive by adopting Japanese management systems. I think the big advantage the Japanese have is a very tight control on their manufacturing, particularly in an industry such as automobiles. I call it a system because you build up the main factory and then you take up all the satellites, your local suppliers."

"In the Western countries the satellite supplier is independent, he is not so tightly connected with the manufacturer or industry as in Japan. Here you have a subcontractor who is maybe partly owned by the manufacturer, who gets assistance and financing and also maybe retired or redundant people from the manufacturer to keep the connections open and firm. If the market goes down and industries are facing rough weather, the subsidiary makers or subcontractors are always assured some

kind of business or assistance. While the lesser units have to fend for themselves. I don't think in Europe we have this kind of set-up. It's like a family really."

The advantage of the Japanese system is that the major companies can "distribute the manufacturing right down these lines and reap big advantages of the cost differences of these subcontractors.

"Some of these subcontractors are not much cheaper than they are themselves, but if you take the subcontractors way down the line they are much cheaper, and the maker can utilize this system like playing an accordion. I'm not sure that the subcontracting system has been properly understood or written about." Another secret weapon?

Jonas Gadelius holds no illusions about the famed Japanese distribution system either. "Very complicated and very hard to tackle" is his verdict. "For instance we are in the business of selling industrial pumps, from a major Danish supplier to the world market. This is of course a basic product for an industrial nation, and you have some very large pump makers in Japan who have long established distribution channels which are very difficult to break into.

"We try to cooperate with some of them who may not have the pumps we are offering, and we also try to go directly to the industry users, such as in the refrigeration or air conditioner industry. It will be interesting to see how it goes—we are just building it up. However we have orders and we believe we will be able to tackle the market. It is an investment of four, five or six years before it pays off."

The market today

Having been in the Japanese market for so long, Gadelius is ironically suffering from some of the same structural declines in the older heavy industries, such as pulp and paper, as its Japanese competitors.

Little new capital investment is at present being made in the Japanese power industry, but Gadelius Energy is adapting to meet a changed market. "As you know, one of the items decided on to pep up domestic demand is requesting the power industry not to install new equipment but to rationalize and stress repair and maintenance. We have already set up groups to cater to this demand, and we hope to counter a little bit the decline in new equipment orders."

Gadelius had almost written off the pulp industry as in terminal decline when new orders started coming in. Having cut down on staff and transferred them to other sections, Gadelius K.K. now has a sizeable order book of about ¥7 billion just for pulp manufacturing equipment. However this is not for capacity increases, but "scrap and build."

Robotics is a "hot item" in Japan that

generates a great deal of excitement (some of it hot air). Reflecting its long experience, Gadelius is "not rushing in" however, despite having some very promising products.

In 1982 ASEA AB, a large Swedish electrical equipment maker, took a controlling interest in Flakt AB, parent company to the House of Gadelius since the family sold out in 1974.

ASEA had already started robot development ten years back, but its importance to the company was only fully realized when a new president took over a few years ago. "He started to evaluate what are the new products and he found that actually ASEA is the one which has come furthest in robot development."

"ASEA Robotics" was formed as a division of Gadelius K.K. in 1982 to sell ASEA's multi-purpose robots in Japan. In the beginning, ASEA robots were imported and some orders received from Japanese industry, including big robot users such as the automobile industry. Last year, however, assembly of ASEA robots started at a workshop in Kobe. "With local assembly, we will be able to come down in price. This year the local content will be 40%, and in maybe a few years it will reach 60%."

Gadelius says his company will compete with the "big boys" in Japan: Kawasaki, Fujitsu and Hitachi, etc. He says he's "pleased" that ASEA robots have already been "copied or adapted" by large Japanese makers.

"It's a combination of an outstanding product and an outstanding knowledge bank. ASEA's software is second to none," he says, giving a little plug. Gadelius' contribution comes from its knowledge of the Japanese market. "We've even subcontracted the labor in the assembly plant." Last year the ASEA robotics division sold about 150-160 robots, mostly on an import basis, and this year we expect to sell about 200. "Still we will not make money, but maybe in three, four or five years we will reap the rewards."

'Boardroom' trade barriers

Business may take a long time in Japan, but Gadelius' experience is that most of the trade barriers are "in the boardroom" or the export department of companies in the West.

"In the industrial or machinery field, there are not many trade barriers. We have had some difficulty in getting type approval for pumps, but that's more irritation than a barrier.

"We used to say that the Japanese themselves are a trade barrier. That's really because the consumer wants to have a product that suits him, and in a way I think that's a valid desire. The question is how

to adapt the product to suit the Japanese.

"Once you get in you have a big market. Everybody buys what Mr. Sato buys. This is of course a great advantage."

Because of the intense competition in the Japanese market, the structure of the industries and their ownership, Japan is not really a "high profit" market for foreign companies. "We do not see for instance that we will have extraordinarily big profits. A steady increase, maybe a couple of percent of turnover after tax, not what you would say in Europe is a desirable profit size."

There are other, perhaps larger, benefits to doing business in Japan than just making a quick profit, according to Gadelius. "You break into a large market where you can maybe find new products and technologies, which if you buy them can benefit business in other parts of the world.

"You are part of an industrial complex in Japan which in itself produces not just monetary profits, but ideas and export possibilities." Third country trade is one avenue that Gadelius has been following up. "Japanese mining industries all go abroad as there's nothing to mine here. You can sell compressors and mining equipment for delivery in Columbia, Bolivia or wherever. So you can participate in supplying Japanese plant exports which are rather substantial."

With such a strong position in Japan, Gadelius will also have the advantage over Swedish businesses with just Europe as their market when the Pacific region shows its full growth potential. "If you can survive in the Japanese market, you can survive anywhere," jokes Gadelius.

"There was a very interesting comment by the president of ASEA when he was rather new to the job. His opinion was that unless you were established in Japan in one way or another, you couldn't say you were in the international market."

Drawing on seven decades of doing business in Japan, Gadelius considers the greatest barrier to trade to be the boardroom. "People are too anxious for a quick return. If you don't want to invest in expenses such as personnel and other things to get in, you should stay away. It's no use to come in half-heartedly. The only chance is to come in full-blast and make available to the export department and manager all the resources they need. It's a tough market. But it's certainly a rewarding one." ●

Peter McGill is the Tokyo correspondent for the London "Observer" and a contributor to a number of other newspapers and magazines in Britain, Canada and Australia. He came to Tokyo in 1981 after working as a correspondent in Hong Kong.