

# Doing Business in Japan as Seen Through the Eyes of a Foreign Entrepreneur

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Officials can help you in your business. They can guide and advise you, they can give you background information and their analysis can be helpful. Officials, however, normally do not engage in business themselves, so it may be interesting to hear what a foreign businessman has to say about doing business in Japan.

One thing has to be kept in mind all the time: It is very important to use all the resources that are available to you to further your own cause in this country.

Foreigners have a certain image of Japan, what Japan is, was, or wants to be. On the other hand, Japan wants to tell you how it thinks it is. But let us stick to the facts. Compared with Australia or the United States, Japan is a relatively small country. It has a population of around about 125 million people. That is half the size of the U.S. population and only one-tenth the size of China's.

But have a look at the gross domestic product. Japan has a gross domestic product of roughly 4 trillion dollars, which equals that of the UK, Germany, Italy and Spain combined. Japan's gross national product is now 8.5 times China's. That means, if Japan has a zero growth rate for the next 25 years, China will need 12% growth each year to catch up.

If somebody wants to deal with Japanese companies, he has to study the Japanese history and its people, because companies are made of people. So it is necessary to understand the people before starting business with a Japanese company. The problem is that the way of dealing with Japanese people is very different to business done in Western companies. A firm which tries to deal in its own cultural way would possibly fail in Japan.

On the one hand, this firm could change itself. On the other hand, it could wait for the business climate in Japan to change. Both are not easy goals to reach, but both are possible.

At the moment Japan is in a very inter-

esting phase. It is in a transition mode, so the Japan in five years could be much different from the Japan of today. Five years is not a long time span, but revolutions take very little time. In Japan it usually takes longer to change things.

Firstly, Japan at the moment is in a recession. That means that Japan faces pressure from outside on its markets, and also pressure from inside. The problem is that the Japanese government seems to be unaware of this problem; if it is aware, it seems, it is not sure how it can cope with this problem.

Japan is a very high-priced country. In contrast to this, the average income of Japanese people is not really growing. Many Japanese companies are in the red lately, which basically causes a sort of negative mood in business circles, and also in the population. A few years ago when you were in Japan for a couple of days, your business partners probably invited you to big clubs and spent a lot of money on entertaining you. At that time, they had a lot of money to spend and corporate entertaining was tax deductible, which is less the case these days. This recessive development was, among others, caused by pressure from the economies around Japan, trying to catch up with Japan. South Korea, Singapore, Taiwan and Hong Kong are very hungry to surpass Japan in various ways, through higher production, lower prices, very aggressive marketing and sales, etc. They usually see Japan as a father figure in Asia. But fathers get old. Sons and daughters are catching up quickly and try to become the new Japan. South Korea is very aggressive in production and sales. Their wish to overcome Japan is very strong and motivates them politically. Together with the historical Korean distrust of the Japanese, this leads to a confrontation that has a very negative impact on the Japanese economy.

Through this aggressive pressure from the economies around Japan, the business share of Japanese companies is

going down. This has a very big effect on the thinking of Japanese management, especially because they are not used to being in the red. Another topic is that only five out of 20 banks are in the black. The rate of bankruptcies in Japan is rising very steeply.

Because of the high costs in Japan, companies start to think about countermeasures, e.g. by moving their production facilities out of Japan to Malaysia, Indonesia, Thailand, Vietnam or China. This has two significant effects. The employees, which do not leave the country, lose their jobs, the start of a deadly spiral, and subcontractors are out of business if they do not follow the big producers.

Nobody knows how long this recession will continue. But during this transition period, a foreign company which wants to conquer the Japanese market has to be flexible enough to adjust to this situation.

Quality is one of the highest values in Japan. So the new product has to have the best quality and a lower price, if possible. There is no chance on the Japanese market for products which fail in the quality aspect. So the first step is to do very thorough market research. Japanese companies do not welcome a new entry on "their" market. So it is necessary to get all the available information about your competitors or potential competitors, to beware of mistakes in decisions about the product, time or the partner you choose to enter the market with. If there are any offers from Japanese companies about a kind of partnership, it is important to know what this eventual partner's intent is through his offer.

