

Braun: Cutting Into Japan's Shaver Market

Interview with Hans Pauli,
president of Braun Japan K.K.
by Geoffrey Murray

In most parts of the world the name Braun immediately evokes an image of high quality electric shavers. The German company first established itself in Japan in 1962 as an importing company, leaving the actual distribution of products to a Japanese company. However, it has handled its own distribution since 1968. As an importer, it was logical for the company to establish itself in a major port and from the start the head office has been located in Yokohama rather than Tokyo. Braun Japan now has 140 employees working in eight offices in Yokohama, Tokyo, Sapporo, Sendai, Nagoya, Osaka, Hiroshima and Fukuoka. Since 1972, the Japanese organization has been run by a Dutchman, Hans Pauli, who, in the following interview discusses the challenges posed by operating in one of the world's most competitive markets.

Question: *What first motivated Braun to set up business in Japan?*

PAULI: They had two things in mind when they started this company. First, Japan was to be used for sourcing of materials and components to be used in our products sold in Europe and elsewhere. Secondly, since we were here, we also wanted to sell shavers. As it turns out, 21 years later, we do very little sourcing in Japan, but we sell a lot of shavers. We do not live for shavers alone, even though Braun primarily is known as a shaver company. Fortunately or unfortunately, shavers are the key to our business, although we are trying to establish other products, like clocks, coffee makers, calculators, electric hair styling brushes, etc. But more than 90% of our sales are accounted for by shavers.



Hans Pauli, president of Braun Japan

"It's like bringing coals to Newcastle"

Q: *Have you experienced any major problems in doing business in Japan?*

PAULI: If you refer to non-tariff barriers or import barriers, I must say no. There are no official difficulties as far as shavers are concerned. In the early days there were some difficulties. But in the past few years I can say there have been hardly any problems from an official viewpoint. For instance, we used to have a lot of problems with tests and with the pettiness of the officials involved, which was pretty hair-raising. There were also difficulties with customs...just petty things. That's all passed now. But Japan is a very difficult marketplace. I have been involved with Braun in many other mar-

kets, but I cannot compare any of them to Japan in the amount of competition that you find here for our particular type of product. It's really like bringing coals to Newcastle.

Q: *Well then, how do you go about selling coals to Newcastle?*

PAULI: We have now been here for more than 20 years and naturally have built up our relationships with the trade, so that our business has been quite successful. We are well entrenched in our particular product category, but it has been a slow process. We have brought to the market, especially in the earlier days, a product that was significantly better in quality than what was made locally. So we have established our image and the Japanese consumer now equates Braun with the top in shaving quality. At the same time, we have been able to keep our prices reasonably in line with what our competition is asking. They aren't cheap, but our prices are not excessively high. I think that is one of the problems with imported goods, that the price can become excessively high. Our products sell for about the same price as you find in Europe, sometimes even cheaper because Japan does not yet have a value-added tax system. So, we have adopted a pricing strategy that is comparable to our competition.

At the same time, we have a distribution system that is almost equally as good as our Japanese competitors, and we have an after-sales service system which I might claim is better than our competitors. This is one of the major problems with imported products, that Japanese consumers tend to think: "Oh, imported goods...no spare parts, no servicing, nothing." So we have made a particular point in our marketing strategy to emphasize good after-

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sales service and good spare parts. You can go into a department store anywhere in Japan if you need a replacement part and you will find heaps of them. There is a better availability than if you need a spare part for a Japanese product. We have established that reputation with the trade and with the consumers.

It's very difficult to think about one specific factor...this is what we did and that was our big success. It was a complex of small things all built together that established us and enabled us step by step to build up a close relationship with our wholesalers. In any market 80% of your business is done with 20% of your customers, and the same is true for Japan. We have a very close, intimate relationship with that 20%, doing all the things you have to do in Japan to build up rapport with your wholesalers: golf outings, get-togethers, and so on. Last, but by no means least, the visibility of the foreigner in this organization is very low. This is essentially a Japanese company and I am the only foreigner in it. The trade contacts are mostly done by Japanese, many of whom have been with the company 15 years or longer.

"You cannot expect big profits in the early years"

Q: *Has the business always been profitable? What is your market share?*

PAULI: I am not so familiar with the early days, but I don't think it was so profitable...although it has never been a big loser. The policy at the time was to gain market share in order to expand, so the emphasis was not so much on profit but on building, building, building. And, of course, you cannot expect to reap big profits in the early years. But once our market share grew and we could rationalize our operation, it became quite profitable. Regarding our market share, you have to define what type of shaver you are talking about. In cord shavers, which are our main line in Europe, we have 60% of the Japanese market. But if you take the total market, including battery and rechargeable shavers, where our Japanese competitors have their particular strengths, I would estimate our share at 15 to 16% at present.

