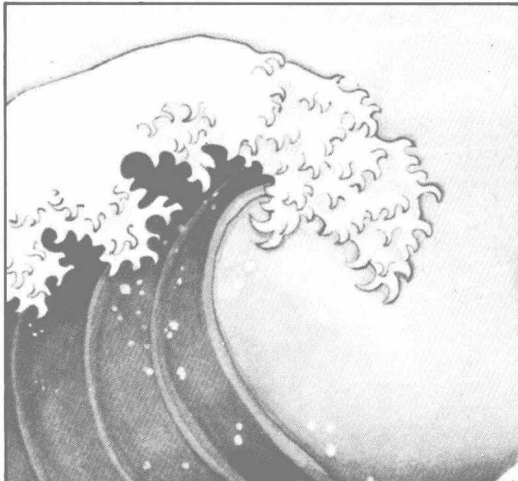


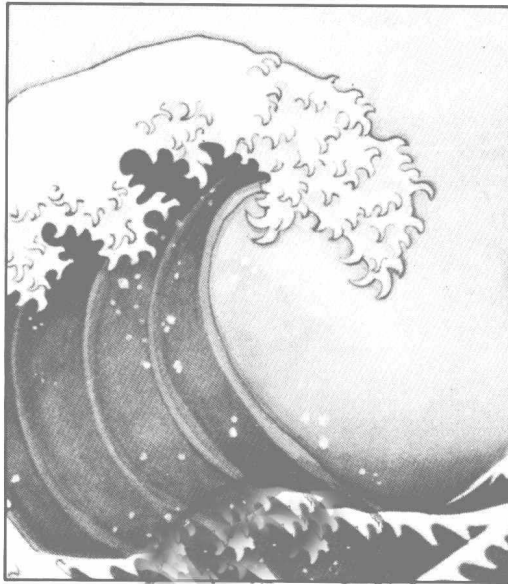
# The New Competition

**PHILIP KOTLER • LIAM FAHEY  
SOMKID JATUSRIPITAK**



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New Jersey

Library of Congress Cataloging in Publication Data

KOTLER, PHILIP.

The new competition.

Bibliography: p.

Includes index.

- I. Marketing—Japan. 2. Export marketing—Japan.  
I. Fahey, Liam, 1951– II. Somkid Jatusripitak.  
III. Title.

HF5415 .I2 J3K68 1985 382'.0952 84-26596

ISBN 0-13-612078-4

Editorial/production supervision and  
interior design: Esther S. Koehn

Cover design: Diane Saxe

Cover illustration: Karen Goldsmith

Manufacturing buyer: Ed O'Dougherty

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and resellers at a discount when ordered in quantity.*

*For information, contact:*

*Special Sales Representative  
College Marketing  
Prentice-Hall, Inc.  
Sylvan Avenue  
Englewood Cliffs, NJ 07632*

Printed in the United States of America

10 9 8 7 6 5

ISBN 0-13-612078-4 01

Prentice-Hall International, Inc., *London*  
Prentice-Hall of Australia Pty. Limited, *Sydney*  
Editora Prentice-Hall do Brasil, Ltda., *Rio de Janeiro*  
Prentice-Hall Canada Inc., *Toronto*  
Prentice-Hall Hispanoamericana, S.A., *Mexico*  
Prentice-Hall of India Private Limited, *New Delhi*  
Prentice-Hall of Japan, Inc., *Tokyo*  
Prentice-Hall of Southeast Asia Pte. Ltd., *Singapore*  
Whitehall Books Limited, *Wellington, New Zealand*



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## *Foreword*

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American business leaders have prided themselves as vigorous competitors. Indeed they are. They have been particularly adroit competing against neighboring American companies. Each understood the other. Conduct was predictable from years of repetitive experience and expectations. Native mind-sets influenced quality levels. Similar retrenchments in capacity planning were common responses to U.S. cyclic market downturns. Competitive evaluations were made primarily against other American companies.

