



THE DISTRIBUTOR DILEMMA AND THE NEED FOR A REPRESENTATIVE OFFICE IN JAPAN

White Paper

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San-Ten Consulting LLC is a boutique consulting firm based in Tokyo specialized in business development and market entry support in Japan. Our focus is in the B2B business of technical products in various industries. For more information, please visit www.san-ten.com



THE DISTRIBUTOR DILEMMA AND THE NEED FOR A REPRESENTATIVE OFFICE IN JAPAN

In the pursuit of international expansion, using distributors to penetrate foreign markets is a well-established strategy. This model allows companies to benefit from local expertise, streamline market entry, and avoid the substantial costs of setting up direct operations. In many Western countries, this approach works seamlessly, with distributors acting as an extension of a company's sales force—promoting, selling, and distributing products to new customers.

When it comes to Japan, however, this distributor model can present significant challenges. What works in Western markets becomes lost in translation, literally and figuratively, due to fundamental differences in how distributors operate, their relationships with manufacturers, and their responsibilities toward their customers.

This white paper explores these differences and explains why the conventional Western approach to business development rarely reveals positive results in Japan. Additionally, we will explain the various strategies that are commonly used in attempts to develop business in the Japanese market. Lastly, we will propose our recommended strategy for successful market entry and sustainable growth—an approach that works especially well for small and mid-sized enterprises (SMEs).



When entering most international markets, distributors play a crucial role in business growth. They serve as vital links between manufacturers and customers, often handling not only logistics but also sales, promotion, and customer relationships. In typical western markets, local distributors are motivated by incentives such as discounts on products, sales commissions, and performance-based targets. As a result, they are typically proactive. They seek new customers, promote products and services through a variety of channels (e.g., trade shows, online marketing, and direct outreach), and expand into new markets on behalf of the manufacturers they have contracts with.

THE ROLE OF DISTRIBUTORS IN INTERNATIONAL EXPANON

These distributors see themselves as part of a manufacturer's sales team, and their efforts align with the manufacturer's goal of increasing market share. This expectation of growth makes the distributor model attractive for companies looking to scale in new regions.

A WHOLE NEW WORLD: HOW DISTRIBUTORS WORK IN JAPAN

Operating in a complex business culture with a strong emphasis on long-term relationships, Japanese distributors play a starkly different role in the market. Here, distributors align themselves more closely with the needs of the buyers they serve than with the ambitions of the manufacturers whose products they sell. Japanese distributors typically view themselves as extensions of their customers' purchasing departments, not as sales representatives for manufacturers. This cultural and operational distinction has profound implications for companies trying to enter the Japanese market.

Local distributors prioritize serving their existing buyers, many of whom have been customers for decades, rather than actively seeking new markets. This conservatism stems from a broader cultural and historical aversion to risk and a focus on maintaining harmony within well-established groups. As a result, Japanese distributors can seem passive, if not reluctant, in their sales efforts. They seldom promote new products or venture into uncharted markets, oftentimes even when explicitly requested to do so.

This emphasis on long-standing relationships is rooted in Japan's economic history, particularly the keiretsu and zaibatsu structures that have shaped the country's business environment. Keiretsu refers to networks of interrelated businesses that dominated the Japanese economy between the 1950s and 2000s. Characterized by cross-shareholding and long-term business agreements, keiretsu are a web of economic relationships linking banks, manufacturers, suppliers, and—most relevant to market entrants—distributors.¹ These alliances foster stability and mutual trust among member companies, but they also limit market fluidity and discourage external partnerships.

¹"Britannica Money." Accessed September 19, 2024. <https://www.britannica.com/money/keiretsu>.



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We asked our local distributor to promote and sell into other markets. However, they politely declined, advising us that different distributors would be necessary for entering new markets.

—Dennis Benkmann, CEO, SABEU GmbH & Co. KG



Zaibatsu, loosely translated as “wealthy clique,” refers to the large capitalist enterprises that developed between the start of the Meiji Restoration (1868) and 1946.

Similar to keiretsu, zaibatsu are often compared to cartels or trusts. However, zaibatsu were typically organized around a single family.² While they were dissolved after World War II, their influence persists in modern corporate culture.

