

How to Enter the Japanese Market

A Basic Guide for the Chemicals and Materials Industry

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Your Guide to Entering the Japanese Market in a New Economic Environment

In the light of many other Asian countries still in the development stage or experiencing significant economic downturns, the robust Japanese market with its 127 million consumers provided with high buying power is considered by more and more companies as a target for business expansion – sometimes even as a hub for other Asian markets. In particular when it comes to high-quality and high-technology products, the Japanese market can be very attractive and rewarding, and provides a safe harbor regarding IP protection.

Additionally, the recent reforms and structural improvements by the Japanese government, as well as the signing of the Economic Partnership Agreement (EPA) between the EU and Japan and other free trade agreements are improving the economic environment for foreign companies. For example, the EU-Japan EPA also includes the removal of entry barriers and alleviation of tariffs in the Chemicals and Materials sector.

However, doing business in Japan is also conceived to be rather complicated, with unusual business custom and unique culture. But, as so often, it is all about understanding the cultural differences and adjusting the market entry process accordingly in order to find beneficial and reliable business partners in Japan, and eventually expand business successfully.

With this document we intend to give a basic guideline of what to consider when developing the market entry strategy for Japan in the Chemicals and Materials sector. Based on frequently asked questions about how to do business in Japan, we try to give practical answers as well as a Checklist at the end of the document that can be used as a reference for your planning process.

Note: Since some of the questions and answers are interconnected with each other, it is recommended to read through all points to better understand this dependency. Moreover, the answers given in this document reflect the “typical” behavior of Japanese companies. Please bear in mind that exceptions can always occur in real business.

Why should I consider entering the Japanese market if there is no market (i.e. GDP) growth?

There are several aspects to consider: first of all, Japan is a large market with 127 million consumers and high buying power. Japanese consumers accept to pay a premium for high quality and high value products.

Although the total market in terms of GDP is not or only slightly growing, there are many market segments that are growing about 3% or more per year (e.g. cosmetics, health care, construction, etc.).

Please also bear in mind that total GDP is stable despite a shrinking working population, resulting in a growth of GDP per capita.

And lastly, when entering a new market, the growth of the total market is not so relevant since the major goal must be to gain market share.

Can one enter the Japanese Market with lower prices?

This is one of the most misunderstood peculiarities in the Japanese market. Based on Japanese culture and tradition, a business should not only be beneficial for yourself but also for your business partner and additionally for the society – that in particular including the employees. Therefore, making (high) profit is not the most important business goal. Keeping a good relationship and harmony with your business partner and caring about your employees is much higher prioritized.

As a result, Japanese companies will not opportunistically switch to a new supplier that offers a product that is available in Japan and which they are buying already, just because of a cheaper price. They will stick to their long-term supplier, even if this comes with higher costs. Sometimes, even with a higher quality and better product, it can take some time until a Japanese company changes suppliers.

What products should be considered for market entry?

As mentioned above, the Japanese market is not very price sensitive to products that are already available in the market, and where long-term supplier–customer relationships exist. Therefore, entering the Japanese market with an existing “me too” product and trying to attract new customers with a lower price is not advisable. Of course, it might be possible that a Japanese customer buys some amount of the product if there is additional demand, but it will be almost impossible to gain significant market share. The only exception would be a product with a price that is so significantly lower (e.g. due to new production technology) that it can be used in new applications.

Thus, it is recommended to select a new, innovative product for entering the Japanese market. A product that is not available so far by Japanese manufacturers, or one that has significantly improved performance, unique characteristics, or enables new applications, will be suitable to gain attention from potential customers and likely be successful in entering the Japanese market.

Please also make sure to check the marketability of your product. The Japanese market reveals some peculiarities to Western or other Asian markets based on cultural differences and historical reasons that can be significant.



What timeframe should be planned?

Two important cultural differences compared to the Western world impact the time necessary to develop business in Japan.

