Japan: Know Before You Go

Thinking about taking your company's product or service to Japan? Read this first.

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To some, it is a familiar story: “Japan is a huge opportunity, but the cultural and business differences are just too great; we’ve heard from others how expensive it is and how they never made money. We’ll pass.” Others have skipped fundamental research, rushed into Japan assuming it can’t be *that* different from their home market, and ended up committing the same mistakes as those before them.

Both of these stories are troubling. On the one hand, those that do not enter Japan after hearing about another company’s challenging experience are forgoing a huge opportunity. Japan is a major market for virtually any product or service offered in Europe or North America. On the other hand, those charging into Japan and expecting to immediately turn a handsome profit with minimal effort or investment are in for a very nasty- and many times costly- surprise. However, this does not need to be the case.

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In our experience, executives make a more informed decision about Japanese market entry, and ultimately have better chances of success, if they ask themselves two important questions. The first is obvious: “What are the key differences between doing business at home and doing business in Japan?” The second is: “What kind of return on investment do I want to achieve from going to Japan?” Surprisingly, the time spent examining the second issue is oftentimes too short; companies need to look inward as much as outward before venturing into Japan.

Knowing Your ROI: A 3-Step Process

Before any research is undertaken on your company's market in Japan, pause for a moment and take stock of your expectations. Step one is to honestly ask your- self, as a company or divisional leader, how much of a return you need. Your initial ROI expectations should be quantified in percentage as well as absolute yen value terms. Don't worry: these expectations will surely be adjusted upward or downward later.

Be as honest as possible in this stage. It is easy to look at Japanese GDP and industry size figures and immediately conclude that Japan should be a major market for your company. How- ever, this does not need to be the case and is not always the optimal strategy. You will most likely be able to sell in Japan and add to your top line; if you have your hands full with other projects but need or want to boost revenue in the near term, this can be accomplished in Japan. In some cases, this small initial investment can act as a precursor to a full attack on the market later. For example, rather than set up wholesale manufacturing and sales operations in Japan, Nestle confectionary (and its precursor Rowntree-Mackintosh) had a symbiotic relationship with a local partner until the late 1990s. When Nestle decided to invest more in Japanese chocolate for higher returns, it bought out its partner. However, keep in mind that this start-small strategy is more fea- sible in certain industries than others; reputations and relationships are harder to change in Japan than elsewhere. Polo Ralph Lauren entered Japan with licensing agreements, ceding little capital but almost all control.

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The company subsequently spent extensive time and money restructuring sales, distribution and licensing agreements in the middle and later parts of this decade due to continued underperformance of its Japanese operations.

And, of course there are rewards to making a long-term commitment to Japan. The country boasts the world's second largest economy and can become a large addition to any company's bottom line. Experience in Japan oftentimes leads to innovation throughout the company, including in its home market; Japanese companies' world-renowned competencies in manufacturing and supply chain efficiency are one area where US and European companies often stand to learn a great deal. And the learning and adjustment process required for entering this challenging market can serve the company well when building business in other new markets. As the song says, if you can make it here, you can make it anywhere.

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Once initial ROI expectations are established, the second step is to do a deep dive and research what is required for market entry, based on initial ROI expectations. First, an understanding of your industry within Japan is needed. Who are the major players: customers, consumers, suppliers, competitors? How large is the market, and is it consolidated or fragmented? What are the major trends? A thorough examination of secondary sources can yield much information here. Next, high-level business-cultural differences should be well understood. At this point, it also helps greatly to gain access to a Japanese speaker- preferably one with work experience inside and outside of the country- both to examine Japanese language secondary research and to explain specific intricacies of doing business in Japan. Throughout this period, the market entry strategy should be taking shape.

With these insights, begin to budget your initial investment for Japanese market entry. Specific investments and strategies are all company and industry-specific and thus too numerous to name here. However, depending on how much market share and top-line growth you wish to capture, some investments are inevitably necessary. If you decided against a high yen-value ROI, keep this in mind when budgeting. Specific investments for market entry often include:

- **Product:** Almost always, something about your product or service will have to be changed in order to sell well in Japan. Benchmarking in the initial research stages, as well as primary customer/consumer research should give you a good idea of what needs to be changed, and how much needs to be spent. Certain products may be immediately suitable for Japan, while others may need to be developed in order to achieve target ROI. This was the case with a former client- a leading UK FMCG company- where in order to achieve medium to long-term revenue and market share targets, new products had to be developed to suit the Japanese consumer.
- **Sales/Marketing:** Sales culture and practices, as well as marketing, are oftentimes very different in Japan. Capital goods sales are very relationship-based, and consumer goods marketing is much more advertising-media intensive. During the initial research phase, common industry practices must be understood, and plans to navigate this territory- by either improving on it or adopting it wholesale- must be made. Potential investments may have to include building a sales team, buying a sales team, or educating a sales team.
- **Company:** Office space, IT infrastructure, and human resources oftentimes take up a large part of the budget. Again, knowing the scale of the market entry as well as subsequent ROI, is paramount to accurate budgeting process.

The third step in the process is to examine your internal resources and capabilities and re-examine your initial ROI expectations in light of these findings. Human resources are a good place to start. Who do you have in your team now, and who do you need to hire? At what cost? Are there major product development initiatives that need to take place? With products set, what does your supply chain look like? Oftentimes, these issues move in tandem and should be evaluated holistically.

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The last cost to take into account in step three is the most difficult to quantify: opportunity cost. Inevitably, Japanese market entry will use up a substantial amount of you and your team's time. With linguistic differences as well as the strong Japanese preference for face to face communication, plan on spending much time flying back and forth over multiple time zones. HR issues in Japan take time and patience; once a hire or alliance is made, the job is usually just beginning. Plan on spending time searching for new people, educating them about your product, and setting clear expectations. What other projects might be foregone, delayed, or scaled back due to your Japan plans? Think carefully about this before committing.

Moving Ahead

Sounds complicated? You bet: Japan is a complicated market, but one that rewards those who plan ahead before entering. And our experience has shown us that the best planning starts with knowing exactly what you want out of the project. A large untapped potential awaits those who plan, execute, and have the patience to roll with the inevitable challenges of going to market in Japan.

Komada International is a strategic consulting firm helping companies to achieve their global potential in Asia.

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