CRACKING THE JAPANESE MARKET

STRATEGIES FOR SUCCESS IN THE NEW GLOBAL ECONOMY

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Cracking the Japanese Market

To Becky Morgan, wife and Mother,
and all Applied Materials employees
who made this story possible

Acknowledgments

Cracking the Japanese Market was written with the goal of making you and your organization more successful in the Japanese market and, as a result, more successful in your domestic and global business. The book was developed to include critical information that we ourselves would have liked to have known as we made our original journeys and developed our businesses in the Japanese market.

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JAMES C. MORGAN J. JEFFREY MORGAN

Introduction

In one of San Francisco's many fine restaurants facing the bay, we sat and enjoyed lunch. Off in the distance, the bay waters glistened. It was a clear afternoon and the fog had yet to settle in. Between the city and Alcatraz Island, we saw a magnificant ship slowly slicing through the current heading west to the Pacific. The enormous grey superstructure proudly flew the colors of the United States Navy. Beyond the Golden Gate Bridge, we watched as another massive freighter gradually came into view. It was coming from the other direction, heading into port. This ship showed the Toyota Company colors and the Hinomaru flag of Japan. Instead of armaments, its cargo hold was stacked high with automobiles. Hundreds of cars to be sold to hundreds of American consumers. Just past the bridge, where the bay waters confront the tide, the two ships silently passed each other.

The scene is replayed every day in ports across the United States and provides an ironic metaphor for the relationship between the United States and Japan; both countries may share an ocean, but they are two different types of ships. And for the last half century, the two ships have headed in different directions with differing agendas, differing cargoes. And then the seas changed.

THE GROWING CHASM

It's a new world. Tensions between the United States and the Soviet Union have eased, Western Europe is unifying, and Eastern Europe is unwalling. A new era of global opportunity and prosperity is dawning. Yet America, at least economically, appears to be out of synch. Even amid the longest peace time economic boom in U.S. history, things seem awry. America is less certain about itself. It is a frame of mind that the nation is unaccustomed to, and it engenders confusion and, in some cases, anger. As a result, the hostilities and mistrust that were once aimed at ideological foes are now being directed to a friend, Japan. At issue is Japan's economic "miracle" measured against America's economic muddle. At the root of the debate is a disparity in the way the two countries have ordered national priorities and in the way national will and creative *geist* have been harnessed.

Since World War II, the United States and Japan have played distinctly different roles on the world's stage; the United States as policeman of the West to Japan's itinerant peddler from the East. And to those roles vast national resources have been dedicated. In the past decade alone, the United States spent trillions of dollars on strengthening its military. At the same time, the Japanese government and industrial complex invested heavily on business and wealth building. The United States has been a leader in global political affairs; Japan has been all but silent. While the United States provided Japan (and the rest of the world) with open sea lanes and an open market, Japan used those seas for trade while constructing structural impediments to its own markets. Throughout the immediate postwar years, Japan's barriers were tolerated (if even realized), principally because American businesses failed to take much interest in this marketplace. The United States market was more than enough to contend with, and besides, America reasoned, Japan needed some degree of latitude in order to rebuild itself.

It was not until the mid-1970s that America took serious notice of Japan's rise—when its economy began to explode and America's began to slide. And now, less than ten years from the close of the twentieth century, many Americans fear that the era of American leadership, politically, militarily, and particularly economically, also may be coming to a close. And some believe Japan's gain has come at America's expense. Looking at some of the raw facts, this sentiment is understandable.

