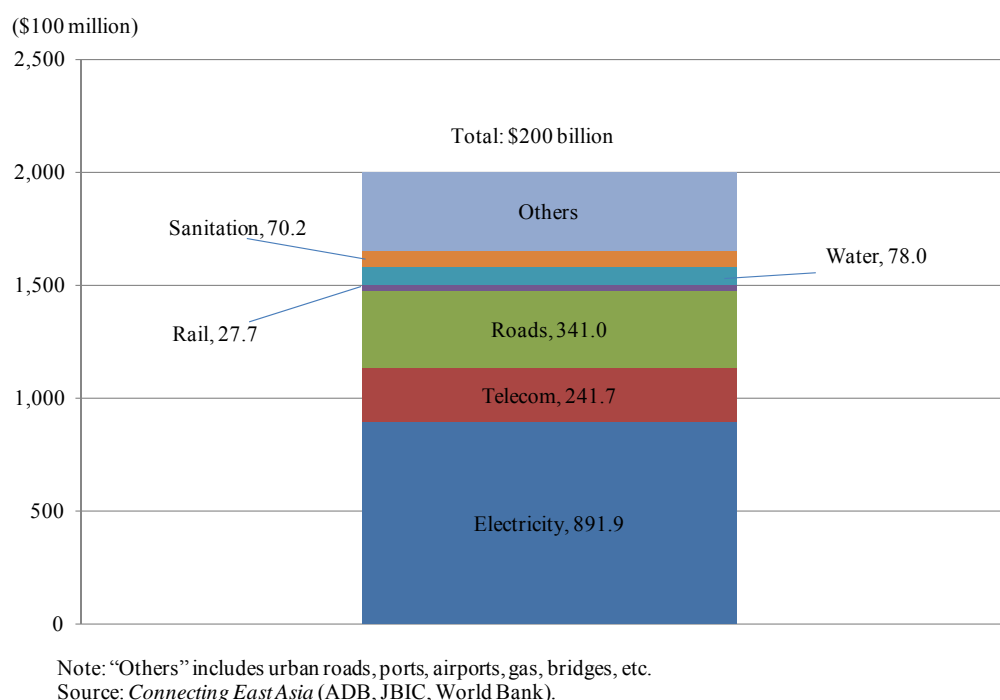


**Figure 2-2-1-22 Estimate of infrastructure demand in East Asia (2006–2010, annual average)**



## **2. Global business environment and Japanese-owned companies' global strategies after the world economic crisis**

In 1. above, the distinctive aspects of the rapidly growing emerging markets and Asian countries are described. This section looks at the way in which Japanese-owned companies regard these emerging economies as their business targets, analyzes the current situations of their business activities carried out in emerging economies, and thereby discusses future tasks.

### **(1) Overseas markets and income class targeted for business expansion of Japanese-owned companies**

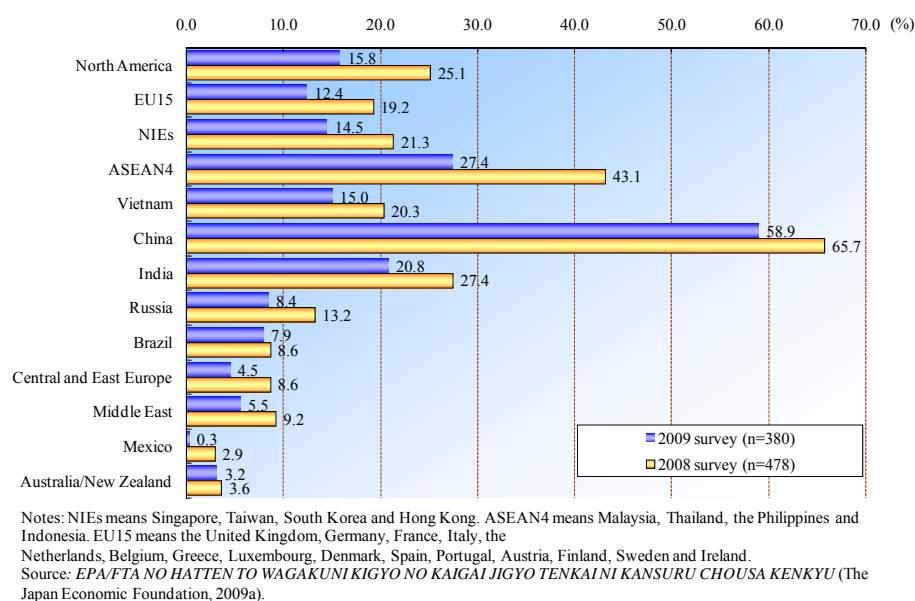
The following is the review of the markets on which Japanese-owned companies place high value in expanding their overseas business.