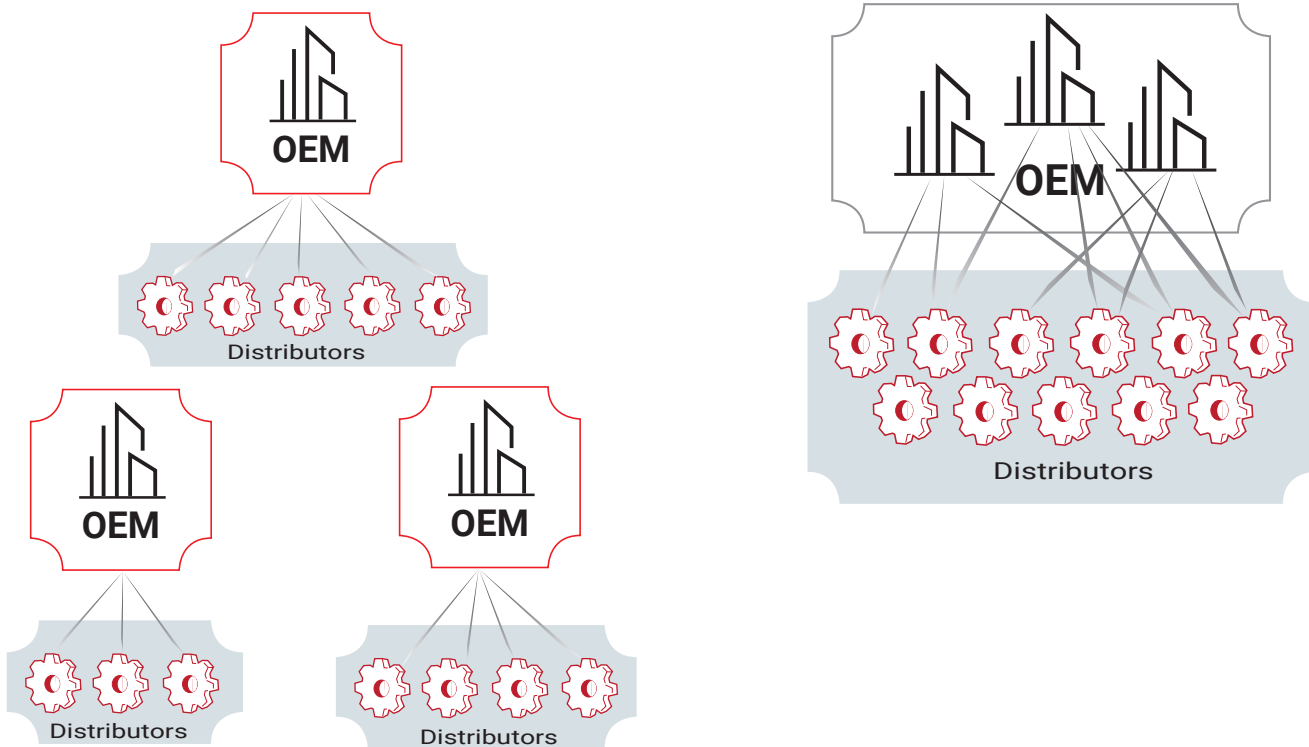


Illustration of OEM-Distributor relationships in Japan and Western Countries

For many Japanese distributors, maintaining harmony and loyalty within their networks is paramount, making them more risk-averse when it comes to promoting new, foreign products or seeking new customers outside established circles.

The incentive structure for Japanese distributors also differs from Western norms. Rather than receiving a discount from manufacturers, Japanese distributors typically add a markup to the manufacturer’s sale price, which buyers often accept as a “service fee.” This structure reinforces the distributor’s allegiance to the buyers they serve, creating a dynamic where the distributor’s primary objective is to maintain this relationship—not to aggressively grow a manufacturer’s market share.

² “Zaibatsu | Conglomerates, Family Firms, Monopolies | Britannica,” September 7, 2024. <https://www.britannica.com/topic/zaibatsu>



Given the aforementioned differences in distribution practices, international companies attempting to rely on the Western distributor model in Japan often face significant obstacles. The expectation that a Japanese distributor will aggressively promote and expand the reach of a market entrant is often unmet.

