STRATEGIES FOR SUCCESSFUL
PENETRATION OF THE JAPANESE
MARKET OR HOW TO BEAT JAPAN
AT ITS OWN GAME

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Although the Japanese domestic market appears to be nearly impenetrable because of its complex and costly distribution channels, a number of alternative methods of finessing these channels have proven effective for many Western firms. Several alternative strategies are suggested with examples of specific firms that have found each to be useful.

Barriers: Perceived And Real

The United States has had a sizable international trade deficit since the early 1970s. Although numerous causes for the deficit have been proposed (including inflationary conditions associated with the Vietnam War, the hike in oil prices, and the growth of Third World debt), none has been more per-
sistent than Americans’ desire to consume imports from the Far East—especially Japan. At the same time, many American businesses have viewed the Japanese market as nearly impenetrable.

In fact, the Japanese government began a conscious process of breaking down import barriers such as tariffs, quotas, and other regulatory barriers in the early 1970s. The Japanese External Trade Organization (JETRO), an agency of Japan’s Ministry of International Trade and Industry (MITI), is one of very few government agencies that actually promote imports and provide marketing information to prospective importers.

**Long distribution channels with small inefficient members have given rise to high channel margins.**

Thus, the real barriers to exporting to Japan are not government regulations. Rather, they are cultural barriers inherent in the Japanese domestic distribution system. Historically, Japan has been a nation of small shopkeepers and very long distribution channels with two or more levels of wholesalers between the manufacturer and the retailer.

The concept of the small undercapitalized neighborhood store grew from the feudal nature of traditional Japanese society under which every local fiefdom had need for its own wholesaler regardless of economic inefficiency or failure to follow the concept of economies of scale. Moreover, the social welfare system in Japan until very recently has been the responsibility of the extended family rather than the government or corporations. It has been traditional to offer retirees a single lump sum bonus upon retirement and to leave the balance of the retiree’s welfare to be covered by the younger generation in the immediate family. Often retirees chose to maintain some semblance of dignity and independence by investing their meager savings in a small mom and pop neigh-

borhood retail store.

According to the most recent available data, there is one retailer for every 69 people in Japan. The average retailer employs fewer than four persons. The average wholesaler serves four retailers and employs fewer than ten persons.14 (See Table 1 for a comparison of Japanese retail and wholesale statistics with counterpart figures for the United States.)

In the United States, sales per store are roughly twice as high as in Japan. Meanwhile, the average number of wholesale transactions per retail transaction are 4 in Japan compared with 1.6 in the United States and Germany.8 In recent years wholesale sales per retailer in Japan have been nearly double the ratio that exists in the United States. These trends have not changed significantly over the past several years.4

Long distribution channels with small inefficient members have given rise to high channel margins and hence high retail prices for both domestic and imported merchandise. The entry to these long channels has been heavily controlled by a small number of complex Japanese corporate groupings known formerly as zaibatsu and today as keiretsu. Prior to the end of World War II, ten zaibatsu or family-owned industrial and banking conglomerates controlled nearly a third of Japan’s economy. Although these conglomerates were dissolved in the late 1940s by the Allied Occupation Force, they reestablished themselves shortly thereafter without family control using the name keiretsu. The six largest of these keiretsu (Mitsubishi, Mitsui, Sumitomo, Fuji, Sanwa, and Dai-Ichi Kangyo) are direct successors of the former zaibatsu.

Typically each group contains a bank, a trading company and over 20 groups of industrial enterprises. Each keiretsu has only one member company representing each industrial sector in order to minimize intergroup competition and to maximize harmony. The trading company enterprises of these six groups con-
trol about half of Japan's import buying. These keiretsu-related trading companies are particularly effective as channel captains in the purchase and marketing of undifferentiated imports such as commodities, bulk goods, and some industrial products. They also have within their groups a very diverse selection of local Japanese sources for most branded-goods categories. Foreign firms often perceive difficulty in breaking into the Japanese distribution system since it is apparently governed informally by close ties between the nearly self-sufficient keiretsu and a set of Japanese wholesalers bound together by family and marital ties, interlocking directorates, cross stockholdings, and management exchanges.

