

Nihon DEC's Recipe for Success

By Robert Poe

Some companies seem to have a knack for making the right moves when they move into Japan, and Nihon DEC is one of them. A wholly-owned subsidiary of the world's second-largest computer company, Digital Equipment Corporation, its first direct presence here was as a service rather than a sales organization. That's an excellent way to impress quality-conscious Japanese customers and was the beginning of growth into an organization with 1985 sales of ¥43.8 billion. Ed Reilly, Nihon DEC's president, explained some of the other reasons for the company's impressive performance.

Q: Let's start by talking a little about your background. How long have you been the president of Nihon DEC, and what did you do before you came to Japan?

A: I've been here for about five-and-a-half years, and I've been with Digital for 24 years. I was born and raised in central Massachusetts, I went to college in Boston and then I joined Digital. I worked in engineering, customer services, in Latin American operations for a while, and then came here. Our company, as you know, is only about 28 years old, so I joined it when it was quite small, probably 400 or 500 people at that time.

Q: Are you planning to stay a lot longer in the future?

A: Yes, I like Japan, and my plans are to remain here a while.

Q: Concerning Nihon DEC, what are your main products for the Japanese market?

A: The main products we have as a company are the VAX computer, the PDP-11 computer and the whole range of systems around those products. And we're selling those products in Japan today, much like you would find in any country, the products and the services. And services are a large part of our business, actually. Service and support tend to be around 25% to 30% of revenues. I think if you went to a DEC location anywhere in the world you'd find a very similar type of operation. But one thing



Edmund J. Reilly, president of Nihon Digital Equipment Corporation

we've done here is to add some Japanese-language local enhancements and modifications to the product, which has helped their marketability. But our main product line is the VAX computers.

Q: What is the strongest selling point of DEC products in the Japanese market?

A: I think the best selling point is the product itself. VAX has become the standard in certain industries. If you look at engineering, semiconductor design research, that type of field, you will find VAX computers used predominantly in those areas. In addition, we're branching off into more commercial applications, and trying to develop our business in the areas of banking and telecommunications. When you take the strength of the products, you're really looking at the strength of the company, the products, the services; and I think having a good international network is important.

Q: How much interest do you find among Japanese companies in networking at present?

A: In the past, the Japanese market has traditionally been very large mainframes and small stand-alone computers. But in the future, you're going to see much more decentralized computing, more networking, you'll see the market changing. And as it changes, it'll fit very nicely into what we at Digital do as a company.

That puts us in a very good position, especially as the telecommunications market opens up. That has been a closed environment, but as that opens up, it offers opportunities that fit very well with our corporate strategy.

What the future holds

Q: DEC is best known as a supplier of computers for scientific and technical use, but recently it has been making impressive inroads into the office automation field as well. What potential do you see in the Japanese OA field?

A: Maybe a better term for our products would be the general commercial marketplace, banking, financial institutions, telecommunications, information systems, MIS. And more and more, we as a company are making significant inroads into that area, and we certainly expect that to continue. In Japan, we did several things. First, we put an organizational focus in place. We have an office in Hibiya, in what we call Digital Village. So that organizational focus is concentrated on providing solutions and products for the commercial market. Second, we have various programs to develop local Japanese-language products, such as ALL-IN-1. That's our approach to the office environment, it has electronic mail systems, word processing and a lot of business-type applications, under the all-encompassing umbrella known as ALL-IN-1. It took us almost two years to convert that to Japanese, which was a big investment of time and money. We also had to convert our VMS operating system and a lot of other programs to the Japanese language. That's especially necessary in the general office environment. And third, we just made the commitment to the marketplace, and kept up the effort.

Q: It sounds like this is one of your major growth areas for the future.

A: Yes it is, and something which offers us an added opportunity is artificial intelligence. We have a leadership position in

the use of artificial intelligence in computers, both in research and in practical applications. I think that's a coming trend, the use of artificial intelligence in banking, for example. You know, Japan is very productive in the manufacturing sector. But in the service industries, the office, the restaurants, the general service environment, it's much less productive. They have to improve, and one of the ways they can do so is through artificial intelligence, using application programs where the computers can be more intelligent, more interactive with customers.

Q: *What are some of your artificial intelligence products?*

A: We have an expert shell called OPS5, which is designed around artificial intelligence. Our customers are using that, as well as the industry-standard LISP and PROLOG software. We've also converted all of that into Japanese. The government-sponsored ICOT (Institute for New Generation Computer Technology) artificial intelligence project is using our computers to develop hardware and software products.

Q: *How tough is competition in the mini and supermini computer market in Japan?*

A: It's a very competitive market. There are all the U.S. companies which we would normally compete with, and in addition there are all the major Japanese companies, so it's very competitive from that standpoint.