THE CHALLENGES OF DEPLOYING THE WESTERN DISTRIBUTOR MODEL IN JAPAN

Additionally, Japanese distributors tend to be risk averse, especially relating to products and services originating from beyond the country's borders. Therefore, one of the greatest impediments that Western companies face is their very nature—being a foreign entity in the walled garden of Japan. Many distributors, particularly those tethered to long-term customer relationships, prefer Japanese products over foreign ones, even when the latter are perceived as comparable, or even superior, in performance.

SUPPOSED SOLUTIONS TO THE DISTRIBUTOR DILEMMA

Disregarding the difficulties and peculiarities of working with Japanese distributors, Western companies often chase one of the following ostensible solutions to penetrate the Japanese market:

➤ Trying to Engage a Single, High-Performing Distributor

One option, which requires a certain amount of luck, is discovering a single, high-performing distributor that has a proven track record in a relevant market. However, finding such a distributor is also an incredibly time- and resource-consuming process. As previously described, Japanese distributors rely on long-established portfolios and relationships, which means they are generally averse to introducing new, foreign products into their network. Even when a strong distributor is identified, their focus will likely remain on serving existing customers rather than expanding into new markets.

➤ Attempting to Work with Multiple Distributors Across Sectors

Some companies may attempt to work with multiple distributors, each specializing in a different market sector, often defined by the use case of their product or service. While this approach can lead to broader market coverage, it is labor intensive and requires careful coordination to avoid overlap and conflicts between distributors. This strategy can also be slow to yield results, as the process of finding, vetting, and managing multiple distributors is time consuming.

Moreover, this approach can lead to friction, as Japanese distributors often view their markets as exclusive—even if no formal exclusivity agreement exists. Managing multiple distributors can result in conflicts, as distributors resist overlapping portfolios or competing for the same customer base.

➤ Establishing a Subsidiary

Establishing a full-fledged subsidiary in Japan is a common approach for large corporations. However, for many companies, especially SMEs, this option is unfeasible due to prohibitively high costs (up to \$1 million before seeing a return on investment), overwhelming time requirements, and a lack of existing inroads to Japanese business networks and culture.

Considering the caveats of the approaches above, we recommend a different approach—one that offers the flexibility to scale operations proportionately as business grows, without the burden of significant upfront investments.

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I asked for a meeting with a Japanese distributor that seemed ideal for our product. They refused to have a meeting with me because we already had a [competitive] distributor in the same market they were serving

—CEO, German biotechnology company





THE STRATEGICALLY SOUND SOLUTION: ESTABLISHING A REPRESENTATIVE OFFICE

For companies looking for a more efficient and effective solution for developing business in Japan, establishing a representative office offers an attractive alternative to traditional approaches.

A representative office functions as a local, natural extension of a market entrant's business, managing all aspects of sales, marketing, and distributor relationships on the ground in Japan. This approach allows companies to maintain control over their market entry strategy without the need to establish a costly subsidiary.

A representative office provides several key strategic advantages, outlined below:

➔ DIRECT MARKET ACCESS

A representative office, such as San-Ten Consulting, handles the heavy lifting for companies seeking to enter the Japanese market by directly managing all marketing and sales activities, eliminating the need for total distributor dependence. This ensures that the market entrant's interests are prioritized and that its products are efficiently promoted to potential buyers in as many markets as possible.



➔ DISTRIBUTOR COORDINATION

With some products, it might be beneficial—or even necessary—to work with local distributors in specific markets, despite the challenges that come with this approach. In addition to direct market access and promotion, a representative office provides market entrants with a local team—one that can juggle the cultural complexities of approaching and working with multiple distributors across different market sectors. Distributor discovery and relationship management are representative office activities that can unlock resources and know-how to deliver additional results for companies entering the Japanese market.



Japan is a critical market for us, and we were looking to elevate our business to the next level. With the help of San-Ten Consulting, we found the right partner with a strong track record in the growing e-commerce segment.