- In five years, between 1981 and 1986, the United States reversed positions from the world's largest creditor nation to its largest debtor nation. Japan is now the largest creditor nation, and in the past ten years has built over a $400 billion trade surplus with the United States which continues to grow at a rate of about $50 billion per year.
- Today, no American bank is in the world's Top 10—a listing which has been dominated by Japan for many years (Citicorp ranks number twelve). Many bankers say they would not be surprised if Japan's aggressive moves in the United States captured 25 percent of the U.S. commercial loan market by the mid-1990s.[1]
- Presently, the total value of land in Japan is worth $14 trillion, twice the value of that in the United States, for a country only one-twenty-fifth the size.
- The world's largest securities brokerage firm is now Nomura Securities Co. Ltd., with over $430 billion in assets. Its 1988 net income of $1.7 billion on revenues of $8 billion was more than the profits of Merrill Lynch, Morgan Stanley, Paine Webber and Salomon Brothers combined.
- Machinery, which amounts to 25 percent of American exports to Japan, comprises 80 percent of Japanese exports to the United States. In electronics, Americans exported $5 billion to Japan in 1987, but imported $26 billion from it. Roughly nineteen of every twenty "memory chips" in American computers sold today are from Japan.[2]
- While devaluation of the U.S. dollar turned a deficit of $30 billion with Europe into a surplus, it had almost no effect on the balance of trade with Japan.
- David C. Lund, an economist with the U.S. Department of Commerce, estimates that the import share of what Americans buy has soared from 12.8 percent in 1970 to 22 percent in 1989. Import volume has doubled since 1982 from $244 billion to an estimated $475 billion in 1989.[3]

A disturbing indicator points to America's loss of control over its own economic destiny. In 1989, the U.S. Commerce Department reported that Japanese government agencies, corporations, and individuals held almost $400 billion in American assets—$200 billion in direct investment and $195.8 billion in bank loans, U.S. Treasury notes, and other securities. Doubling its direct investment from $98 billion the year before, Japan leapfrogged Britain as the largest foreign investor in the United States.[4] By some estimates Japanese-owned banks, with over 275 branches in California alone, now hold 25 percent of the state's banking assets, up from 10 percent seven years ago. If combined, their $93.4 billion in assets outweigh even the Bank of America's $83 billion. The U.S. government now relies on Japanese investors, mainly large insurance and savings companies, to finance as much as 30 percent of the annual budget deficit.[5] Japanese financial institutions have become such a powerful force in the United States today that some pundits wonder how long it will be before they seek to translate this clout into political influence. There is growing concern that the Japanese lobby in Washington may be enjoying an undue and growing influence on Congress. Others even argue that Japan's influence on the actions of the U.S. Treasury and Federal Reserve Board is already evident.

If today's statistics seem alarming, they are nothing compared to the implications of current trends. The long-term direction of key technologies and investment by American manufacturers point to a continued decline in the United States' competitive position. While Japanese industry's investment in research and development rose by nearly 20 percent in 1989, U.S. R&D investment on the aggregate declined. This trend alone indicates an erosion in the fundamental prospects for American competitiveness. Combined with high capital costs (the cost of raising investment money at a rate two to four times that of Japan) and a low rate of savings and investments, America's relative position will clearly worsen over time.

At its core, we believe the problem is not that Japanese companies have forged such a major presence in America, but that Americans and American companies do not have corresponding presence in Japan, either in direct holdings and operations or in the ability to generate real revenues from exports to the Japanese market. This failing has already had wide ramifications, impacting American competitiveness throughout the global arena. The popular mythology regarding America's relative absence in Japan is that the market is "closed," that pervasive trade barriers created by a conspiracy of government and big business have kept American companies out. The problem is not that simple. The solutions will not be either. Yes, Japan has historically thrown up ramparts to outside competitors. Yes, at various times these obstacles have been institutional as well as informal. But today most of the formal restrictions have been legislated away. Even before they were, many American businesses failed to succeed in Japan not because the markets were inaccessible, but because most American companies were inattentive. America simply failed to compete. Now, as America begins soul-searching for a cure to its economic ills, it is easy to deal in recriminations and complaints about the structure of Japan's market and the inequitable trade policies the Japanese have pursued. But this debate skirts the real issues at hand. The Japanese know it, and deep down most American business people know it as well. It is not only a macro-economic problem of savings and budget deficits. Its roots are microeconomic in education, in industrial companies, in our financial institutions and in our legal system. Japan and what it represents can no longer be ignored. Changes in American definitions of competitiveness will have to be made.