First of all, looking at a survey<sup>22</sup> implemented by the Japan Economic Foundation in order to identify the regions targeted for sales expansion by Japanese-owned companies, even after the occurrence of the world economic crisis, Japanese-owned companies anticipate sales expansion in emerging markets such as China, ASEAN4 (i.e. Thailand, Malaysia, Philippines and Indonesia) and India (Figure 2-2-2-1).<sup>23</sup>

<sup>22</sup> The Japan Economic Foundation (2009a), "EPA/FTA NO SHINTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOSA KENKYUU." For details of the survey, see Supplementary Note 2-2.

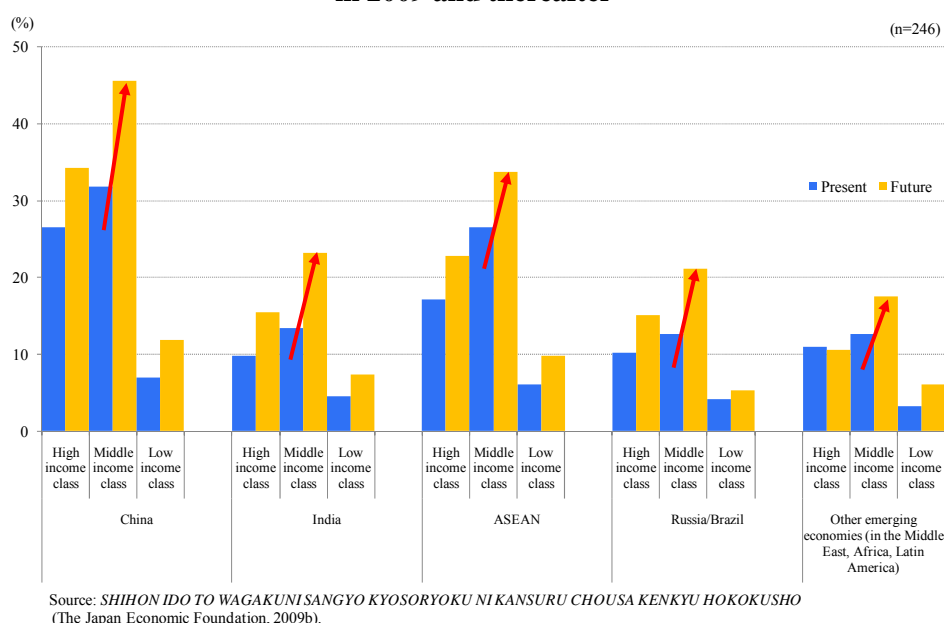
<sup>23</sup> With regard to countries and regions that are expected to generate growth in sales in the future, a comparison of the results with those of a survey implemented by the Japan Economic Foundation in 2008 shows that the ranking is unchanged (i.e. China, ASEAN 4, India and North America in descending order), and that there is little difference between Japanese-owned companies pre- and post-world economic crisis

**Figure 2-2-2-1 Regions targeted for future sales expansion, compared to the results of the previous year**



Secondly, the income classes of emerging markets, which Japanese-owned companies consider necessary to lure in the future, will be identified. The largest number of Japanese-owned companies, after having experienced the world economic crisis, answered that medium income class markets need to be captured in regard to all emerging economies and regions (Figure No. 2-2-2-2). Therefore, the survey reveals that Japanese-owned companies strongly recognize as their business target the volume zone of emerging economies, which is the middle income class with a large population that is expected to continue surging.

**Figure 2-2-2-2 Present business domain, and prospective market domain that should be targeted in 2009 and thereafter**



expectations of sales growth in these countries.

In addition, businesses in these emerging economies have stayed steady, despite the ongoing global financial crisis. According to a survey implemented by the Japan Economic Foundation,<sup>24</sup> in response to a questionnaire on trends in sales and profit itemized by regions following the occurrence of the financial crisis, the largest proportion of companies from all regions answered that “both sales and profits worsened.” In the case of Japan, Europe and the U.S., the second largest proportion of companies answered that their “profits declined more than sales,” showing that they have suffered a more severe impact (Figure 2-2-2-3). On the other hand, looking at the proportion of the companies that answered that they suffered only a slight impact on both sales and profits, such proportion in China, India and other emerging economies (Eastern Europe, Africa, Central and South America, etc.) exceeded 30%, indicating steadiness in business in emerging economies’ economies.