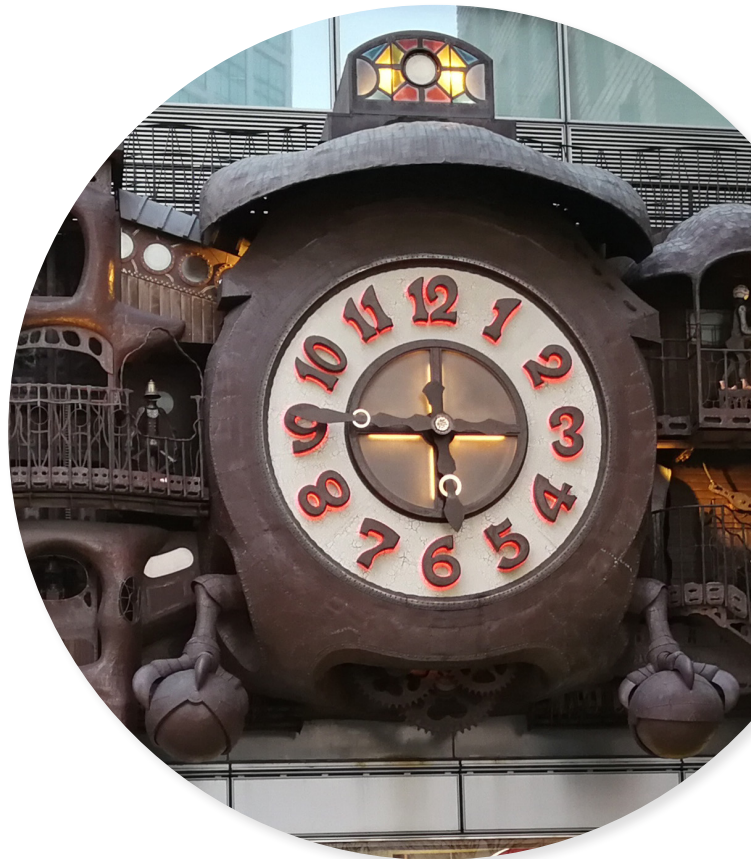
Decision Making

First, the decision-making process: In Japan, all relevant persons, i.e. managers as well as staff members, are involved in the decision-making process. In order to keep harmony, a unanimous decision among all stakeholders has to be achieved, without a direct confrontation and discussion or loss of face for the involved persons.

To achieve this, the person who is in the lead for the project or process (mostly called “Tantousha” or “Person in Charge”) will start with what is called “Nemawashi.” In this process, the Tantousha will talk to his/her peers individually or in small groups in order to find the group opinion about the decision. After a group opinion is found, the supervisor is informed about the result and starts talking to his or her peers. This process is repeated up to the highest level responsible for the respective decision.

Another form of getting a decision in Japan is “Ringi.” Here, the Tantousha will write a document with all necessary information and a decision proposal. It is then circulated among all relevant stakeholders and everyone can anonymously write change requests, comments, or corrections into the document. After one round, the Tantousha will revise the document by including all the remarks and the document is circulated again. This process is repeated until there are no change requests anymore and the decision is finally reached.

Overall, both processes will consume a lot of time. Making a decision, depending on importance, can take several weeks up to months until finalized. Therefore, waiting for a decision from a Japanese company usually takes much more time than Western companies are used to, and sometimes it can be painfully long. On the positive side, once a decision is made, implementation will be very smooth since everyone was involved, and nobody will object in the implementation phase. However once the decision is made, changing the decision is almost impossible or will again take a long time.



Building Trust

Trust is essential when doing business! Without trusting the business partner, no one will enter into a business relationship. In the Western world, trust is predominantly formed over common intentions, goals, and ultimately, contracts. In Japan however, confidence arises almost exclusively through building relationships and getting to know each other. Therefore, to build this trust as a basis for doing business, a (good) relationship has to be established by meeting each other, spending time together, and respectfully acknowledging business custom. The latter also refers to the decision-making process explained above. Putting time pressure on a Japanese company to get a faster decision typically results in refusing the business proposal.

An additional way to build trust is to develop the business step by step. Instead of asking right away to sell 100 items in Japan, perhaps the most important five items would be a good start. Another example would be to start one joint development project and add more later, once trust has ripened and positive cooperation experience has been obtained.

Overall, the time to develop business in Japan is much longer than in other countries. Having the right perception of the time needed is essential to be successful and not to give up too early. Once business is established, however, it is rewarded with a long-term relationship and extremely loyal customers.

Who is the decision maker?

As previously mentioned, the decision-making process in Japan involves a lot of people in the company that all have an interest in the decision. Officially, the highest-ranking person will make the decision. However, it is extremely rare that this person will decide without involving all people involved.

There are several reasons for that, but the most important one is that Japanese companies emphasize generalist managers over specialists. Therefore, managers rotate very often into new positions that can be completely detached from their original background or education, e.g. changing from R&D management into procurement. Consequently, there are many Senior Managers and General Managers that have only limited knowledge about all the details of the department they are heading. Hence, they (need to) rely on their staff and will involve them in all decision-making processes. Deciding without consultation with the staff might lead to a decision that is not appreciated and therefore disturb harmony and provoke confrontation – both are not very welcome in the Japanese culture.

Because of the above, senior managers are very reluctant to make decisions “on the spot” and without preparation and consultation with their staff. As a consequence, meetings with senior staff or executives are typically well prepared on working level beforehand. Their purpose is mainly to confirm



the prepared agreements but not for discussions or altering decision. Moreover, items that cannot be agreed on and which are still under discussion are omitted and not part of the meeting agenda. They are subject to further negotiations on working level. It is therefore highly recommended not to “surprise” the Japanese counterpart with new ideas or change requests in the meeting.

Is a representation or a representative necessary?

Generally speaking, to start business in Japan, it is not necessary to establish a representation or register a company. In particular in the Chemicals and Materials sector, where it might be necessary to register a product before it can be imported and sold in Japan, it would not make sense to register a company first and then wait several months or even years until the product registration is completed and sales can start. Moreover, starting with direct sales as a subsidiary without market access, deep knowledge of the market, and marketing experience in Japan can be cumbersome and consume a lot of money without sufficient business revenues.