Successful Strategies To Cross The Barriers

Despite these barriers, many well-known American and European brands have successfully and profitably been introduced to Japan by developing channel strategies which either accommodate the distribution system or aim at a narrower segment of the market by taking advantage of recent changes which have rationalized a portion of the Japanese distribution system. Many American firms have succeeded in Japan to the extent that they compete in 85 of Japan's 126 industrial sectors. In at least 12 of these sectors, a U.S. firm holds the number one market share position.\textsuperscript{1,9,13} The following

| Table 1 |
| A Statistical Comparison of Japanese and United States Wholesalers and Retailers |

<p>| WHOLESALE ESTABLISHMENTS | | |</p>
<table>
<thead>
<tr>
<th>Number of Wholesale Establishments</th>
<th>Employee Per Wholesale Establishment</th>
<th>National Population Per Wholesale Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAPAN (1976)</td>
<td>340,000</td>
<td>10.3</td>
</tr>
<tr>
<td>USA (1977)</td>
<td>383,000</td>
<td>12.1</td>
</tr>
<tr>
<td>JAPAN (1982)</td>
<td>429,000</td>
<td>9.5</td>
</tr>
<tr>
<td>USA (1982)</td>
<td>416,000</td>
<td>13</td>
</tr>
</tbody>
</table>

<p>| RETAIL ESTABLISHMENTS | | |</p>
<table>
<thead>
<tr>
<th>Number of Retail Establishments</th>
<th>Employee Per Retail Establishment</th>
<th>National Population Per Retail Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>JAPAN (1976)</td>
<td>1,614,000</td>
<td>3.5</td>
</tr>
<tr>
<td>USA (1977)</td>
<td>1,855,000</td>
<td>6.6</td>
</tr>
<tr>
<td>JAPAN (1982)</td>
<td>1,721,000</td>
<td>3.7</td>
</tr>
<tr>
<td>USA (1982)</td>
<td>1,923,000</td>
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<th>RETAIL ESTABLISHMENTS PER WHOLESALE ESTABLISHMENT</th>
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<tr>
<td>JAPAN (1976)</td>
<td>4.7</td>
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<tr>
<td>USA (1977)</td>
<td>4.8</td>
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<tr>
<td>JAPAN (1982)</td>
<td>4</td>
</tr>
<tr>
<td>USA (1982)</td>
<td>4.6</td>
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</tbody>
</table>

\textsuperscript{Sources: United Nations Statistical Yearbooks 1979-80 (page 71, 1981 (page 63) and 1983-84 (table 158); Statistical Abstract of the United States 1987 (pages 755 and 764); and authors' calculations
are a set of strategic patterns which foreign firms have found to be successful in penetrating the Japanese market.

**Type A Strategy: Niching in the Traditional Channel**

A number of companies have found it profitable to discover unfilled niches in the product lines available from domestic Japanese sources within the keiretsu. Coca-Cola, which has maintained a highly successful subsidiary in Japan dating back to the 1940s, uses distributors controlled by the Mitsubishi and Mitsui keiretsu. Some of the smaller keiretsu (such as those centered around banks or manufacturing companies) lack the diversity of domestic product lines found in the largest keiretsu. Smaller keiretsu are often receptive to the idea of supplying products (including imports) that fill voids in the product offerings they currently have available. In this way, they can become more competitive with the larger keiretsu. For example, foreign automobiles are imported by the Yanese Trading Company. Johnson & Johnson and Tampax, Inc., have utilized strong promotional investments including mass advertising to gain wholesalers' selling support in order to maintain major market presences. Anheuser Busch successfully introduced its Budweiser brand to the young professional market segment through Suntory, which saw a benefit in broadening its line of alcoholic beverages. Some of the smaller trading companies (senmosha) are more specialized and may be most interested in rounding out their lines with non-Japanese products.