## Two examples of partnership offers from Japanese companies

The first example refers to the quality aspect. There is a very big Japanese company with a lot of money in the background. They bought machines

through a trading house from a special machinery company for 35 years. During this time, they even obtained licenses from the machinery company. The plan was to develop their own machinery with these licenses. They tried for years, but they could not develop the core of the technology property, because this was not in the license agreement. After 10 years of trying, they recognized that they could never surpass the quality of the foreign machinery. Then they made a major decision and offered the machinery company a closer relationship. They offered a joint-venture with the purpose that the foreign company should establish a subsidiary in Japan. They wanted to exchange technology and bypass the trading house. They offered to renew their machinery areas with the foreign company's machines. They really had an interest to work in a constructive way, so both companies are now doing very good business.

Another example shows just the opposite. A rather good foreign product was similar to a Japanese product. So the Japanese tried everything to keep the foreign company from entering the Japanese market. First they offered a license, but the foreign company was slightly uneasy and did not agree. Then the Japanese tried it another way. They offered them a close relationship, which the foreign company accepted. But the foreign company forgot to check what is possible under Japanese law. If a trademark is registered in Japan, contrary to what is done in Europe and the U.S., it is not allowed for anybody except the owner of the registered trademark to use this trademark. After two years, the partnership between the Japanese and the foreign company turned sour and the foreign company recognized that the Japanese had registered their trademark. So they were forced to use another of their trademarks in Japan, which of course hurt their business.

So beware of offers as long as you do not have enough knowledge. It is important to know the aim of potential partners as soon as possible. This is the way to prevent conflicts. Solving conflicts has its own rules in Japan. The last thing to do is take legal action, because in

Japan it is very expensive and lengthy and usually the end of a relationship. Every side has to pay their lawyers, even the winning party. There are many possibilities to find a compromise without legal action. One preventive act could be to intensify the communication between the intern levels of the partners. If there is no solution at all, it is better to change the partnership. After legal action, every relationship between partners will be terminated for a long time.

Next, what is needed to start business is a large amount of funds. Because Japan is a very expensive country, you need \$500,000 or up to \$1 million just to start with a small office for one year. But with a small office with one salesman and a secretary, it is very difficult to conquer the Japanese market.

But there are various possibilities which do not cost that much and which can be effective in the beginning to a certain extent. But they probably are not enough if you want to do really big business and if you want to stay here a long time.

The best way is a partnership with a specialized Japanese company which handles your product as an exclusive distributor. They give you the infrastructure, offer one or two sales people, who cater exclusively to your product and give their experience in the Japanese market to the foreign firm. This method could be very helpful and is probably the best way to go for small to midsize newcomers.

A little bit more dangerous is the offer from a very big trading house. These houses deal with 10,000 to 20,000 products, so the new product is just one of them and they are mainly interested in bulk business. So it depends on the size of the company and product, whether to go to a big trading house or a small specialized one.

The big trading houses surely have the top agents and connections to big business all over Japan. On the other hand, there are the *keiretsu*. That means, if there is a partnership with one of them, it is difficult to deal with other business groups. So it is very important to make a clear check of the company that offers the partnership, to which group it

belongs.

But there is another point to mention: In every keiretsu group there is a bank. If a foreign company chooses its partner, the bank of the group offers very attractive loans. The cost of borrowing money is rather cheap in Japan; there is only a minimum interest rate. But you have to look mainly at the costs. If a company wants to be successful in Japan, it would cost twice as much as in the U.S., because of the fringe benefits that apply like flights back home, education of children, company car, etc. It is possible to curtail costs by choosing special personnel.

This is another big point. It is necessary to have the right personnel. To curtail personnel costs, there are two possibilities. First, it is necessary to send expatriate personnel with reduced fringe benefits, e.g. unmarried personnel. But there is a danger in sending an expatriate. This guy has to be very specialized. If the home company is not a big company, it will not have so many specialized employees. If it sends one of them to Japan, it will probably miss him at home. This is one of the main problems a midsize company faces, besides the cost factor. The second possibility is to utilize Japanese personnel. This has become the current trend, but there is the danger that the Japanese do not know how the headquarters works. If they are not inside, they are useless. The best personnel are mid-management or technical employees of the foreign company, who participate in a study program through MITI or JETRO. These people, who stay up to 18 months in Japan, learn a lot about business in Japan. If a company sends an employee to the program, it is paid by the government, so it decreases costs. Some Japanese partner companies may offer their office or staff. Both offers may have disadvantages.

There is a trend lately to lower rents. In fact, at some places the rents are 30-50% lower compared to five years ago. Today, an investor is in a very good situation. So, before a decision takes place, it is better to compare the rents of the offices in various areas of Tokyo and Osaka. It is absolutely necessary to have Japanese personnel, a Japanese secretary,

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