

The Foseco Approach: Competition Based on Knowledge

By Shozo Hochi

The Foseco Minsep Group has a head office unusually sympathetic to the problems of its Japanese subsidiary. Foseco Japan President Anthony Sleight expands in this interview on ideas he has communicated at seminars to encourage more British companies to take up the challenge of doing business here.

Q: You went back to England last December as the head of a successful British company in Japan to encourage other businessmen to come here and try their products on the very large and important Japanese market. What was the genesis of that trip?

A: Well, I went to England to attend some seminars at which I was requested to speak to encourage British businessmen to export to Japan. I had been working with the British Chamber of Commerce in Japan to publish a booklet encouraging exports to Japan and as a result of the interest generated by that booklet, the Japan External Trade Organization (JETRO) asked me to go to England, which was a very great honor, to attend the seminars sponsored by them in cooperation with Britain's Department of Trade and Industry and the British Market Council. The council, like the Japan Economic Foundation, aims to reduce trade friction, so because my view differs slightly from the normal arguments, I was asked to speak about my experiences as a businessman working in Japan and to convince others that doing business here is important.

Q: In what way is your viewpoint different?

A: Many people say, "Come to Japan because it's such a big market." Well, of course, that's true and almost everybody



Foseco Japan President Anthony Sleight

realizes that Japan is the world's second-largest market after the U.S.A. But they still don't come here because they've heard Japan is a difficult market, it's very different, and they have heard too many stories of failure. My argument is that even if you ignore Japan, Japan will not ignore you. Japan is not Japan, Inc., but thousands of very active businesses, some of them in your field. They are trying to expand, because Japanese businesses must expand or die. The reason you must come to Japan is that these businesses are looking at your markets, your export market and your home market. If you come to Japan and learn about them you will be able to compete with them. If you cannot compete with Japanese companies in your export markets,

you will lose them and then you will lose your home market, too.

Q: Did you use any other arguments to persuade them?

A: During the last 30 or 40 years, Europe has ignored Japanese industrial activities while our own important industries declined. However, Japan is not only in those industries—it is in everything. So my argument was that you cannot afford to ignore Japan if you want to be in business in the next century, whatever business you may be in. I think Japan is an important market, but it is also a kind of test, where you do industrial research to find out what your competitors are doing. This was really my basic theme. It's a difficult market to enter—for Japanese companies as well as for foreign ones—and it's very competitive. I think that if foreign companies are going to be successful in Japan, they must treat the Japanese market differently. For example, in other countries, you expect to make quick business deals, quick profits, and regain investments very fast. But in Japan, you may not make profits for many years, you must be content with much less. Therefore, in order to persuade foreign companies to come here and take the Japanese market seriously, you must make them understand why Japan is so important to them.

Same game, different rules

Q: How are the Japanese market and Japanese customers different from others?

A: In my talk in England, I said, "If you come to Japan, the first animal you will confront is the Japanese customer, who is different from the European customer in

that he has very strange expectations: He expects that he should get what he wants." In Japan you have to take a different approach. If you talk to foreign businessmen who are successful here, many say that their success in Japan has helped them in other markets around the world. If you do business here, you have to change your products, and while you are doing that, perhaps you can make improvements for other markets.

For example, we have a very small business here importing safety equipment from England, along with other product lines, and we assemble them here using some Japanese parts. Since we started selling this equipment about five years ago, we have forced the maker in England to change them completely. In England those products have almost no competition, but there are already three competitors here in Japan. Our maker tells me that because of the changes we forced on them to meet the Japanese market demand, they now believe their products are much better—as good as Japanese products. Even today it's still a very small market. But it's typical of Japan that the competition among makers comes before doing business, the reverse of the case in Europe or the U.S.A.

Q: *You modified the shape of your dust helmet to meet Japanese market demands. How did that happen?*

A: The Japanese head is different from the European head. It's an unfair trade barrier, isn't it? The Japanese head is round, while the European head is long. We discovered that fact quite quickly.