Niching in the traditional channel is appropriate under the following conditions:

- when the product is a commodity with unique attributes currently unavailable in the Japanese market or unavailable in the channel member’s prevailing product assortment
- when the product currently or potentially has a high brand recognition among Japanese consumers
- when little or no competition for the product (including its unique attributes) exists currently and limited short-term competition is expected in the Japanese market

**Type B Strategy: Using NonTraditional Wholesalers**

Schick captured 71 percent of the highly competitive razor blade market by using a major cutlery wholesaler rather than the traditional wholesaler for razor blades. Schick's parent, Warner Lambert, successfully arranged for selling razors in the Japanese market by utilizing the K. Hattori (Seiko watches) distribution channels. Volvo entered the Japanese market by utilizing channels controlled by the Teijin textile concern. Nihon Phillips Corp. and Melitta-Werke Bentz & Sohn gained major shares for their coffee makers by distributing their products through coffee bean wholesalers rather than traditional appliance wholesalers. Foreign suppliers of confectioneries, alcoholic beverages, and special foods have gained significant market shares by using non-Japanese wholesalers such as Caldbec-MacGregor, Jardine, and Dodwell. Whirlpool’s refrigerators are sold through channels controlled by Sony, the electronics giant. (A few large Japanese companies such as Sony and Honda do not belong to keiretsu.)

A number of companies have found it profitable to discover unfilled niches.

If a product has few distinguishing unique attributes and requires little or no after-sales service, an appropriate entry strategy would be to identify a nontraditional wholesaler that sells to sub-wholesale or retail channels that are identical to those served by traditional wholesalers for the product. Using non-traditional wholesalers may also be appropriate when access to traditional wholesalers is blocked because of prior exclusive distribution contracts signed with existing competitors.
Type C Strategy: Piggybacking with Established Japanese or Foreign Firms

Piggybacking exists when a manufacturing firm asks another manufacturing firm selling complementary goods to act as a distributor for its goods. For example, General Foods at one time arranged for its Maxwell House coffee brand to be sold in the Japanese market by the Ajinomoto food giant. Colgate joined forces with a major Japanese soap company. In both cases, sales increased dramatically. The California Almond Growers Exchange (CAGA) joined Coca-Cola in a promotional campaign. Piggybacking on Coke’s significant market position and long experience, CAGA now commands a 70 percent share of the Japanese market.\(^\text{10}\)

The Western firm might best be served by implementing a piggybacking strategy under the following conditions:

- when the Western firm does not have a financial position to support high market entry costs
- when the piggybacking partner carries a product or product line that is complementary to the product or product line offered by the Western firm
- when the Western firm is making its initial entry into the Japanese market on an experimental basis

Although the diffusion process may be slow, market penetration resulting from the piggybacking entry strategy may engender interest among traditional nontraditional Japanese wholesalers and thus evolve into wider distribution.

Type D Strategy: Joint Venturing with Japanese Companies

Many companies have chosen to set up joint ventures in which equity is shared by foreign and Japanese parent firms. The Japanese parent can often reduce headaches brought about by Japan’s regulations. For example, Nestle S.A. set up a joint venture with a Japanese wholesaler which resulted in a 75 percent share of the instant coffee market.\(^\text{10}\) Other successful joint ventures include those set up by Bayer and Searle with Yakuhin, Lederle with Takeda, Borden with Meiji, Seagram with Kirin, and Volkswagen with Nissan (for the production of the Santana model). In the fast foods franchising business, highly successful ties have been made by Kentucky Fried Chicken with Mitsubishi and McDonald’s with Fujita.\(^\text{4}\)

Joint ventures normally require the Western partner to make a greater commitment of both time and money than do any of the other channel strategies discussed in this article. However, joint ventures not only have the benefit of offering access to the Japanese partner's distribution channels, they also may provide access to production facilities in Japan. A potential Japanese joint venture partner would be more interested in setting up permanent relationships with Western firms possessing advanced technological and product-development skills. In addition, the Japanese partner would be interested in gaining access to the Western partner’s home market or third country market channels.