**Figure 2-2-2-3 Impact of world economic crisis on business**

(Unit: %)

	Both sales and profits declined to the same degree	Profits declined more than sales	Sale declined more than profits	Both sales and profits remained almost unchanged, or increased
Japan	37.0	28.8	7.4	26.7
Europe and U.S.	46.7	29.9	7.5	15.9
Other developed countries (South Korea, Taiwan, Australia, etc.)	51.1	20.7	7.6	20.7
China	39.1	18.2	7.3	35.5
India	50.0	11.4	4.5	34.1
ASEAN	52.6	19.2	6.4	21.8
Resource-rich countries (Russia, Brazil, Middle East, etc.)	58.7	13.0	8.7	19.6
Other emerging economies (East Europe, Africa, Latin America, etc.)	54.3	10.9	4.3	30.4

Source: *SHIHON IDO TO WAGAKUNI SANGYO KYOSORYOKU NI KANSURU CHOU SA KENKYU HOKOKUSHO* (The Japan Economic Foundation, 2009b).

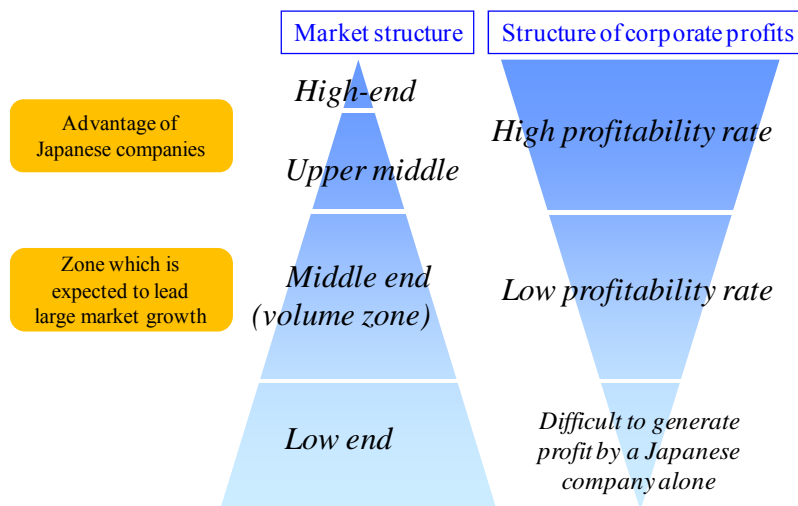
## **(2) Japanese-owned companies’ business management strategy for overseas market exploration**

This section verifies Japanese-owned companies’ stances concerning involvement in these markets.

Japan has supplied comparatively high-quality and expensive products in emerging markets, and primarily performed business activities in high-end markets or upper-middle-income class markets. Of course, many Japanese-owned companies, albeit facing different circumstances depending upon regions, regard the high income class market as a future target to be captured, and such markets will remain as the targets of their business activities. However, it is expected that their future business activities will gradually shift to target the volume zone (Figure 2-2-2-4).

<sup>24</sup> Japan Economic Foundation (2009b), “SHIHON IDO TO WAGAKUNI SANGYO KYOSORYOKU NI KANSURU CHOSA KENKYU HOKOKUSHO.” For details of the survey, see Supplementary Note 2-3.