Foreign competitors looking in from the outside learned and responded to customer readiness for “do differentlies” better than American competitors at times. The Japanese, notably, saw some of these market opportunities sooner and clearer. They did things about what they saw.

Ironically, what the Japanese did operationally then became the greater American preoccupation. Extensive attention was focused here on statistical quality control, their low-cost financing, people involvement programs, and their labor cost and productivity, etc. The American responses to many of these operating factors were effective.

Less evident was American realization of the insight about the customer—the understanding of the market that preceded and accompanied Japan’s targeting American buyers.

This book puts the spotlight on the importance marketing played in Japan’s trade achievements. The pivot statement in the center of the

text reads, “. . .it is equally clear that marketing has played a major role in their success.”

The students of American business and the American business leaders were right to emphasize study of Japan’s productive processes to meet the challenge. They equally will have missed a key element if they are numb to the role and effect of Japan’s world-class marketing, if for no other reason than defense of one’s U.S market share.

This fundamental message—the importance of marketing—is clear and emphatic particularly because it is presented from the vantage of Japan’s challenge. The presentation here is in balance. The authors accurately portray the mix of factors that the Japanese system, culture, and competences have brought to world trade. In an even-handed way, they account for the role of government re protection, support, and guidance at home; the role of culture re the unity of the people, their sense of survival, and their standards of merit; the role of keiretsus and individual companies as institutions where patient, native skills are practiced well; and the role of customer focus re the inexhaustible gathering of intelligence about the market, the sorting of choices, and filling of needs.

U.S. business managers who aspire to lead and leaders who still wish to learn will carry away from this book practiceable strategies which will enhance the American vigor to compete.

**Robert W. Galvin**

*Chairman of the Board  
Motorola, Inc.*

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## *Preface*

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Surely one of the most impressive economic miracles in modern times is Japan's rise from the ashes of World War II to become one of the world's three great economic superpowers. From its war-torn and destitute state in 1945 when it surrendered to the Allied forces, Japan today stands as the world's most feared and respected economic competitor. Japan not only had to plot its recovery from a war-torn economy but had to overcome four additional handicaps: first, a dearth of major domestic natural resources such as iron ore, oil, and copper, which highly industrial nations critically depend upon; second, a weak understanding of Western culture and business practice; third, a lack of facility in the English and European languages; and fourth, a pre-World War II reputation for shoddy goods. To have overcome these difficulties and now be so universally respected for the quality and variety of its automobiles, motorcycles, consumer electronics, cameras, watches, and many other products, Japan certainly deserves study and explanation.

Japan's understanding and use of "marketing," in our view, has been one of the key contributors to its success in the global marketplace. This raises several questions. Do the Japanese know things about marketing that U.S. and European firms do not know? Have Western corporations forgotten what they once knew about marketing or have they simply failed to put what they know into practice? What can Western firms learn from the Japanese style of market selection, market entry, market penetration, and market maintenance? These questions are be-

ing pondered by an ever-growing number of Western executives whose businesses have been hurt by super-able Japanese competitors.

The deep Japanese penetration into world markets is not over. In fact, Japan has been targeting new markets, such as computers, aircraft, pharmaceuticals, banking, clothing, and cosmetics, to name a few. What is more, Japan is only the first of a series of Asian countries that are following the same competitive model or evolving new ones, all of which center on creating quality products at lower costs and lower prices than those produced in the West. Japan's particular success has been marked by a strong business-government partnership; long-term and low-cost loans by banks; management willingness to "buy" market share and wait five, ten, or twenty years for profits; fanatic attention to product quality and service; a drive toward capital-intensive productivity increases; and several other factors. The new Japans—South Korea, Taiwan, Hong Kong, Singapore—are adopting many of these practices and adding some new ones as well. And as we move toward the next century, other Asian countries—particularly China, India, Indonesia, Thailand, Malaysia, and the Philippines—will evolve highly competitive approaches to winning sizeable shares of key global markets. Some observers are going so far as to characterize the next century as the Pacific Century, because they see an increasing share of the world's gross national product originating in that part of the world.