We are positive about the prospects for an America committed to renewal. Japan's journey to economic stardom began forty-five years ago in the rubble of destruction following World War II. America begins its journey to economic renaissance in far better shape. However, American business and the American people must recognize the new realities. It must recognize what it takes to compete against Japan, and execute its course based on this knowledge. We believe this journey begins with the will to compete, a will borne of a commitment to survival no less intense than that mustered by the Japanese in the late 1940s and 1950s—a time when Japan's very survival was in no way assured.

WHY AMERICA MUST COMPETE IN JAPAN

Thirty years ago, "Made in Japan" meant cheaply made. Even a decade ago, the Japanese were widely perceived as copycats, capable only of using their cheaper labor and lower cost of capital to produce inexpensive knock-offs of American products. Even more recently, American industry viewed Japan as too small a market to dedicate the enormous time and energy that was required to make headway. All that has changed. On an absolute basis, Japan now has the second largest and fastest growing economy in the world. At $2.85 trillion, its economy constitutes over 10 percent of the world's combined GNP. Japan has become extremely rich, owing to its success in exports, skyrocketing domestic real estate and stock prices, and the artificially strong yen.

More important than today's figures, at an unrelenting growth rate of 5 to 6 percent a year, Japan promises to become an even larger economic force in the future. For many companies, that means that even a relatively small marketshare in Japan can translate into a very large sales volume. For instance, a 4 percent share in a segment of the computer market in Japan could be equivalent in dollar terms to a marketshare of over 20 percent in West Germany, 30 percent in France, and more than 40 percent in Switzerland. Every American company must consider Japan a genuine market opportunity.

The Japanese no longer need to copy anybody. Many of the most important industrial developments and competitive forces are now originating in Japan—in telecommunications, semiconductors, consumer electronics, automobiles and surface transportation equipment, robotics, and manufacturing and process industries, and even finance and fashion design. If for no other reason, American companies must compete in Japan as a means of sourcing new ideas and technologies. And when one considers the dramatic changes taking place within Japan itself, the reasons to compete inside the market become even more compelling.

With the death of Emperor Hirohito in early 1989, the war-scarred *Showa* period of "everlasting peace" came to a close in Japan. The new *Heisei* era of "enduring peace and opportunity" may well prove to be a major turning point in Japanese history and in Japan's relations with the world. Historically, the Japanese regard the beginning of a new emperor's reign as an opportunity for serious, society-wide introspection and a commitment to renewal. This promises to result in many changes in Japanese society, politics, and commerce. The year 1989 was also a watershed of change in other ways. With the fall of prime ministers Takeshita and Uno, and a sharp decline in the popularity of the ruling Liberal Democratic Party (LDP), a new generation of younger, postwar leaders, including women, is gaining power. In 1989 the "father" of the Japanese electronics industry, Shinsuke Matsushita, founder of Matsushita Corporation, passed away. With him was lost the symbol of an era of Japanese commerce based on discipline, sacrifice, manufacturing excellence, adaptation of foreign technology, and an export-led economy. The new political leaders and industrialists may not be as conservative and doctrinaire as their predecessors and may be more prone to reach out and join the rest of the world.

