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Foreign vs. Japanese Products

By Robert J. Ballon

The plight of the foreign product in Japan originates in the Japanese product. The foreign product is not knocking at a closed door (it was in the past and restrictions linger on), but the open door reveals a fiercely competitive market, difficult and expensive. The domestic product, at the most fundamental level, is embedded in a forbidding space–and–time warp: *space* is confined, inhabited by a dense and educated population, and market structures by necessity are cooperative; *time* stands for strong cultural traditions and the decisive importance of long–term relationships. The problem is not whether the product is foreign or domestic (most domestic products are based on imported inputs); it is not even whether the foreign product is put on sale in Japan. The problem is whether the Japanese BUY it. (Japanese manufacturers and providers of services are fully aware of the distinction. For example, the problem of Japanese cars on the U.S. market is not that Japanese *sell* them, but that Americans *buy* them!)

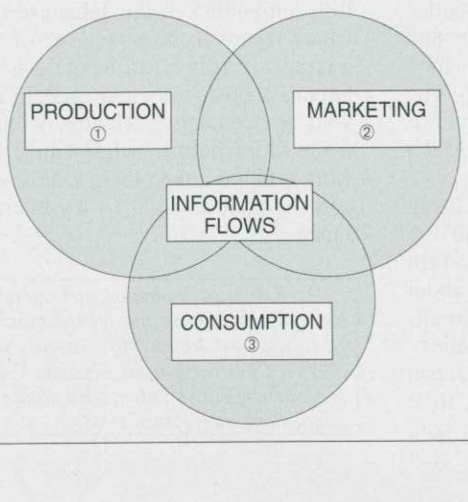
The Japanese product

The Japanese product embodies the three functions of the economic system: production, marketing and consumption (or use). They interact not successively but simultaneously, and their configuration is constantly changed by flows of information where economic imperatives intimately mesh with social ones (Exhibit 1).

Production is not the mere process of transforming inputs into finished products, but a division of labor whereby each does what s/he does best. It implies a strong tendency to "work together" (shared values and risks), constant concern for process and product development, and a heavy reliance on intermediary production (intermediation is also a prominent characteristic of the financial sector). Transactional efficiency (quality–cost–delivery) of goods and services is, of course, expected, but its *effectiveness* rests on information flows that also cover local business cooperatives. In essence, it means learning by interaction. (For example, the supplier of cardboard boxes is expected to see for himself on the buyer's premises what the box is supposed to contain and when the shipment is due).

Marketing is much more than selling the product when the strategy starts with the producer under the formula "profits plus costs = market price." What is required is, more realistically, to have the product bought. The strategy starts with the market and is formulated in competitive market share; the formula would be: "market price *minus* costs = profits." In–channel promotion is intense, locally focused through multiple associations and generates great faith in feedback on customer satisfaction. Leaning on the two other components of the system, the marketing strategy is achieved but too often at the price of inefficient complexity and higher costs.

Exhibit 1. The Japanese economic system and its three functions



•Not ① + ② + ③
•But ① x ② x ③

•Not only economic
•But also social

Consumption, or use of the product, is then not so much the *result* of a purchase (one–time economic transaction), than the interactive process of persons and institutions, and recurring transactions. Competitors play a decisive role: ultimately, they determine market share, and more immediately, they determine standards and prices. Continuous product innovation is the rule, because Japanese manufacturers recognize that any successful product will in no time be emulated by competitors. And since there is always something about the product that the intelligent user wants improved, consumption is the flip side of production where similar methods are used to develop product improvements on the shop floor: continuous incremental improvement (*kaizen*) and suggestion systems.

Matsushita Electric (94,000 employees) handles 4 million suggestions per year, and Toyota Motors (57,000 employees) 2 million/year. In 1990 about 700 companies with a total of 2 million employees handled 62 million suggestions; 600 companies paid in total ¥14 billion in reward, while 480 gained in total ¥480 billion from the adopted suggestions (Nihon HR Kyokai).