Depending on the product, whether it is a “ready-to-use” product that can be sold to several customers or if it is an “intermediate” that needs explanation and further product development by the Japanese customers, different options including partner companies or development partners should be considered (see next paragraph).

However, geographical distance, time shift, and cultural differences can make it difficult for a foreign company to directly care about all matters with regard to the Japanese business. Thus, having a representative, e.g. a consultant, in Japan is highly recommended. This representative can be beneficial in several aspects: Firstly, as a contact person (“Madoguchi”) for Japanese companies so that they can meet the representative on short notice and don’t have to wait for someone to fly to Japan. Secondly, the representative can ease cultural differences by explaining the peculiarities to both sides in order to obtain a better understanding for each other’s behavior. And thirdly, since Japanese try to avoid giving direct negative feedback, the representative can work as an intermediary and can communicate even disagreements without loss of face to either side.

What could be a preferred partner in Japan?

As mentioned above, products in the Chemicals and Materials sector can be quite different and it will not be possible to discuss all variations in this guide. Therefore, the following explanations is simplified into two categories: On one hand, the “ready-to-use” products, which can be sold to customers without further explanation and of which the customers know how to use and apply it. And on the other hand, an “intermediate product” that needs explanation and is intended for a relatively small number of customers that need to do further product development using the intermediate.

With a “ready-to-use” product, of course, the first thing that comes to mind is using a distributor for sales in Japan. However, distributors in Japan have a different mindset than in many other countries. Relying solely on the activity of a distributor can be dissatisfying. Before deciding to use a distributor, you should also take into consideration cooperating with a partner company. Ideally, this company has complementary products, is present in and has access to the target market, and would have an interest in actively selling your products. Moreover, this company can provide additional services, e.g. quality control, complaint management, as well as warehousing and logistics. It may take more time and effort to find a suitable partner company in the beginning, but it will eventually pay off.

If your products are “intermediates,” then you are probably searching for customers rather than distributors. In that case, you should use a representative in Japan who can find potential customers, contact them, introduce your products, and be present in Japan to visit the potential customers on short notice. Please make sure to allow enough time to accomplish this task.

In all cases, your partner company should also be able to do the necessary registration of the goods or should have a good business relationship with a trading

company that is taking care of this.

Before approaching the selected distributor, partner company, or development partner, make sure you have a convincing “story” why the Japanese company should work together with you and/or sell your products. Japanese companies are not used to just getting product information. They expect the supplier to know why the product should be beneficial for them or why they would need it. It would be very helpful if you have a “show case” at hand, that explains where and in which way your product is successfully used already. Ideally, the Japanese company should be allowed to contact this user for further direct information and confirmation.

What are the peculiarities of distributors in Japan?

A distributor in Japan is quite unique compared to distributors in other countries. One of the most important difference is that a Japanese distributor typically considers itself as part of the procurement department of the buyer, rather than as part of the sales department of the vendor. The same applies to the perception, by whom the distributor is paid. Japanese distributors see themselves to be paid by the customer (for their service to find the right product and reliable vendor) and not by sales commission of the seller.

Consequently, many distributors do not actively sell products in the market, but wait until a company approaches them with a demand and then offer the products accordingly. Since the Japanese are quite risk averse, the distributor will usually try to sell products that are well known, and where there are no difficulties to expect. Thus, selling a new product, in particular from a foreign company, is usually not the highest priority.

Therefore, if you want to use a distributor for your business in Japan, it is extremely important to choose wisely and after a thorough screening process.



About the Author:

Dr. Ralf Mayer, born in 1971, is the Founder and Executive Consultant of San-Ten Consulting, a Management Advisory Business in Tokyo, Japan. He has 15 years of hands-on managerial experience in several positions at a leading German specialty chemicals company and a technology background as a chemist.

In his previous career he acquired broad knowledge and experience in the areas of business strategy, business development, marketing, and innovation management.

Since 2013 he lives and works in Japan and gained a deep understanding of the Japanese culture and business custom, as well as intercultural cross-border management. Moreover, he has developed an extensive network of customers, universities, (governmental) institutes, expert networks, and venture capital organizations.

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Checklist / Workflow

- Get the market data for your relevant market segment (e.g. via the EU Database)**
- Allow enough time for your market entry strategy in Japan**
 In general, expect much more time than in other markets. Japan should be part of the mid- to long-term strategic planning, not on the quick-win list.
- Select a suitable product to enter the Japanese market.**
 Ideally, an innovative product should be chosen, and one that is not already available in Japan.

 Make sure the product is marketable in Japan, while considering cultural and historical peculiarities.
- Decide about your partner in Japan.**
 Do you want to use a distributor or a partner company in Japan? Are you looking for a reseller or development partners, i.e. customers?
- Approach your selected partner company or distributor via a local representative and introduce your products.**
 Know in which way the Japanese company should use your product and why this would be beneficial for them.

 If possible, prepare a “show case” where the product is successfully used already. Give enough time for them to test and decide about your request.
- Consider using a market entry consultant or advisor...**
 ...if you do not have significant experience with the Japanese market. Keep in mind: Japan is not Asia. Even if you have experience in other Asian countries, it is probably not very helpful in Japan.