Q: *A lot of American computer companies manufacture at least some of their products in Japan, yet Nihon DEC does almost no local manufacturing. However, there was an article in a Japanese newspaper a year or so ago suggesting that the company was planning to build a factory in Japan. What is the situation as of now?*

A: I think it depends on your definition of manufacturing. Today we have two facilities, one called the CSSE, or Customer Service and Support Engineering, and the other called the MDC, or Manufacturing and Distribution Center. The MDC is about halfway between here and the airport, and it's becoming larger and larger. What we are doing there is integrating products, final assembly and testing and software development. In the future basically we will expand those two facilities.

Q: *So you don't have any plans to build an entire factory, to build VAXs for example?*

A: Not at this point. We're certainly looking at doing that as our business grows. We're becoming fairly big in Japan, and looking at manufacturing possibilities is one of the things we do just as part of the normal long-range planning

process. But we don't have any concrete plans at this time.

Q: *Does DEC do a lot of procurement in Japan?*

A: Yes, we have a purchasing and liaison organization here.

Q: *What kind of parts do you purchase?*

A: We normally don't divulge specific details, but in general terms it is things like memory IC's, components, printers, things like that.

Active R&D

Q: *You have an R&D center in Sanbancho, Tokyo. What can an R&D facility in Japan do that can't be done in the U.S.?*

A: R&D at Digital, like many companies in the industry, has the philosophy that having smaller research groups decentralized around the world creates the kind of environment and entrepreneurial spirit that we like. And having an engineering center in Japan, of course, is a natural extension of that philosophy. This is the second-largest computer market in the world, and it certainly makes sense to have an engineering center here. We've hired a lot of engineers in Japan, we're building the organization to develop products in Japan. And as we build it, we'll look for opportunities here in products that make sense.

Q: *In an article in this magazine several months ago, Herbert Hayde, president of the American Chamber of Commerce in Japan, suggested that American companies should have access to Japanese government research laboratories. What are your feelings about that?*

A: We're doing that today as a company. There are various projects like the Sigma project, for example. It's a large government-sponsored project looking into software development in the future, much like the ICOT project, but with different goals. We're an active participant, both from the standpoint of investment and from the standpoint of use of Digital products. We're also actively involved in terms of supplying human resources, such as engineering people, to the project. But as the environment in Japan opens up, I think we'll see more opportunities similar to that. We're working with universities on various projects in engineering development. So it's starting to open up, though it's still a small amount at this point.

Adaptation without compromise

Q: *In every Japanese subsidiary of a foreign company there must be some balance*

between Japanese business practices and the corporate culture of the parent company. What is your philosophy on how this balance should be attained?

A: Again, one of the strengths of Digital is described very well in books like *In Search of Excellence* and *The Corporate Culture*, in which our company is described at length as having a good, solid culture and as being a reputable, high quality company. So we start with that framework, and that's our strength. And when we go into a country like Japan, we never want to forget that culture. Now of course there are business realities, where you have to adapt your products and some of your business strategies to the local environment. We employ mainly Japanese people. At the end of this fiscal year, we'll have 2,000 employees, and only five or six Americans. So basically this is Japanese management, in a Japanese environment. We'll modify our strategies, our distribution channels and our products to fit the market. But we don't modify our value system. We don't modify the corporate culture, the strengths of the company, the open-door policy, the things that made us successful. We may adapt those to the culture, but basically you can do both. You can maintain the corporate culture, or the corporate value system, which is the term I prefer. We try to maintain that, the care for employees, the decentralization of responsibility, the environment we try to create within the company, the training programs we have for employees, the emphasis we always put on customer satisfaction—we measure all of our employees on customer satisfaction throughout the world. And we have an employee survey and we measure our managers based on that survey. Those are the kinds of value systems that we have, and we don't deviate too much from them. But we will change things like product and distribution strategies as we go into a new market.

Q: *What functions do the half-dozen or so Americans working here have?*

A: I would categorize them as being in two areas. One would be those having a particular expertise that may be needed, be that in engineering a product, or in a financial system, for example. The second area would be in a general communication capacity. That's very important for a foreign company's success here. We have to communicate well with the home office, and we're an international company, we have a lot of international customers that deal with us in Chicago, in New York, in London and here in Japan. So they are playing a

liaison role. Strategies have to be coordinated very carefully, so that what we are doing here is in sync with what the corporation is doing. But in terms of the mainstream environment, line management, direct contact with the customer, all of that is done by Japanese.

Q: *Are Americans usually brought here on a temporary basis?*

A: Yes, typically we bring Americans here as expatriates. A three- to five-year assignment is normal. Our primary focus as a company, once again a part of our corporate value system, is to try to build local organizations. In Europe you would find predominantly a German organization in Germany, a French organization in France and so on. It's the same in Japan; for all intents and purposes this is a Japanese organization.

