Lotus Development: Tailored Software

By Nagami Kishi

"This is our sixth year since we started selling Lotus products in Japan. We estimate our sales this year to be over ¥10 billion, which will propel us ahead of the British, and rank us first in sales performance of all Lotus subsidiaries in the world." Saburo Kikuchi, president of Lotus Development Japan, Ltd., says Lotus is a U.S.-based software house well known for its table calculation software products for computers.

Lotus is itself a young company, having been established by a group of eight software engineers in the U.S. in 1982. In response to the release of 16-bit personal computers by IBM, these engineers developed Lotus 1-2-3, a so-called "huge electronic totalization form," and established a firm to sell the software product. In 1985, only three years after starting the parent company, Lotus established its Japanese subsidiary and, in the next year, Lotus Japan began shipping its Japanese-language version products to the Japanese market. Lotus Development Japan is now rapidly growing, while many other foreign companies are having a hard time in the Japanese market.

Powerful product

Lotus 1-2-3, the mainstay product of the company, supports three functions: calculation, graphing and database. It allows the immediate graphing of numerical inputs as well as easy simulated operations by recomposing numerals. The software can be applied to wide-ranging aspects of academic and industrial activities, from data management in R&D to financial management in accounting and customer relations management in business.

With such a powerful product, people might think that the subsidiary just sat and waited for the rush of customers. Hiroyuki Yaginuma, chief of the Management Department, who has been with Lotus Development Japan since its incorporation, says otherwise. "Lotus had been exporting the English version of Lotus 1-2-3 before the incorporation of the Japanese subsidiary," he says, "but the product was only welcomed by a limited number of computer enthusiasts here. Although the Japanese mass media ran news of the release of Lotus 1-2-3 from the Japanese subsidiary, most shops that I visited were not responsive at all in the earliest stage of our activities, because there were already some similar products on the market."

Lotus Development in fact conducted a thorough market research program for two years before entering the Japanese market. It focused this research on what other functions would be required to achieve a really good sales performance, and where it should look for its potential market. This is, however, what many other foreign companies would do before trying to enter the Japanese market. From that point onward, Lotus took a different approach.

Concurrently with the market research, it also promoted the development of the Japanese version of Lotus 1-2-3. Lotus's corporate philosophy is: "Computer software is part of the culture of a country. Each product should be tailored to the local circumstances where it is used." In accordance with this philosophy, it initiated the development of a Japanese-version software product which would be easy for Japanese to use.

Launching of the Japanese-version products onto the market was planned for September 1986. Ten months before that, Lotus selected 100 Japanese companies listed on the First Section of the Tokyo Stock Exchange as the subjects for a project called the "Beta Test." It offered the software under development to the subject companies for trial use, and collected opinions from them as to what points in the software and instruction manual they found difficult or unsatisfactory.

Yaginuma explains, "Table calculation and world processing functions are originally based on different concepts, and our Japanese competitors failed to overcome the inconvenience that arose from this difference. The users of their products had to go through a troublesome procedure; they had to exit the table calculation function, prepare sentences, determine the area to insert them, and then call the table calculation function back. We decided to make an improvement here so that users could input Japanese words directly onto the table they were working on. This was an innovation in those days. We also tried hard to achieve a satisfactory level of ease and convenience in processing Japanese characters."

Tailored to Japan

One example of the efforts the company made to tailor its product for Japanese users is circle-graphing. Typical American software products are programmed to start from the 21:00 point of a circle and go round in a counterclockwise direction. Most Japanese, on the other hand, start from the 12:00 point and go forward in a clockwise direction when drawing a circle. Although finished circles are the same regardless of the starting point and the direction of drawing, Lotus took the trouble to modify the procedure for its Japanese users' convenience. Lotus identified these characteristics and practices of the Japanese people through the Beta Test.

Yaginuma highlights another example of tailoring for Japanese users. "Our Japanese-version software is not the result of translation, but of Japanization. Western people do not usually use ruled lines for tabulation, so software products designed by them do not include such a function. People here take that function for granted. We therefore incorporated into the Japanese version a function to draw eight types of ruled lines."

English-version software products naturally allow only the notation of years according to the Gregorian calendar. Lotus' Japanese version incorporates a function

to convert a year's notation to the Japanese system of notation (numbered according to the year of the emperor's reign) for the convenience of Japanese users. When the name of the era changed from Showa to Heisei, on the ascension of the current emperor, the company within only one week provided existing users free of charge with a software program that allows the conversion of the year in the Gregorian calendar into the corresponding year of Heisei.