The West, because of its past complacency, is partly to blame for its loss of market position. And its responses to the Japanese challenge are still superficial and inadequate. American and European firms need to start taking this challenge seriously and study the "New Competition."

The New Competition is characterized by the following attributes: (1) a highly intelligent, disciplined, and skilled work force working at lower wages than their Western counterparts; (2) cooperative labor/management relations; (3) a medium and high-tech orientation in these countries enabling them to compete in the industries that are the mainstays in the West; (4) capital sources that accept a lower rate of return and a considerably longer payout horizon; (5) government direction and subsidization to help business; (6) frequently explicit, and sometimes subtly, protected home markets; and (7) sophisticated concepts of business and marketing strategy.

The question thus becomes: How can Western-based companies that face higher wages and capital costs, worker discipline problems, higher and earlier profit requirements, strong government regulation, and a comparative absence of government support compete successfully with companies that are run according to the principles of the New Competition?

The purpose of this book is to examine the principles of the New

Competition, especially as exemplified by Japan, its leading exponent.

In the first part of the book, we document the impressive record of Japan's economic success, analyze the factors that contributed to that success, and highlight the specific role played by Japanese marketing strategy in achieving such results. In the second part, we describe the range of marketing strategies used by the Japanese to identify opportunities, enter markets, penetrate them deeply, confront opponents, and maintain dominance. The third part will offer major recommendations on how Western-based companies can respond to the marketing challenge of the New Competition. The final chapter draws a host of lessons about where strategic marketing is moving in the twenty-first century.

Throughout the book, we include in-depth descriptions of how the Japanese won specific world markets, including automobiles, motorcycles, watches, cameras, radios, and television, as well as their plans for penetrating several new target industries, including banking, fashion, cosmetics, computers, and aerospace. While our focus is on Japan, the real import of the book is that a new model of global competition has emerged which is being copied by several other countries. This model poses the most serious challenge that Western firms have faced since adopting the principles of free enterprise as spelled out in Adam Smith's *Wealth of Nations*.

### **Acknowledgments**

We began the Northwestern Project on Japanese Marketing Strategy three years ago after observing that various books describing Japan's economic success failed to pay sufficient attention to the role played by Japanese marketing strategy. We felt that Japan's skill in formulating and executing competitive marketing strategies needed to be better understood and highlighted. We wanted to know if the Japanese had discovered new principles of marketing or simply managed to apply these principles better than their Western counterparts.

Included in the Northwestern project were a number of graduate students who searched for available data and interviewed Japanese scholars, business managers, and government officials. We want to thank the following students for their contributions: Lynda Black, Robert Carpenter, Daniel Craft, Jeffrey Day, Philip Eynon, Elizabeth Friskey, Diana Knox, Kevin McDonald, Anurachanee Pingkarawat, and Suvainai Tosirisuk.

We want to express our deep gratitude to two scholars who reviewed our manuscript. Professor Ferdinand Mauser, who has lived in Tokyo and who has taught at Keio University, provided us with excellent insights and suggestions for improving the book. Professor Johny K. Johansson of the University of Washington has published scholarly arti-



cles on Japan and helped us improve the text's accuracy and completeness. We are indebted to both of these scholars for their careful and detailed reviews. In addition, we want to thank Oscar Collier for his helpful suggestions on improving the manuscript's focus and clarity.

We also are indebted to Donald P. Jacobs, Dean of the J.L. Kellogg Graduate School of Management, Northwestern University, for his continuous support and arranging for contacts with leading U.S. executives. Our project has also been ably assisted by our secretaries, Marion Davis, Laura Kingsley, Tracy Ayers, and Julia Taylor, who helped us move the manuscript smoothly through several successive drafts.

Finally, we want to thank the able staff of Prentice-Hall for their extraordinary support. We want to single out Elizabeth Classon, our marketing editor, for skillfully managing the whole project, and Paul Misselwitz, Tim Moore, Gene Perme, George Stanley, Peter Maloney and Beverly Vill for their marketing support, and Esther Koehn and Eloise Starkweather for their production support.