Q: *It seems to have been a successful strategy.*

A: I think so. Today close to 50% of our total business is international.

Q: *Going back to the subject of employees, being a foreign-owned company, are the college graduates you recruit different in any way from those a Japanese corporation would hire?*

A: I think the answer would have to be no. We recruit from all of the top universities in Japan. We're fortunate that a lot of those universities know our company, because we have many computers installed at those universities. We probably have 80 Digital products installed at Tokyo University. At Osaka University, Kyoto Sangyo, Tokyo Institute of Technology, universities in Hokkaido, at a long list of universities, they know us. So we recruit computer science majors, and also from more general programs. A key part of our strategy is in the future to continue to recruit the same way. It takes a long time for an American company, because you have develop relationships with university professors. You can't do that in six months, a year or even two years. And there's a built-in feedback mechanism. When you hire university graduates, they'll give feedback to the university, to professors, to undergraduates, in terms of "Is this a good company to work for?" And we want to make sure the answer is yes, so that we can hire more and more graduates in the future.

Today's market is open

Q: *Have you encountered any government restrictions as a company?*

A: Today, I would say no. It's always necessary to date this type of comment, but in 1986, I think the market is very

open in our industry. That may not have been true ten years ago, but as you know, the duty rate has dropped to zero, the telecommunications market is open and privatized, which is very important to our company's strategy. It would be very difficult to list barriers to trade in Japan at the present time.

One of the areas which can cause difficulties, though, is the industrial groups; they can be difficult to sell into. That's a challenge, since we're part of the groups or the system. So it takes a lot of more time to sell to companies in the group than it would normally. But it's also a problem for other Japanese companies. Many Japanese companies have an affiliated computer company, so when you're selling into that group, it can add a degree of complexity to the whole sales formula. It's a real challenge. We do sell into those groups—our client base here is top corporations—but it can be difficult. It can be difficult to expand to a much larger base within a company when they're of an industrial group.

Q: *What is the biggest problem you have had to face as a company?*

A: Selling into the industrial groups is a marketing difficulty, but besides that, just managing growth is a challenge. When you're growing at close to 40% per year as we are, it's difficult to manage. You have to do a good job on the basics of management to keep up with it. Converting or enhancing our products for the Japanese market is a problem; it takes a lot of time and money. ALL-IN-1, which we talked about earlier, took about two years to modify for Japanese.

Q: *Is your high growth rate made more difficult by the fact that it's hard to find experienced personnel because of the lifetime employment system?*

A: Certainly, and that's part of the reason for our strategy for hiring college graduates. But that takes time, because it takes several years before a graduate becomes really productive. So today we hire both experienced people and university graduates. But the labor market in this country is very tight. And that's something all foreign companies face when they come into the market—it's difficult to recruit people. But it's not impossible; that's an important distinction. It just takes time, the effort you have to make, the time you have to spend, are much more extensive as compared to the U.S. where there tends to be more migration.

Q: *Is the market tighter for new graduates or for experienced workers?*

A: I think they're about equal; both take a lot of time. For example, we've already started our efforts to hire people for

1987. That's a year and a half—it's a long process. We've started talking to people at universities, giving seminars, talking about Digital as a company. Then after they've joined, it takes another year to train them just in the basic areas.

But something that helps is our reputation. We're proud that a recent survey found us the 15th most favored company to work for in Japan among women college graduates. This is in competition with the thousands of companies there are in Japan, including the very top corporations. There's been a constant increase, and we're going to improve that in the future. And that's an important part of the formula for success in Japan.

Competitiveness and commitment equal success

Q: *For a final question, do you have any words of advice for a foreign company hoping to enter the Japanese market?*

A: I think there are several points. One, do your homework, study the market, figure out what you want to do, whether you want to go directly, sell indirectly through a distributor, a joint venture, not a joint venture, things like that.

Two, make a commitment. Don't expect short-term results. Realize that it's going to take some time, for things like recruiting people, developing products. You can't change that, you can't condense it. It just takes time. Once you've made the commitment, set your goals, just stick with it.

Three, and this may relate to the first point, make sure you have an advantage in the marketplace. Make sure you have an opportunity in the market. That's true of any market, but especially here. This is a very competitive, very sophisticated market, and I don't think a lot of companies realize how competitive Japan is. They think of it as being a closed market, where Japanese companies have a protected environment. But that's completely untrue. To take some examples: there are eight or nine major companies in the automobile field. That might be the equivalent of 20 companies competing in the U.S. In cameras, there are ten major companies competing in the field. Consumer electronics is the same. There may be hundreds building "Walkman"-type products. That's what you call competition.

But in many fields this is the second-largest market in the world, so it's logical to assume that you're not going to be able to compete in the world unless you have a presence in Japan. So you have to try. ●