Information flows throughout the system with the product acting as an antenna catching overlapping personal relationships that implicitly or explicitly spread information ever further. To the objective performance determined by the contract, if there is a contract, information *flows* add the subjective dimensions of personal relations. A change of circumstances tests not so much the validity of the contract, than the durability of a relationship experienced in the long term dimension that constitutes it, and the changing circumstances that keep it alive. Trust is preferred not only as a social norm, but also as an asset in which to invest for self–interest. It inspires a strong team spirit that supports and intensifies competition. Active personal networks, flexibility in execution, and constant technological upgrading are required. The practical merit of intense information flows is that they not only make possible, but also confirm, the intermediation prevailing throughout the system.

The density of interaction between production, marketing and consumption centering on the product is not without disadvantages. What is not present is, at the extreme, the distinction between producer and consumer: affluence (discretionary income) is recent and has not (yet) institutionalized the contrast, if not conflict, between the efforts of producers and the benefits due to consumers, or between a high income from work and the high prices of products. After all, household savings provide the financial muscle of industry, leaving little room for a producer/consumer dichotomy. However, the traditional manufacturer—wholesaler/retailer—customer system is adjusting painfully to the current impact of a steadily growing volume of imported products. Parallel imports compete strenuously with the products of exclusive import agents, general trading companies, and foreign subsidiaries that had historically dominated importing. More and more manufacturers and wholesalers import their own goods produced overseas, taking orders directly from large retailers. Meanwhile, large retailers move upstream, using their superior information about consumer demand to initiate their own private labels and manufacture products more cheaply abroad.

The product

With the domestic product as relentless challenger, the foreign product has major odds to overcome. In Japan, mass consumers and industrial users are sophisticated (literacy is universal and quality/cost/delivery is perceived not as a user's right but as the provider's duty). The Japanese "patience" with high prices for domestic as well as foreign products may put the latter at a double disadvantage. For one, it often happens that in the country of origin the buyer is not as finicky as his/her Japanese counterpart. For another, though it does not necessarily mean higher value (for domestic products as well), the high price may nurture higher expectation on the part of the Japanese buyer. The rule to remember is that "satisfaction is a function of expectation." A product, satisfactory in its country of origin, may (or may not) satisfy the expectations of the Japanese to the same degree:

Same product in	Country of origin	In Japan
Degree of expectation	50	(e.g.) 50 x 2
Degree of satisfaction	40	40
Degree of dissatisfaction	10	60

Having overcome this initial hurdle, the second hurdle is no less tricky. The foreign side may be misled by the Japanese globe–trotter hypnotized by the strong yen (outside Japan), and forget that a contractual transaction (with all its *objective* requirements) is to the Japanese buyer a transactional relationship (with all its added *subjective* ingredients). This is where keen attention must be paid to the subtle marketing tool of *image* (not as projected by the foreign producer but as perceived by the Japanese end–user):

Product image

Domestic products are expected to be constantly improved, i.e. the competitive edge of the current product is the *next* product. The features of any product in Japan are transient and little differentiated. Even the niche occupied by the foreign product will all too soon provoke a domestic substitute. Foreign words in labels are profusely used by domestic producers; patents and registration of brand names proliferate.

Corporate image

The needed and minimum confidence in the product that attracts the buyer rests on "reliability" (in delivery and performance) as conveyed by the corporate image; it is spelled out in R&D, manufacturing and trading terms, and no less in terms of the company's *social* image (from its operators to sales force to officers; proactive membership in associations, frequent contacts with customers, etc.).

Country–of–origin image

Not unlike other countries, in Japan, many foreign products carry a stereotyped image of the country of origin. It usually differs from that held by the exporter, since it is fleetingly contrasted to "Japan," as in the current and lucrative fashion of foreign catalog sales used as a gimmick to take advantage of the high exchange value of the yen.