**Figure 2-2-2-4 Market structure in emerging nations**



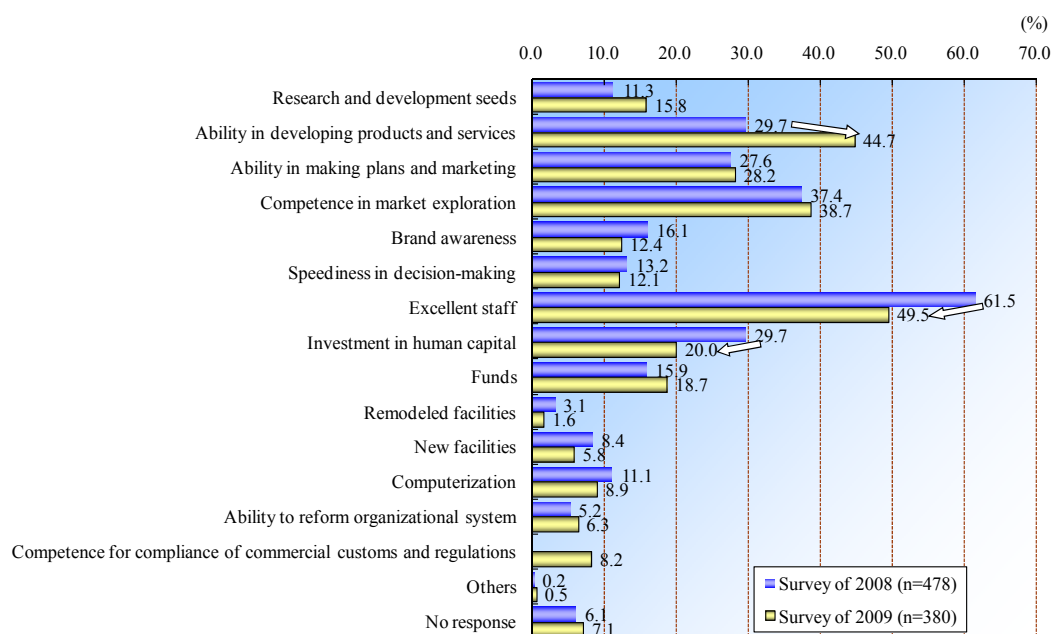
Source: SHIHON IDO TO WAGAKUNI SANGYO KYOSORYOKU NI KANSURU CHOUSA KENKYU HOKOKUSHO (The Japan Economic Foundation, 2009b).

The income earned by people in the volume zone is lower than that earned by people in the high income class, which have been targeted by Japanese-owned companies so far, and therefore it is difficult to proceed with marketing Japanese products and services by merely taking advantage of advanced research and development competence and the high quality of products and services. In fact, as shown in 1. above, the presence of Japanese-owned companies in India and China has turned downward.

In order for the Japanese-owned companies to explore markets of volume zones in the emerging economies they consider as their prospective targets, it is important to market products and services satisfactory to local customers, including satisfaction in terms of price range, while fully taking into account the local customers' needs and taking advantage of high performance or quality and brand image. It is necessary to strive to improve their business models in their entirety, including the research and development strategy, marketing and branding, so as to develop and provide products and services satisfactory to customers belonging to the volume zone.

This and the next paragraphs verify business strategies of Japanese-owned companies from the standpoint of management resources to be strengthened in the future. The management resources requiring strengthening are excellent staff, which marked the largest proportion of 49.5%, followed by competence in developing products and services (44.7%) and competence in market exploration (38.7%) (Figure 2-2-2-5).