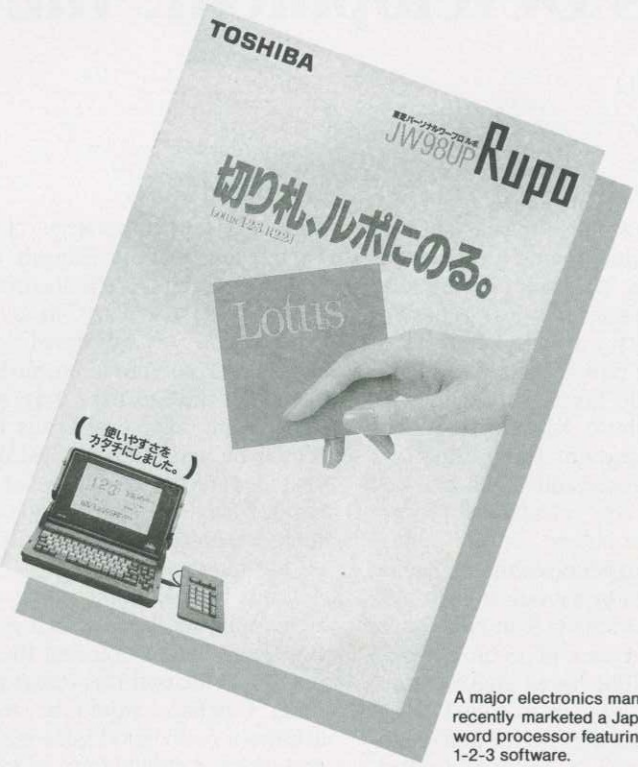
Yaginuma says, "The results of the Beta Test on the 100 companies have been fundamental to our activities. The advice given by these companies was very useful, all the more so owing to our careful selection of diverse industrial fields and organizational sections. And now these companies are our main users."

In addition to such elaborate efforts in the development of its software products, Lotus Japan taxed its ingenuity in devising its own approach to the creation of marketing channels throughout Japan. Traditionally, computer software products have been distributed through wholesalers. Each software house usually uses one large wholesaler to sell all of its products. What was unique with Lotus was that it developed three channels instead of one.

First was the traditional wholesaling channel; but, unlike its competitors, Lotus used more than one wholesaler. Second were large distributors, such as Otsuka Shokai and Joshin Denki, which Lotus chose to deal with directly. Third were the established channels of Japanese computer hardware manufacturers, such as Hitachi and Fujitsu; these manufacturers were distributing their own software products using their own hardware channel, and Lotus talked them into handling its products as well.

Looking back, Yaginuma says, "Our marketing and sales staff include few people who were in the computer industry. We are a computer-related company, but few of us knew the most common practices in the software sector in those days. That is why I believe we could take rather bold actions without sticking to the conventional practices."

After establishing its unique distribution channels, Lotus began to promote an intensive education program for the salespeople working at the outlets carrying its products. It considered that a salesclerk cannot sell a product without understanding it. From August, a month before release, through December, it invited a total of 2,000 people to the dealer training courses, at which Kikuchi and other management staff met personally with the trainees in order to create a strong rapport with those people at the point of sales. The subjects of the courses offered by Lotus included effective ways of attending to customers as well as explanations of the product itself.



A major electronics manufacturer has recently marketed a Japanese-language word processor featuring Lotus 1-2-3 software.

Training success

While carrying out the dealer training program, the members of Lotus visited many corporate users themselves instead of sitting back in the office and leaving the sales activities to the dealers. On finding a prospective customer, each member would contact the appropriate outlet and let them take it from there. This approach has considerably smoothed the course of business, because, in most cases, the contacted shop had already established a certain level of business relationship with prospective customers through the sales of hardware equipment or other products.

Lotus' business approach can be characterized by its principle of working side by side with dealers and customers by offering training to dealers and dealing directly with customer complaints. This is another innovative aspect of Lotus, since other software houses used to just develop a product and leave all of the other tasks, such as selling and responding to complaints, to the dealers.

These tasks, however, require a large labor force, which is impossible for Lotus. It solved one problem by enhancing the level of dealer training, and authorizing successful trainees to be Lotus certified trainers. It also invites some of the brightest students of computers throughout Japan who are good at handling Lotus 1-2-3 to try for the qualification. The qualifying examination for certification is very difficult, allowing only 15% of those taking each examination to pass. The certified trainers, 600 in total, hold training courses in various areas in Japan.