The third hurdle a foreign product has to overcome is even more basic. The Japanese have been quite successful in keeping at bay not the foreign product but the foreign producer, simply by assuming themselves, as importers and distributors, the burden of satisfying Japanese customers. They do so most effectively notwithstanding foreign exhortations about efficiency. Unless, of course, the import consists of products originated by Japanese investors abroad. Is the foreign producer left standing at the door? The German car makers did not "open" their successful market in Japan; they paid the entrance fee (reportedly, US$1 billion in market research, distribution networks, etc.), took control (in 1994, BMW and Mercedes–Benz had direct control of their US$2 billion operations in Japan) carving a profitable niche for themselves in a market dominated by domestic products. Today, most new foreign subsidiaries are wholly–owned and the longer established foreign firms dissolved their earlier minority positions through sales or purchases of equity.

Entry–exit scenario

Over the years, there has been a fairly common and elementary entry–exit scenario for the foreign product in Japan. Let's assume that a foreign product is newly introduced on the Japanese market and has a favorable product image. It is handled by a local agent whose policy is, on the basis of steady performance, to maintain high margins/prices. A *pull* strategy is used: the product is advertised primarily to end–users who, it is expected, will "pull" the product through channels. This has the advantage that margins need not be shared with distributors to a considerable extent. After a while, in the face of emerging local competition, the agent requests the principal for a new product, so as to start the cycle all over again. The principal's counter–strategy (if he watches market share) is often to propose to the agent (1) to work harder (e.g. cultivate channels, tackle local competition), and (2) to earn less (reduce margins and lower prices). Not a very attractive proposition!

On the other hand, the high margins of the foreign product attract local competition. A free ride on the foreign image and "higher than normal" margins allow for the time and means to progressively "Japanize" the product and move it down the experience curve. A *push* strategy is emphasized by Japanese manufacturers; namely, the product is carefully promoted in–channel with the hope that channels with the backing of the manufacturer will "push" it onto the end–users. Through this process, local competition steadily builds market share. Hence, a five–stage scenario, assuming that the market (units sold) doubles at each stage (Exhibit 2).

Notwithstanding this dismal scenario or, more often, having learned "the hard way," the foreign product that makes it on the Japanese market usually hits the jackpot. MITI's annual surveys call on about 3,000 foreign firms active in Japan (foreign equity at least 50%); given a response rate of about 50%, the ordinary profit ratio to sales of these firms, as a tribute to their efforts, has been steadily higher over the years, sometimes double or more that of domestic firms: 3.8 versus 2.3 in 1992, 3.0 versus 1.8 in 1993, and 3.0 versus 1.4 in 1994. The 100 largest foreign firms in 1994, "controlled US$155 billion in sales in Japan, a number on par with the GDPs of Indonesia or Thailand. And 36 of them had more than US$1 billion in 1994 sales, after adjustment for equity ownership [20% or more] (Gemini Consulting 1995)."

What was earlier described as the space–and–time warp in which the domestic product is embedded is not challenged by merely offering (. . . selling?) the foreign product in Japan, i.e., *doing* business in Japan. It can only be tackled by active participation in the constant transformation of this warp and thus *staying* in business in Japan. This is the way the foreign product will survive the challenge thrown by the domestic product. JJTI

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Exhibit 2. Marketing the foreign product through an agent: Entry–exit scenario

	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5
UNITS SOLD	100	200	400	800	1,600
Foreign Local	100 (100%) 0 (0%)	150 (75%) 50 (25%)	200 (50%) 200 (50%)	250 (<30%) 550 (>70%)	300 (<20%) 1,300 (>80%)
FOREIGN PRODUCT Image	Foreign	Exceptional	Reliable?	"Appropriate?"	Negative comparison with domestic product
Price	High	High	Unchanged	Unchanged	Unchanged or reduced too late
Agent's strategy	High margin "Pull" advertising	High margin "Pull" advertising	High margin "Pull" advertising	High margin Stresses his steady performance	High margin. Wants to repeat the cycle with a new product
LOCAL PRODUCT Image	–	"Me too" (product image)	Reliably available (corporate image)	Adapted and reliable ("national" image)	"Japanized"
Price	–	Somewhat lower	Reduced	Further reduced	"Normal"
Competitors' strategy	–	Own channels "Free ride" on foreign advertising	Own channels and "push" strategy "Free ride"	In–channel promotion (volume)	Broader line of products Channels abandon foreign product