

COMPAQ K. K.

By Nagami Kishi

The Japanese personal computer market, where NEC was the overwhelming leader until 1991, experienced dramatic changes in 1992. COMPAQ Computer Corp., the third largest American PC manufacturer, introduced a new computer priced at less than half the low-end price range that existed in Japan. IBM and NEC responded to this challenge with releases of their own low-end products, initiating a price war in Japan.

According to a survey conducted by Dataquest Japan, Ltd., a market research firm specializing in computers and semiconductors, the number of PC units sold on the Japanese market in 1991 was 2.363 million, of which NEC's share was 52.8%. Adding to this the 7.7% market share of Seiko Epson, which manufactures NEC compatible models, NEC's consolidated market share accounted for 60.5%.

Other manufacturers, unable to compete with NEC, remained with only a very low market share: Fujitsu, 8%; Toshiba, 7.9%; and IBM Japan, 6.9%. NEC's strength is in part due to consumer preference for PC compatibility. Since many users often exchange data and communicate with each other using PC communications networks, minor companies not offering NEC compatibility considerably inconvenience PC users. Software distributors usually advertise that their products can be used with NEC equipment, so NEC PC users gain in advantages and conveniences every year.

Consumer demand, coupled with aggressive sales efforts, should maintain NEC's consolidated market share at 60% or more well into the future. The exclusive dominance of one manufacturer for many years, however, inevitably produced new problems, the biggest being high prices which NEC maintained while competitor manufacturers feared that price competition might eventually inflict lethal damages against themselves. High prices also increased profit margins because, as the business world computerized, these products began to sell well. That is why other manufacturers followed NEC's lead.

While Japan enjoyed brisk business

conditions and companies vied with one another in the computer market, users bought personal computers despite these high prices. When the bubble economy burst, consumers stopped investing in new PCs, due not only to the recession but also because of their long harbored dissatisfactions. In addition to higher prices, many other problems surfaced including manuals which were difficult to use, outdated hardware that couldn't handle new needs and insufficient follow-up services. These consumer complaints led to a drop in sales which few could have imagined during the period of sharp growth. The present sluggish conditions have led to a newly-termed "PC recession."

Other manufacturers, of course, did not simply accept NEC's strong position. Toshiba increased its market share by launching J Star, which featured easy access to databases in foreign countries and easy data exchange with users abroad. Apple Computer, whose market share here is still small, energetically cultivated new customers by emphasizing the user-friendliness of their products.

Apple Computer, IBM, and other manufacturers with large shares in the American market have had great difficulties in penetrating the Japanese market mainly because of the language barrier. Foreign computers are based on English and Japanese language functions are merely supplementary. Apple personal computers, which are very powerful and easy to use in English, are far from user-friendly in Japanese. Japanese language applications require much larger capacity than English, and foreign manufacturers have had problems overcoming this. Foreign manufacturers also find it difficult to do business here because, it is believed, the Japanese government supports domestic manufacturers by buying their products. And for personal computers, the language wall was even higher.

This wall was pulled down by IBM Japan when it succeeded in developing DOS/V, a basic software that displays Japanese characters on the world-standard PCs made for English. This software was a boon not only to IBM itself but also to many other non-Japanese manufacturers.

It was not IBM, however, but COMPAQ Computer that became the main challenger for NEC's market by aggressively promoting DOS/V. After bringing an IBM Japan manager into the management of its Japanese subsidiary, COMPAQ K.K. launched a personal computer priced at about ¥120,000, less than half the price of comparable products sold by its competitors. IBM Japan and Seiko Epson countered this challenge with new models of their own, selling them at even lower prices. They were followed by Dell, America's fourth largest computer manufacturer, which introduced its product below the ¥100,000 mark, at ¥98,000. A large Japanese trading company announced its affiliation with a Taiwanese computer manufacturer that will put low-end products on the Japanese market, further demonstrating the far-reaching effect of the COMPAQ "shock."

NEC President Sekimoto had said that his corporation had no intention of participating in this price competition. But, by the end of January 1993 NEC could no longer resist this market trend and released a model less expensive than its conventional ones to defend its position. Thus, a PC war broke out in earnest.

It is good for Japanese users to be able to purchase PCs at lower prices, but many consumers worry about buying cheap foreign makes. If the manufacturer should withdraw from the Japanese market in the early stages, for whatever reasons, it is the users who are affected most. Did COMPAQ enter the Japanese market with long-term prospects? Why did it choose this particular period when Japan is suffering from a PC recession in challenging NEC? In answer to these questions, Mr. Pheiffer, CEO of COMPAQ Computer Corp., stated, "It is true that we entered the Japanese market when the setting was not perfect; the Japanese economy is sluggish, we have many competitors, and so on.