Q: *Have your products been tailored in any significant way to the Japanese market?*

PAULI: This was particularly important in our earlier years. Shavers in Europe used to be quite bulky. To a Japanese, handling such a shaver, it seemed heavy and clumsy...they used to refer to the "German tank."

So we made a slimmer type for the Japanese market. It was a very costly in-

vestment because of the need for special tooling. But, in the meantime, the trend in Europe was to smaller, slimmer shavers, so nowadays it is not necessary to make this special Japanese model. We were able to benefit from the reverse effect in that the slimmer shavers we were making for Japan eventually became popular in Europe as well. We still have certain special models for Japan to meet the trend in this market towards cordless types. In Europe the cordless trend is only just starting.

"We are also a listening post"

Q: *So you are constantly having to react to the special demands of the market and the moves of your competitors.*

PAULI: Certainly we are also a listening post for a European organization about what is going on in Japan, because this is the market from which the competition is coming. Japan has five or six major electrical appliance manufacturers, all of them producing electric shavers. They are competing against each other very heavily and in the process competing against us, too. They are also looking more toward Europe and the United States, so developments here have a big impact on what is going to happen elsewhere.

Q: *In the marketing of products here, do you depend heavily on advertising?*

PAULI: We are still investing quite a lot of money in advertising and sales promotion activities. Braun is said to be the only German company advertising on Japanese television, for example. This is part of our strategy to succeed in this market, because our competitors like Matsushita and Toshiba are household names in Japan and have brand awareness levels that we can only dream of. Without doing any particular product advertising they can succeed merely by being a household name. So, we have to get the Braun name across through our advertising. We work with Dentsu, the number one advertising agency. I cannot tell you how much we spend, but we are the number one advertiser, probably spending two or three times as much as the number two.

We position our products, emphasizing their superior quality and the German image. Japanese equate Germany with high technology and high quality. We play on that, especially as the name Braun is essentially German. High quality, high performance and very good design are the key points. About 25 years ago, Braun adopted a design philosophy of giving its products a very functional design: no frills, no unnecessary knobs, etc. I think Japanese have a very good appreciation of this because they are very functionally minded people.

Q: *In your advertising campaigns, are*

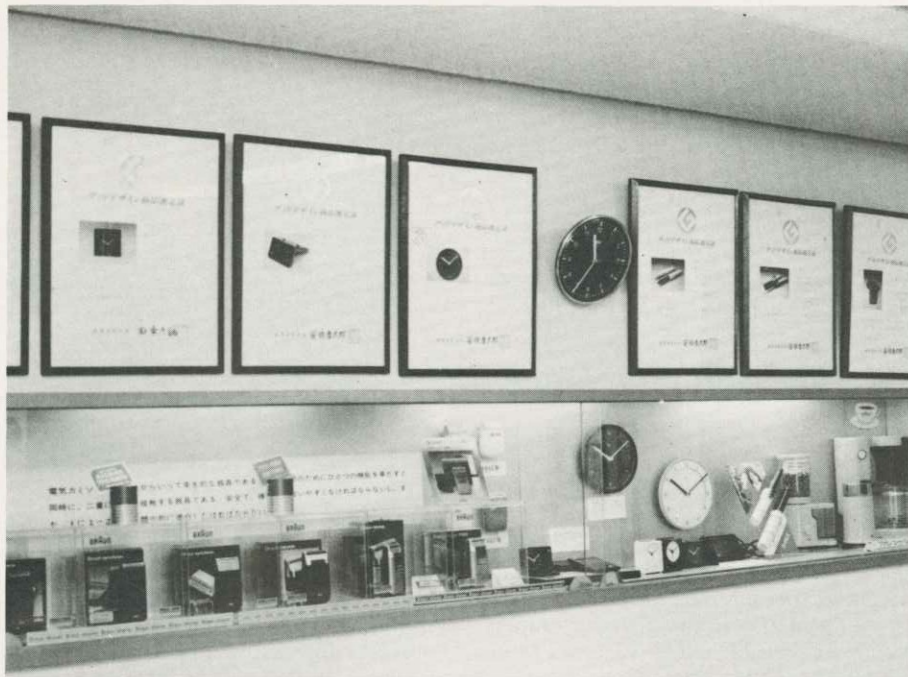


there any major differences between Japan and Europe?

PAULI: There are differences in execution. Our trade promotions are different from Europe, because the Japanese trade operates differently. But I would not say we have an entirely different approach. After all, the consumer buys a German product and he expects something German. If he buys Braun he is not expecting something Japanese. So some foreign element should be in it. Our television commercials are shown in Japan and we use Japanese characters. But we could use the same format in Italy, for example, without difficulty.