Lotus is tackling the other problem, complaints about its products, through

efforts to raise product quality. As Yaginuma proudly says, "Lotus products suffer from fewer bugs, a major cause of trouble with computers, than do its competitors." Nevertheless, no computer software product is free from complaints, questions and inquiries. Lotus presently has 40 out of its 150 employees working at a support center, where they answer phone calls and facsimile messages from users. Lotus was the first software house in Japan to create such a user support system.

Lotus 1-2-3 was designed to implement such features as high-speed processing, compactness, allowing operation on low-end computers, not requiring extended functions or adapters, and containing all necessary functions. Users would not welcome table calculation software which is slow in operation, requiring additional investments in hardware, or inhibiting them from doing what they want to do on their computers. Lotus 1-2-3 can be used even on palm-size computers or Toshiba's Rupo word processor. Users who have used the software for six months, or even one year, continue to be impressed every day by their discoveries of what they can do with Lotus software.

In addition to the above-mentioned product characteristics and marketing strategy, Kikuchi points out another major factor behind the company's rapid growth and great potential for further growth in the Japanese market, that is, the high average age of its staff.

He said, "Many software houses were established and are being managed by young genius-type developers. These people, because of their youth, are susceptible to flattery and being goaded by those around them, for example in the hardware business, and tend to fail in business. Our management staff, including myself, are all over 40, and of the same generation as the managerial people at the user companies and dealers. We share similar experience, mentality and ways of talking, which is a great advantage in doing business with each other."

Kikuchi used to work for Sony as an engineer, but joined Lotus Development Japan one year after its establishment. Although he had never been in the field of software, Lotus highly evaluated his managerial capability and offered him the post. He is not one of those take-charge type of executives commonly seen among the presidents of the subsidiaries of foreign companies, but makes decisions on the basis of discussions and consultations with his four managers.

Difference in quality

The rapid growth of Lotus and the great popularity of its product, Lotus 1-2-3, naturally give an incentive to others to follow in its wake. None, however, has managed to come close to Lotus.

The competitors of Lotus have failed one after another. Kikuchi analyzes their failure and says, "The difference in quality is the greatest factor. Major computer software products are not developed by groups of a few brilliant brains anymore, like in the old times. Now, software houses invest considerable labor, time and money in development projects. The investment of various resources in the development of a software product has expanded due to the increasing diversity in hardware product lines sold by manufacturers. If you do not have major models of computers in your company, it is impossible to develop products, meet the demand for maintenance activities and deal with complaints. Looking only at printers, there are already several hundred models available. Sufficient knowledge of at least the major ones is required to answer inquiries from users."

Personal computers are in many cases used as the terminals of host computers. The software to be used on PCs must be capable of supporting the exchange of different forms of data with different host computers. Lotus 1-2-3 is strong in such use, assisting its users in handling data prepared on models different from theirs.

As the general level of prices for software products declines, the price for the Japanese-version Lotus 1-2-3, (¥98,000; approx. $700 at the rate of ¥140/$), has become relatively higher. Some users have asked for a price reduction. The impression of expensiveness may also encourage company users to buy one set and copy it for use in various sections in the company. Referring to the possibility of fewer sales due to a greater incentive for duplicating, Kikuchi says, "The list price is only applicable to those who have not been our users. After a purchase, they become one of our registered users, to whom we sell revised versions to be released thereafter at 10% to 20% off the list prices. Also, many users choose to duly pay money for a set and have the right to receive necessary training, rather than to use a duplicate and fail to master it."

The company is not totally indifferent to price reduction. In September 1991, as if responding to the demand for a lower price, it announced the release of a new software system, "Harmony," for a price of ¥50,000. "Harmony" was developed as a joint project with Just Systems, a major Japanese company specializing in word-processing software. It has combined Ichitaro, a popular Japanese word-processing system developed by Just Systems, and the table calculation, database and communications functions of Lotus 1-2-3. Every function of the software has been simplified to some extent in order to achieve a moderate price.

At present, Lotus Development Japan holds a 60% share in the Japanese table calculation market segment. Lotus 1-2-3 represents an extremely large percentage of the total sales of the company. Questioned about the risks of having only one major pillar to support the company, Kikuchi says, "The market is diversifying in needs and still has great potential for growth. Our development activities, which until now have concentrated on MS-DOS-based software, will be extended to a Lotus 1-2-3 version that runs on Macintosh and UNIX systems. We also plan to achieve a linkage between these systems. In order to do that, we need at least 40% sales growth annually for the coming several years, and we are confident of achieving this objective."

Lotus Development Japan is a foreign company whose members are all Japanese, except for one Englishman. And he is married to a Japanese and hopes to stay in Japan for a long time.

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