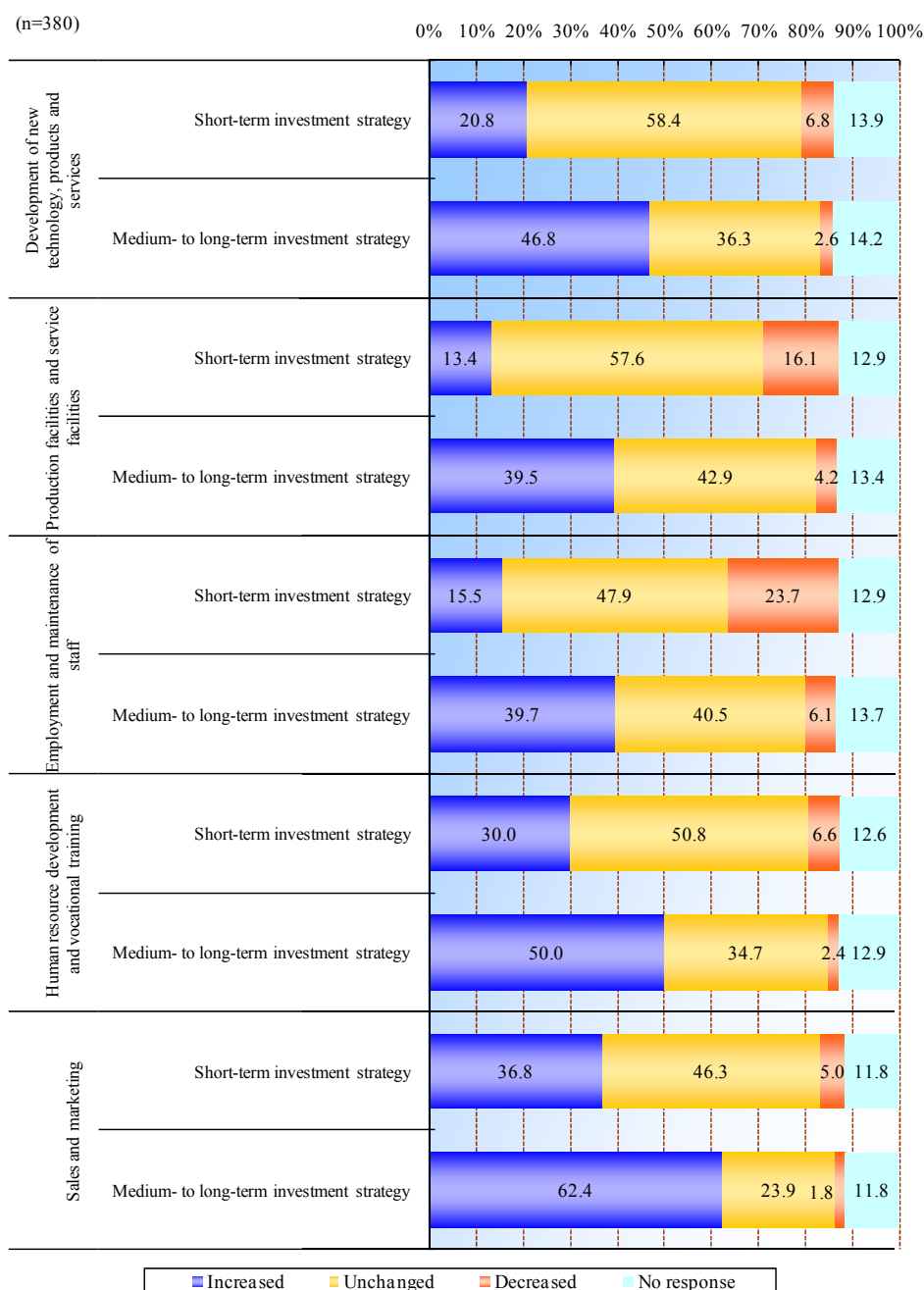
**Figure 2-2-2-5 Answers to question on what kind of management resources shall be strengthened toward the future (comparison of surveys implemented in 2008 and 2009)**



Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOU SA KENKYU (The Japan Economic Foundation, 2009a).

In addition, the results shown by Figure 2-2-2-6 suggest a downward trend in commitment to human resources investment. However, the number of companies that answered they would strengthen sales and marketing in terms of medium- to long-term investment strategies marked 62.4%, which was the largest ratio, followed by those that answered “human resources development and vocational training” (50.0%) and “development of new technologies, products and services” (46.8%). The above results show the eagerness of Japanese-owned companies in terms of medium- to long-term commitment after the financial crisis, including medium- to long-term strategy for human resources investment (Figure 2-2-2-6).

**Figure 2-2-2-6 Japanese-owned companies' short-term and medium- to long-term investment strategies**



Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUZA KENKYU (The Japan Economic Foundation, 2009a).