**Philip Kotler**

**Liam Fahey**

*Northwestern University  
Evanston, Illinois*

**Somkid Jatusripitak**

*National Institute  
of Development Administration  
Bangkok, Thailand*

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## Contents

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*Foreword*      vii

*Preface*      ix

### **PART I: THE MARKETING BATTLEGROUND**

- 1**      **World Class Marketeers—The Japanese**      3
- 2**      **The New Competition's Success  
Formula**      22
- 3**      **The Market-Takeover Process:  
How the West Was Won**      39

### **PART II: FAR EASTERN MARKETING STRATEGIES: THE ROAD TO DOMINATION**

- 4**      **Identifying Opportunities:  
Knowing Where to Strike**      61
- 5**      **Entry Strategies:  
Carving the Niche**      86

<b>6</b>	<b>Penetration Strategies: Broadening the Base</b>	104
<b>7</b>	<b>Confrontation Strategies: Battling Competition on All Fronts</b>	123
<b>8</b>	<b>Maintenance Strategies: Defending Market Leadership</b>	151
<b>9</b>	<b>Building a Global Position</b>	173
<b>10</b>	<b>Linking Strategy, Organization, and Decision Making</b>	197
<b>PART III: MEETING THE NEW COMPETITION</b>		
<b>11</b>	<b>Responding to the New Competition</b>	217
<b>12</b>	<b>Toward Strategic Marketing in the Twenty-First Century</b>	244
	<b>Appendix: How Did the Japanese Learn Their Marketing?</b>	263
	<i>Notes</i>	268
	<i>Index</i>	282

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*PART I* —  
— **THE MARKETING BATTLEGROUND**



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*chapter 1*

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**World Class Marketeers:**

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**The Japanese**

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On August 15, 1945, the entire Japanese nation listened to Emperor Hirohito deliver a message of surrender to the Allied forces. Japan had started a war years earlier to fulfill its needs for resources, land, and power in the Far East and then lost this war, having never before been defeated in war. Japan's economy was in shambles and its people were morally and economically devastated.

In the 1980s, some thirty-five years later, UNESCO published the economic standings of various industrial nations. Here were some amazing facts:

- Japan ranked second as the most economically developed nation in the world.
- Japan ranked second in GNP and fourth in per capita national income.
- Japan's GNP increased more than 200 percent and ranked first among the highly industrialized countries in economic growth rates during 1971–80, a period of great economic difficulty for most countries.

And where did the Allied victors stand some thirty-five years later? France and Britain ranked fourth and fifth, respectively, in GNP among the highly developed countries. Their combined GNPs were lower than Japan's. The USSR, another Allied victor, spent almost three

decades in developing its economy without achieving half of Japan's GNP per capita. One might ask, Who won the war?

Japan lost the military war but clearly won the economic war. Military wars have been waged in the past to gain economic prizes. The Japanese painfully learned the lesson that they could win more economic prizes through economic means rather than military means. Too bad they did not know this in 1940.

## THE JAPANESE MIRACLE

In 1945, people would have ridiculed any soothsayer who predicted that Japan would be the second most economically developed nation in the world by 1980. Any sane observer in 1945 would have noticed that the Japanese economy was heir to four formidable handicaps, seriously limiting its economic future:

- Japan's factories had been destroyed, its people faced near starvation, its currency was in the throes of runaway inflation, and its political and social fabric was devastated.
- Japan lacked the major natural resources—coal, iron, and oil—necessary for running a modern economy. Furthermore, only 14.8 percent of its land was arable.
- Most Japanese businesspeople only spoke Japanese and knew little about U.S. and Western European markets, cultures, and history.
- Prewar Japanese products had a worldwide reputation for poor quality. To most people, the label "Made in Japan" meant a cheap and poorly made product.