"However, we underwent thorough research and preparatory work and ensured distribution and service channels before starting business in Japan on a full scale, that is to say, putting our first products on the market in March 1992 and launching a low-end model in October.

We also studied carefully the case of Apple Computer, focusing on the period shortly after entering the Japanese market when its business performance was sluggish. In fact, there is no other market in the world where we invested as much money and time in preparation as Japan."

COMPAQ Computer has an 8% share in the American market and 14% in Europe. Mr. Pheiffer says that his objective for the time being is to achieve a U.S.-level market share. This is a fairly lofty objective for a newcomer to Japan, considering that IBM is still less than 7% despite their many years here.

COMPAQ is a young company, established only in 1982, and has grown rapidly to its present size by taking advantage of the trend toward downsizing. It reached the market share in Europe a few years after entering that market. With confidence backed by brilliant achievements in international business, COMPAQ is now targeting Japan.

As Mr. Pheiffer stated, COMPAQ Computer was very careful in establishing a foothold in Japan, taking a great deal of time. It founded its Japanese subsidiary, COMPAQ K.K., in 1990, and appointed Mr. Masaru Murai to the office of president in 1991. Before Mr. Murai joined management, COMPAQ K.K. entered into sales agreements with many distributors and organized them into an extensive sales network.

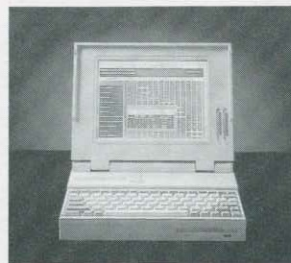
To the question of how COMPAQ can be so confident in winning a market share larger than IBM's, Mr. Pheiffer responded with a very simple and clear answer, "IBM has had its focus on large multipurpose computers, and has not been using its full strength in selling PCs." He emphasized, "On top of everything, we have an established client-service system, which we are very proud of."

He explained, "It is not difficult for a computer manufacturer to make a clone; all it requires is to collect parts on the market from here and there and put them together. This is one proof that the PC industry has reached maturity, and also a premonition that a number of PC manufacturers will drop out of the industry."

In the United States, PCs have already become a consumer appliance due to many inexpensive products, including the one sold by Apple Computer for only US\$1,000. In Japan, too, shop owners are beginning to use PCs in a similar fashion.



President Masaru Murai of COMPAQ K.K.



COMPAQ products

Mr. Yoshio Terada, President of Step, a fast-growing PC discount shop, is one of them: "We do not deploy sales clerks to talk to customers about products at our shops, nor do we display our products. We simply show them our catalogs and customers buy if they are satisfied with the prices we offer. I believe that shops should handle PCs as consumer appliances, like radios, TV sets and CD players."

NEC draws a distinctive line against the policies of COMPAQ and the discount shops, although it followed them in releasing cheaper models.

"Featuring only low prices will not do in the Japanese market. What is important is not how cheap you can sell products but meeting the needs of the customer. American manufacturers boast that DOS/V enabled their machines to process Japanese characters, but our products are obviously superior in performance because they are capable of processing Japanese-language data in the hardware. Processing Japanese using DOS/V is as if you were talking with an English-speaking person with the help of an interpreter," says President Sekimoto.

Why, then, did NEC begin to sell inexpensive products? The major factor was the behavior of Japanese consumers; too many of them refrained from buying its machines for NEC to remain aloof and not follow other manufacturers in releasing less costly products.

In January, shortly after NEC's release of cheaper products, COMPAQ announced that it will lower the price of a new model put on the market in October 1992, by 10% to 20%, and that it will extend the warranty period to three years. Since the warranty period offered by its competitors is one year, the warranty,

free-of-charge repairs, for three years is in effect a considerable discount for users. This strategy may effectively counter NEC's defensive move.

Mr. Murai said, "The basic product is around ¥100,000, but what a user can do with such a product is quite limited, of course. If he wants additional functions, he will need a higher-grade model which may cost him several times more than what he initially invested. Even so, people at our outlets think that the introduction of cheap models may drive the market, through this present recession, towards further expansion. Follow-up services, an important part of consumer dissatisfaction, has dramatically improved, which is another positive effect of intensified competition."

Fierce price competition had taken place in the Japanese calculator industry and only Casio Computer (present market share 53.5%) and Sharp Corp. (39%) survived. In retrospect, Mr. Kazuo Kashio, president of Casio Computer, revealed three policies by which this manufacturer gained during this competition: "Hold on to the position of price leader;" "Avoid straightforward price reductions, but plan a different concept or other indirect strategies;" and "Do not plan for retreat, but fight at the risk of the future of the company."

The experience of a winner in the calculator industry may not apply directly to the PC industry, but it offers many suggestions. Many consumers hope that the price race triggered by COMPAQ may do to PCs what price competition did to calculators; calculators were once expensive, but now every home has a number of them.

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