### (3) Toward strengthening business in emerging markets

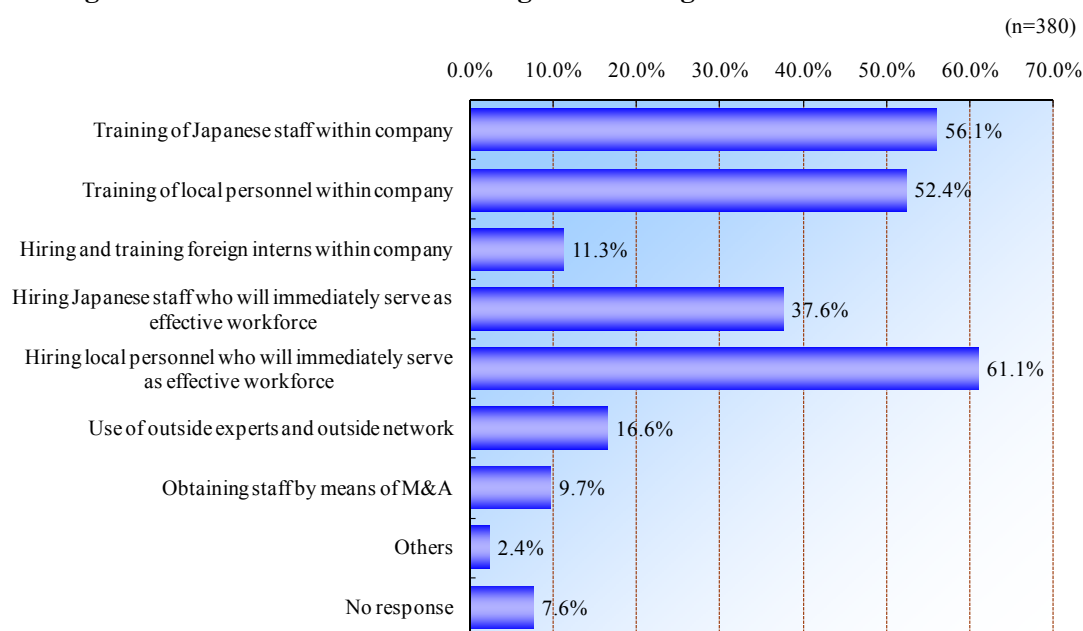
As pointed out in (2), Japanese-owned companies face problems, such as human resources development, distribution and marketing, and development of new technologies, products and services, in connection with overseas business expansion.

Overcoming these issues requires the establishment of market access points through the use of diversified means, while breaking free from previous commitments. The following looks at the methods of maintaining and positioning staff, strengthening sales capacity and enhancing competence in product development.

### (A) Maintaining and positioning staff

Looking at Japanese-owned companies' human resource strategy for overseas business development, the proportion of companies that hire local personnel who will immediately serve as effective workforce was 61.1%, which was the highest proportion, companies that train Japanese staff within the company was 56.1% and companies that train local personnel within the company was 52.4% (Figure 2-2-2-7).

**Figure 2-2-2-7 Method of maintaining and training staff for overseas business**



Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOU SA KENKYU (The Japan Economic Foundation, 2009a).

Taking into account various factors, such as that utilization of local personnel contributes to reduced personnel costs as their salary level is lower than that of staff in Japan, and that local personnel are familiar with local business information, including the local language, business circumstances and customer information, it is desirable to hire and utilize local personnel in carrying out overseas business.

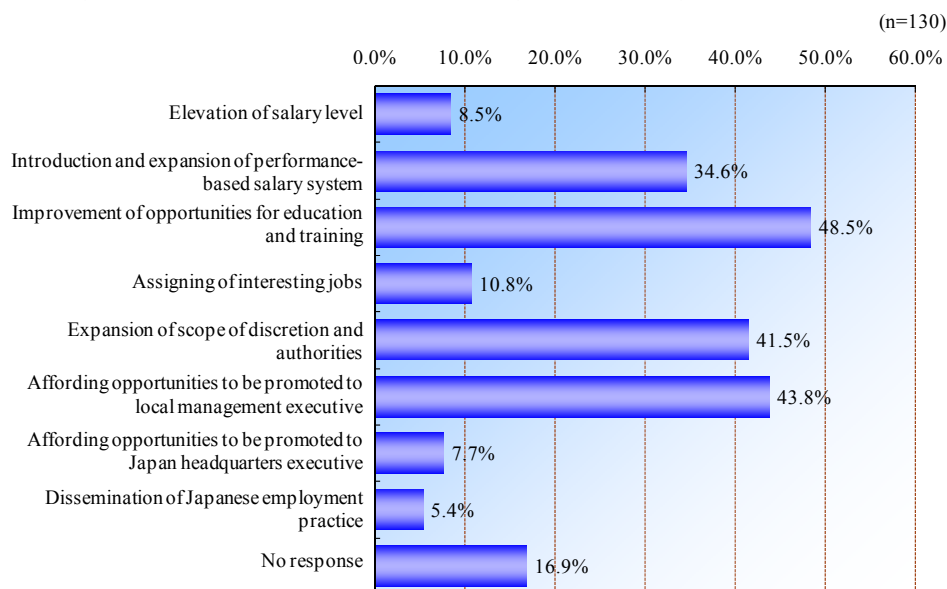
However, as local personnel, especially excellent ones, are valuable assets and are often headhunted by other companies, it is difficult to keep them. Especially, in terms of the type of duties, it is difficult to keep sales staff, and in terms of rank of positions, it is difficult to maintain staff in managerial positions.<sup>25</sup>