Joint ventures need not be the initial entry channel used by the Western firm. Such strategies may be followed after the Western firm has gained a share of the Japanese market through one or more of the other channel strategies discussed here.

Type E Strategy: Direct Sales to Retailers

Although Japan is largely a nation of small shopkeepers, modest rationalization of the distribution system began in the late 1960s. Today Japan has 20 department store chains (depato) and 10 supermarket chains (supa). Nine department store chains maintain buying offices in the United States (in New York, Los Angeles or Honolulu.) Mitsukoshi, the largest department store chain, has a branch store in New York. Daitai, the largest supermarket chain, also maintains a New York buying office.\(^\text{15}\)
Estee Lauder has secured a 40 percent market share of Japan’s cosmetics market by selling directly to department stores. Olivetti gained a 40 percent share of the office machinery market by selling directly to retailers rather than through wholesalers. Southland has set up 2,400 of its own convenience stores in Japan which collectively generate annual sales in excess of $1 billion. Quelle, a West German firm, has arranged for a rapid service mail order operation through the Matsuzakaya department store in Nagoya. By means of satellite transmission of orders and airmail of merchandise, this combined effort has reduced the order lag time to less than two weeks. However, the Japanese government has developed a “large store law” to put limits on the future development of new department stores in order to protect small and medium-sized shopkeepers from being run out of business.

Selling directly to retailers would likely work optimally under the following conditions:

- when the Western firm is willing to engage in significant advertising in Japanese media to “pull” the product through the short channel because of the high level of consumer brand recognition

- when the product is a commodity that requires a minimum amount of after-sales servicing (or when the Western firm is willing to invest in conveniently located service facilities in Japan)

- when the Western product has unique attributes that separate it from preexisting substitute products in the Japanese market

- when the attainment of significant market share is not a crucial corporate goal for the Western firm

**Type F Strategy: Direct Selling to Final Customers**

A few foreign companies have successfully cracked the Japanese market by selling directly to final customers. In some cases companies such as wholly owned subsidiaries of IBM or Digital can sell direct because of their advanced technologies, high levels of capitalization, sophisticated management, and brand recognition. Other firms with well-known brand names, such as Max Factor, Revlon, and Electrolux, have conducted successful door-to-door sales campaigns. Even small firms have had successful direct-to-customer sales campaigns. For example, E Z Ware Cookware has been successful in selling via housewives’ parties. In the future, a growing number of foreign firms may penetrate the Japanese market by mail order or cable television.

Selling directly to the final consumer may be appropriate when the following conditions prevail:

- when the Western firm’s product has a high level of technology

- when the Western firm’s product line has a high level of brand recognition in Japan

- when the Western firm desires to maintain a high level of control over the distribution process in Japan

The direct-to-final-buyer strategy is also ideal when the Western firm or other firms in its industry use unique sales systems such as franchising, rentals, leasing, mail order, cable television, telemarketing, and party sales.

**Managerial Implications And Recommendations**

We have suggested six alternative strategies which American and Canadian companies have used successfully to enter the Japanese market:

- finding unfilled niches in product lines offered by Japanese trading companies

- using nontraditional wholesalers

- non-equity piggybacking with established Japanese or foreign companies

- equity partnerships (joint ventures) with Japanese companies

- direct selling to Japanese retailers

- direct selling to final customers in Japan
However, it is sometimes necessary to adapt channel strategies over time in order to gain greater control, to get around changing legal barriers, or to counter competitive threats. For example, Campbell Soups originally entered Japan by using a Hong Kong-based trading company (Dodwell), shifted to a Japanese trading company (Mitsu), then went to a joint venture with Tokyo Suisan (which Campbell Soups eventually bought out). Campbell Japan Inc., as a wholly owned manufacturing subsidiary, turned once again to Mitsui to distribute its products to Japanese channel members.¹

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The North American seller may benefit from a knowledge of cross-cultural communication skills.