Q: *Regarding television commercials, your latest series seem to have been very effective. I am referring to the man-in-the-street format where you approach passers-by to try a Braun shaver.*

PAULI: Our commercials were always technically oriented, in which we would explain all the features of the product. Although this is very effective, in that you establish your image of high quality, etc., I think the Japanese need something that goes not just to the mind but also to the heart. So we have been looking to combine the two. If you look at Japanese television commercials, they are very soft sell, with a strong human touch and very light on product information. The most successful have been those which have created a happy atmosphere. Sometimes it's hard to know what the product is going to be. I don't think it's necessary to go that far. If you have nothing to say about your product, then you can do other things. But, since we still have something to say about the product, there is no need to go to extremes. For the past two years we have been running the "man-in-the-street" interview series. We have done them in Tokyo's Marunouchi business district, outside a railway station and a factory, and the latest is on the Shinkansen bullet train. At the same time, we continue to incorporate some technical explanation of the shavers. We have had a very



good response to these advertisements and sales certainly have continued to grow quite successfully.

"You are faced with an enormous amount of small deliveries"

Q: *Earlier you said "the trade operates differently" in Japan than in Europe. Could you elaborate on how this governs your approach to the market?*

PAULI: As I mentioned, the cooperation with our wholesalers is very close. It involves what I see as a give-and-take attitude, not like you have in Europe: "You buy this and that's that." It is more a long-term cooperation whereby you do not draw the lines so strictly about what is yours and what is mine...you share in the benefits of the business. One of the biggest headaches for us is that the trade does not maintain large inventories. First of all, compared to Europe, you are faced with an enormous amount of small deliveries. We have quite a sizeable business, but if you analyze it you find it is built up of hundreds of thousands of small deals. So it involves more people than you would use in a similar operation in Europe. We maintain eight branch offices which have to be able to supply our customers on extremely short notice with very small orders—they call up and order five shavers to be delivered today. In France, for example, we would probably maintain only one office in Paris and distribute the products from there to regional wholesalers. In Japan it appears necessary to be very close to our customers and there is the constant problem of trying to predict future demand. Since our supply source is

so far away we would end up with shavers to the roof if we get our sums wrong. Actually it's usually the opposite: a shortage. Sometimes we have to rely on air freight to rush an order. A lot has been said and written about Japan's distribution system. I think on the surface it looks chaotic. But once you work within it, you find it's not so difficult.

"The stakes are high, but so are the gains"

Q: *Does it offer any advantages?*

PAULI: Of course, being born and bred in Europe and trained there, the European system appeals more to me. I think it is more rational than the Japanese system. On the other hand, the Japanese system also has some advantage. There is a sense of loyalty toward the principal manufacturers and suppliers. Once you have established your distribution system, and as long as you don't make any big mistakes and do crazy things, they are loyal. In the European situation, however, a newcomer can come in and sweep the market. In Japan that doesn't happen so easily. It's a more emotional set-up. Although it is not easy to get into, once you are established it is rather difficult to get dislodged unless you do something silly. If you do reasonable business and the quality of your products is good, you should survive. Changes, however, are taking place in rationalizing the distribution system. You see the emergence of big supermarkets alongside the "mom and pop" stores, for example. In the electrical appliance business, the Japanese manufacturers have established a so-called franchise system. You have about 25,000 Na-

tional and Toshiba shops, for example. This means, more or less, that the shop sells only the products of one manufacturer with a few small exceptions. For us, as an importer, it is very difficult to penetrate these shops if they have such established ties with a particular domestic manufacturer. Although we do have some distribution through franchise shops, basically it has proved to be very difficult. So, historically we have relied on independent distribution channels. These independents are actually growing. Although the smaller franchise shops are still there, and will be there for the time being, they are losing their share of the market. The trends in Japan, therefore, are not essentially against us.

On the other hand, since the Japanese manufacturers have always relied on the franchise distribution system and now find that the independents are growing, they are coming into the independents in stronger force. So we find the competition in the independent outlets becoming more and more severe. But at least one barrier for us to obtain distribution is eliminated, because the independents are not essentially against Braun. It's a free marketplace.

Q: *From your own long experience of doing business in Japan, as well as the longer experience of Braun, how would you advise a newcomer just entering the market today?*

PAULI: It's very difficult to say. A lot has been written about Japan being a closed market. Foreign businessmen say it's very hard to sell their products here. Japan says this is an open market and that everyone is welcome. Well, I think the truth lies somewhere in between. I find that, at least in our particular product sector, what Japan says about an open market is correct as far as government regulation is concerned. Maybe in the agricultural sector there are a few more barriers. But I think you can find many more official barriers erected in other markets today. But it's a bit different when you come to talk of the structure of the marketplace. There is, for example, the Japanese tendency to stick to their own products unless you are very famous or have a very special product. But if your product is only as good as a Japanese one, then it is very hard to penetrate the market. So before coming, do your homework and see whether your product has a chance to appeal to Japanese customers. Do you offer something special that is not yet found in the market? If so, I think the market can be very rewarding because we are talking about almost 120 million consumers with a rather even distribution of income. This is the second best consumer market after the United States. The stakes are high, but so are the gains. Name and image are very important, but so is adjusting to the way the Japanese do business. ●