Looking at Japanese-owned companies' methods of maintaining and training local personnel, the proportion of companies that improve opportunities for education and training marked 48.5%, companies that afford local personnel opportunities to be promoted to local management executives marked 43.8%, companies that introduce and expand performance-based salary systems marked 34.6%, and companies that expand the scope of discretion and authorities marked 41.5%. Such data infer that Japanese-owned companies basically set up systems for maintaining and training staff, on

<sup>25</sup> For examples, see Figure 2-3-15 and Figure 2-3-16 of *White Paper on International Economy and Trade 2008*.

the basis of presumption that the staff will be employed for the long term after they are hired (Figure 2-2-2-8). On the other hand, the proportion of Japanese-owned companies that strive to keep staff by increasing salaries, which is the means often used by companies in Europe and the U.S., was only 8.5%.

**Figure 2-2-2-8 Method of maintaining and training local personnel**



Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOU SA KENKYU (The Japan Economic Foundation, 2009a).

Furthermore, Japanese-owned companies have not always attained a good reputation in overseas markets. For example, a study on the nationalities of companies popular among Chinese as their workplaces showed people's preferences for companies from Europe, the U.S., Taiwan and Hong Kong over Japanese-owned companies. In particular, Japanese-owned companies are poorly credited in terms of acceptability of different cultures and concession of authority (Figure 2-2-2-9).



**Figure 2-2-2-9 Ranking of nationalities of companies popular among Chinese people as their workplaces**

Criteria	Japanese companies	European and U.S. companies	South Korean companies	Hong Kong and Taiwanese companies	Chinese companies
Nationalities of popular companies	5th	1st	2nd	3rd	4th
Efficiency in management	2nd	1st	3rd	4th	5th
Reward	3rd	1st	2nd	4th	5th
Performance-based salary system	3rd	1st	2nd	4th	5th
Training system	3rd	1st	2nd	4th	5th
Transparency of policy	3rd	1st	2nd	4th	5th
Career development	4th	1st	2nd	3rd	5th
Environment of workplace	4th	1st	2nd	3rd	5th
Concession of authorities	4th	1st	2nd	3rd	4th
Acceptability of different cultures	5th	1st	2nd	2nd	4th
Social contribution	5th	1st	4th	3rd	2nd

Source: *Committee report on Internationalization indicators* (The Ministry of Economy, Trade and Industry, 2009).

Original source: On-line survey implemented by Hay Group for the period from March 12–20, 2006

In order to discard such a low reputation and to gain staff in emerging economies through competing with companies from Europe, the U.S., South Korea and Taiwan, it is crucial to provide incentives to local personnel in addition to salaries, such as by establishing a system allowing local personnel to be promoted to higher positions and to envision their career paths.<sup>26</sup>

#### <<Example Case>> Concession of entire authorities to overseas hubs<sup>27</sup>

NIHON FLUSH CO., LTD. (headquartered in Komatsushima City, Tokushima Prefecture), which is engaged in manufacturing and sales of housing interior systems (interior doors, decorative parts and furniture), incorporated a wholly-owned subsidiary in Jiangsu Province, China, in 2002, due to the saturated housing market in Japan and the potential size of the Chinese market.

The company was convinced that only a Chinese staff would be capable of handling business and staff management in China, as Japanese common practices often fail to work in China in all aspects, including culture and applications of laws. Therefore, the company, from the outset, established its policy to leave the management of the Chinese hub to the discretion of the Chinese people in charge.

The company, in order to implement the delegation of authorities to the Chinese hub, appointed a top Chinese executive at the hub, who had worked for the Shanghai branch of a Japanese bank as an advisor for Japanese-owned companies launching business in China. At the opening ceremony of the Kunshan plant, the company's president himself introduced local executives and declared that he

<sup>26</sup> For example, according to Nomura Research Institute, Ltd. (2008), "SHINKO SHIJO NI OKERU JIGYO TENKAI NO GENJO NI KANSURU ENQUETE CHOSA," many Japanese-owned companies operating overseas are insufficient in terms of employment of management executives and administrative positions, and many companies answered that the reason therefor was lower salaries than those offered by other companies and the difficulty in envisioning the future career path.