Q: *Does the Fosco Minsep Group try to sell products all over the world which are specifically tailored to each market?*

A: Of course, we do our best to meet precise demands in each market.

Q: *What are your annual sales here in Japan?*

A: About ¥5 billion (\$28 million at the exchange rate of \$1/¥180) a year, including the helmet and everything else we handle. It's a small company.

Q: *Why did you increase the capital to ¥1 billion last December?*

A: Our head office increased the capital of our company in Japan to that level because we are making new investments, expanding the business, and bringing in new products.

Q: *How have you overcome the problem of Japanese competitors selling more or less the same products as you do?*

A: Well, by improving our products constantly. This is the rule in Japan. Our products have some special advantages and we have managed to stay a little

bit ahead of the competition. We have also established a good sales network; one of the biggest problems foreign companies face in Japan is how to set up a good sales network and make contact with customers.

Q: *How have you established good human relations with Japanese customers?*

A: We have been in Japan exactly 29 years, so we obviously have made good connections with many industries. We also have C. Itoh & Co., that famed *sogo shosha*, as one of our shareholders, which has been very helpful to us. Once we make contact with one company, we can make more contacts through them with others, so that connections grow. Of course, it's difficult for foreigners here to understand this system. In Europe, we go to a factory, give them some samples to test, state the price, get a decision, and perhaps in a week you can do business. In Japan that's impossible. Connections are important here and we must go through intermediaries to meet customers. It is a crazy system, but I am beginning to see the merits of it.

Q: *Are business practices here in Japan so different from those in European countries?*

A: I think they are very different, in so many ways. There's the importance placed on the reliability of a supplier. The whole attitude of the customer toward the supplier is different in Japan. A customer may say, "You must make this product in this way," or "You must produce this product at this price." We receive very heavy "price-down" pressure from some of our customers. We cannot resist this pressure, but you would never find that in Europe, not the same kind of pressure that you get here. On the other hand, there is a loyalty to the product and supplier here. This, I think, can be a problem for companies who want to import products into Japan. The tendency here is to improve a supplier, not to change to a new one. It comes down to the human relations point of view. Japanese colleagues think we must work with a supplier to improve and solve problems. As another example, when I talk to people in Europe about how much workers earn in Japan, how much annual increase they receive—maybe 5%—they are very surprised, wondering how such a large increase is possible in Japanese enterprises, and how they continue to make such big profits while keeping prices at the same level. In European countries, if the wages of factory workers are increased, we go to our customers and ask them to increase prices.

Q: *And in Japan you cannot do that?*

A: No. You have to be more efficient; there is no other way. But I don't think this message is well understood outside Japan, although it's very fundamental to the Japanese way of thinking.

Q: *How long have you been in Japan?*

A: I came to Japan in September 1983.

Q: *How have you been able to overcome all these differences in such a short time?*

A: Well, they haven't all been overcome; I just try to do things day by day.

Q: *And how long have you been with Fosco?*

A: After graduating from university, I served one year in a kind of voluntary overseas program, similar to the Peace Corps, in the Middle East. Then I joined Fosco in 1966, left the company for a short time to work for IBM, and then re-joined. I've worked in India as well as in the Middle East, and I used to think that those countries were different from Europe and the U.S.A., but compared to Japan they are not. However, it's fantastic working here, and basically I think we all just have to learn more about each other.

An exceptional head office

Q: *What kinds of problems do you have in communicating these differences in business practices to your head office?*

A: None, really, we're very lucky. Our group managing director, Mr. R. Jordan, has worked in Japan and the group Chairman, Dr. D.V. Atterton, has passed the 0-level examination in Japanese language. He has a very strong interest in and love for Japan. So I think we are exceptionally lucky compared with other foreign companies in Japan, because Fosco has a tradition of trying to understand Japan. The head office never argues about doing something differently in Japan. Everybody in our company understands that the Japanese market is very competitive, fast moving, fascinating and very tough. So in that sense our company is unusual.