— Julia Caroline Zurwesten, Head of Greater China and Asia, Salus Haus GmbH



➔ COST CONTROL

Unlike the one-size-fits-all approach of establishing a subsidiary, representative offices scale with their clients. This ensures that business development remains affordable, and marketing and sales expenses align with business results. Additionally, a representative office can facilitate direct sales, financial transactions, and logistics, allowing market entrants to continue to focus on their core business instead of burning through resources while attempting to decipher the Japanese market.



ENTER THE JAPANESE MARKET WITH A STRATEGIC, CULTURALLY AWARE APPROACH

Japan's distinctive distributor landscape poses unique challenges for foreign companies seeking to enter and grow in this lucrative market. The traditional Western approach of relying on distributors to promote and sell products is unlikely to succeed without a deep understanding of Japanese business culture and distribution practices. Distributors in Japan tend to prioritize existing customer relationships over expanding market share, and working with multiple distributors can lead to conflicts and inefficiencies.

For market entrants, especially SMEs, that lack the time and resources to navigate the cultural and logistical intricacies of the Japanese market, working with a representative office offers a strategic and cost-effective solution. By providing a local presence—conducting all marketing and sales activities, managing distributor relationships, and controlling costs—a representative office enables market entrants to achieve sustainable growth in Japan.

As Japan, one of the largest economies in the world, continues to present significant business opportunities, companies that adopt a flexible and culturally informed approach will be in the most strategic position for long-term success.



AT A GLANCE: DIFFERENCES BETWEEN WESTERN AND JAPANESE DISTRIBUTORS

Attributes	Western Distributor	Japanese Distributor
Allegiance	Acts on behalf of the market entrant (e.g., manufacturer)	Acts on behalf of the local buyer
Incentives	Expects payment from market entrant (e.g., manufacture offers 20% discount to distributor)	Expects payment from local buyer (usually adds markup to sales price of manufacturer, which is accepted by buyer as a service fee)
Market Access	Free to approach and sell to any buyer	Only sells to existing customers (often bound by decades-old keiretsu/zaibatsu relationships)
Promotion	Actively promotes to anyone via multiple channels (exhibitions, calls, advertisements, social media, etc.)	Passively promotes via exhibitions or only upon buyer request
Cost-Benefit Approach	Cost: financial burden Benefit: revenues/profit	Cost: financial burden, reputation loss, disruption of harmony Benefit: reputation, reliability, providing a “service” to the buyer
Risk Tolerance	Willing to take risks for business opportunities (considers new markets/applications, regardless of expertise level)	Avoids risks due to high associated costs (see above); rarely considers new markets/applications, even if success is almost guaranteed
Manufacturer Profit	Reduced due to manufacturer discount	Increased; however, sales price is higher due to distributor margin
Multiple Distributor Use	Possible—if no exclusivity agreement is arranged	Difficult—even without an exclusivity agreement, a second distributor will not take on business in the same market/sector
Ability to Change Distributors	Easy to change after contract ends	Difficult to change due to long term relationships and harmony; buyers are uncomfortable with distributor change—may even refuse to buy from new distributors

ABOUT US



This white paper was produced by **San-Ten Consulting**, a business development consultancy specializing in helping foreign companies navigate the complexities of the Japanese market. With extensive experience in business development, distributor management, and market strategy, San-Ten Consulting offers a flexible, cost-effective alternative to establishing a subsidiary in Japan.

Learn more about how we can address your business development needs by visiting our website:

<https://www.san-ten.com>

UNLOCK YOUR BUSINESS POTENTIAL IN JAPAN WITH **SAN-TEN CONSULTING**

- A flexible and affordable one-stop solution for business development in Japan, including reliable partnerships in multiple consulting areas, such as legal advice, tax and accounting, communications, back office, and recruitment
- Nearly a decade of consulting experience with comprehensive knowledge in business development and market-entry support as well as innovation management
- Profound insights into numerous markets and industries on a B2B level
- A deep understanding of Japanese culture and business customs, often providing lectures, seminars, and webinars on this topic
- An expansive network, including corporations and SMEs, business associations, research institutes and universities, (governmental) institutions, venture capital organizations, and M&A agents
- Highly experienced in intercultural, cross-border management to balance Western expectations with Japanese values
- Memberships with several foreign chambers of commerce in Japan as well as the Tokyo Chamber of Commerce and Industry

OUR COMPETITIVE ADVANTAGES



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