Although the strategies outlined above have helped many firms overcome problems with the inefficient and costly Japanese domestic distribution channels, such strategies in and of themselves do not guarantee success. Japanese customers have very high demands for top-quality products and services. They seek durability, sophisticated product features, high-cost packaging, frequent product refinements, and efficient after-sales servicing. Japanese channel members typically prefer to keep their inventories minimal, a practice that necessitates rapid delivery (sometimes as little as six hours between ordering and receipt of merchandise may be available from local competitors). The undercapitalized channel members also require liberal trade credit, often in the form of rebates.

According to cross-cultural communications experts it is necessary to adjust negotiation strategies in several ways when dealing with Japanese partners.² The Japanese cultural system is based on hierarchy. This suggests that third parties be used to introduce foreigners to executives at the top of buying organizations. The senior executives of Japanese corporations prefer to meet frequently with their foreign senior counterparts. Thus, an American corporation wishing to penetrate the Japanese market must be willing to commit top management time and resources on a continuous basis.

Western businesspeople need to acquire an understanding of the Japanese concept of human relations in business dealings. In North America, businesspeople are accustomed to putting heavy emphasis on economic efficiency and business profits in making purchasing decisions. In Japan, such economic motives are supplemented with an underlying need which pervades Japanese culture to maintain human harmony among members of the group. In contrast to the emphasis in North American culture on individualism, the Japanese tend to identify more with the groups to which they belong (including their own companies and the client companies with which their companies have established long-term ties). Thus, Japanese buyers prefer to place an emphasis on getting to know outside companies' salespeople as human beings. Therefore, North American businesspeople should prepare to engage in a period of social relaxation to develop a sense of camaraderie and friendship prior to actual negotiations. Many Japanese feel that if a sense of mutual trust among sellers and clients can be established, legal contracts between buyers and sellers play a lesser role.

In addition to being prepared for a period of socialization prior to the onset of negotiations, the North American seller may benefit from a knowledge of other cross-cultural communication skills. For example, the Japanese businesspeople have a practice of giving one another small, beautifully wrapped gifts (without fancy ribbons) and a custom of providing lavish evening entertainment for guests prior to negotiations. The Japanese expect at some point to have these courtesies reciprocated. During the actual negotiations, the Western party should be prepared to understand the Oriental custom of saving face (i.e., never force a Japanese to admit a mistake or failure), the bargaining ploy of long silences, and the social requirement to avoid speaking in superlatives about one's self or one's products. Proper etiquette requires
that superlatives be spoken by a third party or stated in printed form. Given the Japanese emphasis on decision-making based on group consensus, negotiations are likely to take somewhat longer in Japan than in North America. In summary, it would be helpful for North American businesspeople to spend a period of time prior to their initial visits to Japan studying the cross-cultural differences which make negotiating with Japanese counterparts a delightful and often challenging change of pace.

The real barriers to exporting to Japan are not government regulations.

Although the Japanese domestic market has significant barriers in the form of complex and lengthy distribution channels, demanding customers, and a different negotiating etiquette, many American and European firms have successfully entered the market by using a variety of nontraditional approaches to reaching customers including nichemanship, various forms of cooperative agreements, and bypassing some of the traditional links in the channel. In many cases they have been willing to take on the Japanese practices of providing greater counsel and assistance to Japanese distributors, wholesalers, and retailers than they would normally in North America. As executives of Japanese marketing intermediaries perceive that Western businesspeople are truly concerned with their effectiveness and success, they will perceive a greater sense of harmony and loyalty, which are distinguishing hallmarks of Japanese culture. In the long run, successful penetration of the Japanese market is possible with an adequate level of management commitment, contracts with a variety of potential Japanese partners (possibly arranged by JETRO, various state government trade promotion offices in Japan, or trade specialists at the U.S. Department of Commerce), and a willingness to experiment with imaginative methods of approaching the market.

End Notes