The fact that Japan overcame these handicaps and that its name today stands for "quality" and "value" around the world is a miracle. Their products penetrate deeply into every corner of the world, with names such as Sony, Toyota, Canon, Seiko, and Nikon commanding universal recognition and respect. This turnaround is enough to encourage other developing nations—India, Indonesia, Malaysia—to emulate it. In fact, these countries, as well as many less-advanced European countries, are carefully studying this miracle—and seeing what parts of overall Japanese strategy they can import in the hope of advancing their economies.

In examining the Japanese model for economic development, too many people interpret the miracle as a result of one or a few single factors. Some point to the Japanese government's key role in directing

and subsidizing Japanese companies. Others cite the disciplined work force in Japanese factories. Still others point to the Japanese trade barriers that permitted Japanese companies to charge high prices in the home market while keeping out foreign competitors, thus earning the surplus to finance an export attack abroad. And others cite the Japanese gift for copying—and sometimes stealing—Western-innovated products and improving them in the process. Many other explanations have also been offered.

However, we know that single-factor theories never really explain anything; they are convenient fictions. We will explore in the next chapter the whole set of factors that together produced the Japanese miracle. And by implication, we are saying that other countries will not succeed by copying one or a few elements of Japan's strategy. And they cannot copy all of the Japanese strategies. Every nation and every company, however, can learn from the Japanese. One can extract powerful lessons about corporate strategy from the Japanese experience. We have, in fact, drawn and featured these lessons throughout this book and brought them together in the last chapter. At the same time, each nation and each corporation will have to design its strategy afresh out of its own conditions and opportunities.

### **Is the Japanese Miracle Over?**

One popular, and dangerous, belief is that the Japanese have now won all they will win. Even management guru Peter Drucker predicted recently that "the Japanese will not be a problem in five years." Various reasons have been supplied by Drucker and others. First, the Japanese will face new problems bred by their very success: weakening of the work ethic, higher wage demands, rising infrastructure costs from pollution, traffic congestion, and so on. Second, the Japanese succeeded in the past because of the complacency and blindness of U.S. manufacturers who kept making big cars when a growing number of consumers wanted small cars, analog watches when more consumers wanted digital watches, large copying machines when businesses wanted smaller copying machines, and so on. The argument goes on to say that U.S. manufacturers have "wised up" today . . . they are plugging the holes. The Japanese will not find much more opportunity to expand.

We think otherwise. First, the Japanese social and business culture and drive have not softened. The discipline is still strong, and although wages have improved, so has productivity.

Second, U.S. manufacturers have not plugged all the holes. Many are still not delivering the quality or value provided by their Japanese



competitors in cars, motorcycles, cameras, watches, musical instruments, and so on.

Third, the Japanese are now invading a whole new set of markets in which the established U.S. and Western European producers have hardly recognized the threat or bothered to construct counterstrategies. This ignorance allowed the Japanese to advance aggressively into such new industries/markets as fashions, cosmetics, hotels, banking, air conditioning, machine tools, medical equipment, and pharmaceuticals in recent years (discussed in detail later in this book).

### THE NEW COMPETITION

Even if the Japanese have shown signs of slowing down in their invasion of world markets, the same thrust will continue but will come from the "New Japanese"—the Koreans, Taiwanese, Singaporeans and the Hong Kong businesses. These people and businesses are copying all or part of the Japanese model and adding a few twists of their own. They are following many of the principles defined by the Japanese for winning world markets:

- Government direction and subsidization of industrial development
- Explicit as well as subtle protection of the home market against foreign competition, enabling high profits in the home market to finance export development
- A highly intelligent, disciplined, and skilled work force working at lower wages than their Western counterparts
- Cooperative labor/management relations
- High availability of capital at low interest rates
- Capital sources that accept a lower current rate of return and a considerably longer payout period, thus enabling business firms to plan for the long run
- An orientation toward medium- and high-tech industries, the mainstay industries of the West, and an active program of phasing out (or down) the "sunset" industries
- A commitment to both high quality and high productivity, and making sure that productivity drives do not take place at the expense of quality
- Sophisticated concepts of business and marketing strategy designed to win global market share leadership in targeted industries

These principles amount to a new model of competition, which we call the New Competition. It is a mix of neo-mercantilism, state