Q: *How do you maintain a balance between the corporate culture of the parent company and your company as a Japanese subsidiary of it?*

A: About 10 years ago, we had 15 foreigners in our company, but today we have only two: myself and a Swiss. It is very interesting to read your articles on foreign companies here and to learn whether they are managed in a foreign way or in a Japanese way. I don't know which system is really better. However, our situation here has changed in the sense that 30 years ago we could bring technology to Japan and could depend on foreign companies to produce technology



Foseco's dust helmet as modified for the Japanese market



saleable in Japan. Today this is no longer the case. Therefore we have had to become more reliant on our own resources here in Japan, which has meant developing our own research and development organization by investing money in people and facilities. Maybe that means that we have to change more and more toward the Japanese style of doing things. However, I don't think you can expect to run a company of 140 Japanese and one or two foreigners in a foreign way. That's just ridiculous. But at the same time, we have to keep ourselves open to the rest of the world. We have one tremendously valuable asset: Foseco is in 35 countries around the world. Information comes in from those companies, our people can visit them, and this is a big advantage to us in terms of keeping aware of what is happening in the world.

Q: *Have you adopted any Japanese management practices?*

A: We have "lifetime" employment and a Japanese-style salary system with bonuses paid twice a year.

Q: *Are new university graduates eager to be employed by Foseco Japan?*

A: We have succeeded in attracting some. But it depends on the economy. This year has been very difficult; last year was a bit easier. We have some excellent graduates of good universities as new employees, and many of my Japanese colleagues are regarded as being the best in their fields by my overseas colleagues.

Products and projects

Q: *Tell us something more about your main products and your major customers here in Japan.*

A: Our products are consumable chemical and refractory materials sold to

anyone who melts metal. Our customers include Nippon Steel and Toyota Motor, among other steel- and automakers. Most of our products are not absolutely essential but they improve a process. Last year, we introduced a ceramic filter for iron foundries, in which many Japanese companies are very interested. Sales are increasing very rapidly. This is currently Foseco's biggest project.

Q: *What is its main application?*

A: Mainly the automotive industry. This product was invented in Germany by our German company in collaboration with the German foundry, George Fischer, famed for making products for Mercedes-Benz. These products are being used in Europe and their sales are catching on here because of their many advantages—for example, productivity improvement and waste reduction. Foundries using this product can achieve very high yields. That's just one example, but our products mainly improve quality, yield and productivity for our customers. Our Japanese customers are constantly changing technology so we must, too. That's one reason why Japan is a very interesting and important market for us. In the steel industry in particular, and also in the foundry industry, Japan is a world leader and the speed of change in Japan is faster than in other countries. What is happening in Japan this year will be happening in Europe and the U.S.A. next year. Foseco Japan is a kind of guide to the future. Therefore, our products don't remain the same. They have to be improved constantly to suit the marketplace, with the basic purpose of helping our customers to improve productivity.

Q: *What has been the most difficult problem Foseco Japan has encountered so far?*

A: That is a very difficult question to answer. Because we have been here for 29 years, the large Japanese steel- and automakers, with their system of open purchase for procurement, don't look at us as an outside company. We have good relations with them and have introduced many new products in Japan, so they see us as part of the Japanese industrial society.

Q: *What is your main ongoing challenge, then?*

A: I think the biggest challenge is to continually make progress: developing new products, improving existing ones, improving processes, and achieving better productivity. You cannot take anything for granted here in Japan. It's a tough market and life is a struggle. Due to the sharply appreciated yen, steel companies are cutting costs by reducing products they buy from outside. Furthermore, in the past 20 to 30 years steel companies have established their own subsidiaries to make products like ours and very often they are our competitors. This is obviously very difficult to deal with. But then again, these sorts of challenges are needed as motivation for further progress.

Q: *What is your advice to the increasing number of foreign companies planning to enter the Japanese market?*

A: Well, I think they will learn very quickly that they have to be patient and study the market very carefully. I think the Japanese regard persistence as a kind of virtue, and you have to be persistent to succeed. Many people say that you cannot succeed in Japan, but I just don't think that's true. It's difficult, the market is different, and you have to try to work in Japan according to the Japanese system. But if you try harder and are determined, you can succeed. ●