In some ways, Japan is opening up to the rest of the world. U.S. and European pressure on Japan is starting to pay off. If for no other reason than to expand the markets for its goods and services, Japan is slowly realizing it also must take in its share of manufactured products, bear a responsibility for supporting other economies, and open its doors to its trading partners. Almost every formal tariff or quota restriction has come down, and major changes are taking place in the distribution structure, opening the door for more imports. Liberalization is taking place in almost every industry, from telecommunications and finance, to the railroads and agriculture. Japanese consumers themselves are pushing for many of the market reforms, having grown weary and impatient with the limitations on personal freedom and choice caused by the domination of conglomerates and entrenched distribution systems. Its *nouveau riche* consumers are now demanding the same benefits, products, and lifestyles available in other industrialized countries. More and more, the tastes of Japanese consumers are becoming internationalized. Japanese companies also want change. Like consumers, fewer companies are willing to pay a premium for products simply because they are Japanese-made. More than ever, Japanese companies realize they need global partners to broaden their sales networks and give them greater inroads into new markets in the Americas, Europe, and throughout Asia. The opportunities for American business to succeed with Japan have never been greater.

Owing to this growing promise, American companies not participating as insiders in Japan today are losing an opportunity to get in on the ground floor of a stunning metamorphosis. There are big opportunities in numerous untapped sectors of the Japanese economy, especially in services, advanced technologies like biotechnology and leading-edge pharmaceuticals, leisure and resort businesses, specialty foods, and new modes of distribution. In these and scores of other industries, Japan has far less experience than its Western counterparts. And while some markets may be small today, the potential is enormous.

We see genuine change also taking place in America, with an increased emphasis on quality, manufacturing excellence, customer service, vendor partnering, and a new orientation to overseas markets, especially Japan and all of Asia. There is increasing emphasis on Japan as an integral factor in American companies' corporate strategies, and growing consensus that success in Japan will be critical to success elsewhere in the world. While many companies continue to bemoan the impediments to Japan's markets—or worse, deny Japan ascendency—those companies that have made the effort and invested the time in Japan are today making headway and profits.

THE TOOLS TO COMPETE

Many books have been published about Japan, its history, people, and markets. Numerous recently published books have focused upon the

Japanese threat, and chronicled how and why the United States has lost its edge to Japan. This book is different. Its emphasis is on the role of the individual company in the new global economy, an economy created largely by Japan. Certainly, global trade is more complex than ever, but in our view business still boils down to a head-to-head contest between individual companies and products. Squaring off against a giant Japanese competitor—in Japan—is not easy, but it can be done. The Japanese market is not impenetrable. We know American companies can succeed by building the right products and by employing the right strategies for Japan's unique market. Our goal is to show why *now* is the best time to do business in Japan, and by extension, the rest of the world.

It is our hope that through this book the reader will come to understand the Japanese market and its business practices, and will begin the process of becoming more expert in the strategies of building a Japanese business. The lessons we provide are based largely upon our actual experiences with sales and marketing in Japan. Jim Morgan is chairman of Applied Materials, a half-billion dollar semiconductor equipment company which does about 40 percent of its business in Japan. Jeff Morgan has worked in Tokyo on "the inside" at Mitsui & Co., Japan's oldest trading conglomerate, and in international business development for Sun Microsystems, a rising star in Japan's advanced computer market, and today is president of RAD Technologies, a developer and distributor of computer software for the international marketplace, particularly Japan and the Far East.

In the first section of this book, we examine traditional and potential obstacles in Japan—cultural influences on the Japanese people, their companies, the nuances in these markets and the unique marketing strategies the Japanese employ. In the second section, we look at ways to navigate the obstacles and penetrate Japan's lucrative markets. We explore some of the proven strategies used by successful global companies to meet the Japanese challenge at home and abroad. The third section provides an action plan for cracking the Japanese market; a framework for structural and attitudinal change within a company or organization and a guide for execution.

We believe American businesses can and must compete and succeed in Japan. First, because the market is much too large and opportunity-filled to ignore any longer. And secondly, because, by doing business with the Japanese in Japan, companies simply become better organizations, better marketeers and better able to meet the requirements of the new global markets. We believe participation and success in Japan will permit American businesses to gain new strengths—in management, in technological development, in quality control and production, in product design, and in new ways to satisfy customer needs. These strengths will lead to global success for corporations and an economic renaissance which will benefit all nations and peoples of the world.

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