<sup>27</sup> Ministry of Economy, Trade and Industry (2009), "JINZAINO KOKUSAIKA WO SUISHIN SURUTAMENO GOOD PRACTICE SHU"

would “delegate all authorities to such top executives.” The local mayor and personnel of large local companies were invited to the ceremony, in addition to Japanese guests, including the mayor of Komatsushima City (where its headquarters is located), diet members and executives of financial institutions. A total of 100 guests attended the ceremony. This large-scale ceremony contributed to further enhancing the motivation of locally hired staff, including the top executives of the Chinese hub.

The Chinese hub has been managed entirely by local personnel. Currently, the two plants in China have about 380 locally hired staff members, and the approximately 30 executives are Chinese, except for two staff members.

Nevertheless, it is the company’s policy for launching overseas business to precisely maintain Japanese quality standards. In regard to such policy, the company provides locally hired staff with guidance on know-how at its Japanese headquarters on a regular basis, and in addition to this, utilizes the Industrial Training and Technical Internship Program to hire trainees at the Chinese hub after they complete the training course at the Japanese headquarters. For the three-year training term, the company encourages foreign trainees to be acquainted with the way of Japanese thinking and living in the course of working with Japanese staff, in addition to technical skills and language skills. The trainees are accommodated in a dormitory adjacent to the headquarters plant, and are requested to work with Japanese staff. Trainees and Japanese staff voluntarily hold Japanese/Chinese study sessions. According to the company, trainees who have finished the three-year training have no trouble in communicating with Japanese staff. Presently, 32 trainees are working at the headquarter plant in Tokushima. This commitment has been carried out since approximately seven years ago, and many staff members who were once trainees have now assumed positions as managerial staff at the Chinese hub. The company has succeeded in both keeping excellent local personnel and maintaining quality standards, by hiring people, training them to understand the know-how and sense of value of the headquarters and then sending them to the Chinese hub.

## **(B) Advancement of strategic M&A**

Enhancement of sales capability is the key issue for Japanese-owned companies striving to develop their business in emerging economies, and is difficult to be carried out.<sup>28</sup>

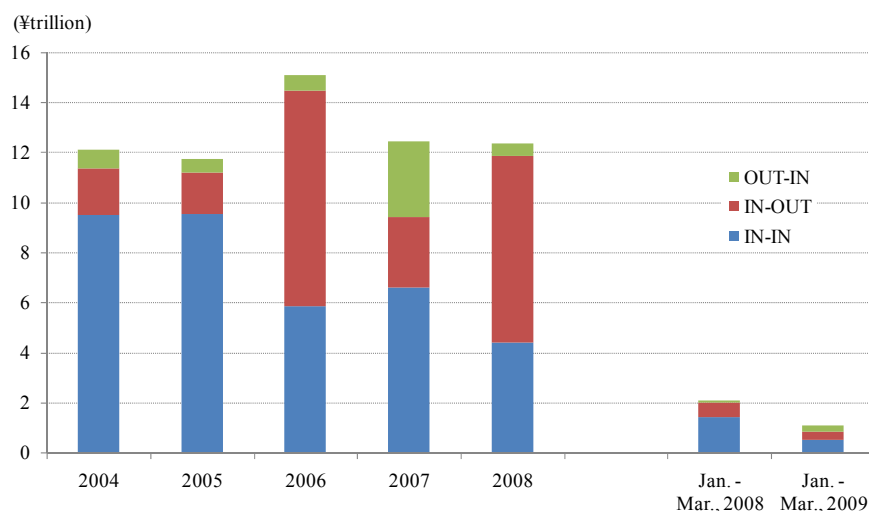
The acquisition of an existing company or a business tie-up with an existing company (hereinafter referred to as “M&A, etc.”) may be adopted as methods that can implement enhancement of sales capability in a comparatively short time frame.

Looking at M&A trends of Japanese-owned companies, the number of instances of M&A decreased on a year-on-year basis in 2008, however, the amount of funds involved in M&A remained unchanged on a year-on-year basis, showing steady results. In particular, the amount involved in IN-OUT M&A, wherein a Japanese-owned company implements M&A against a foreign-owned company, has significantly increased by 2.6 times on a year-on-year basis (Figure 2-2-2-10).

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<sup>28</sup> For example, looking at JBIC, “Survey Report on Overseas Business Operations by Japanese Manufacturing Companies,” the major reason for insufficiency or slight insufficiency in profit has become difficulty in maintaining the purchaser, since 2003 for ASEAN countries, and since 2004 for China.

**Figure 2-2-2-10 Transition of amount of M&A of Japanese-owned companies, categorized by markets**

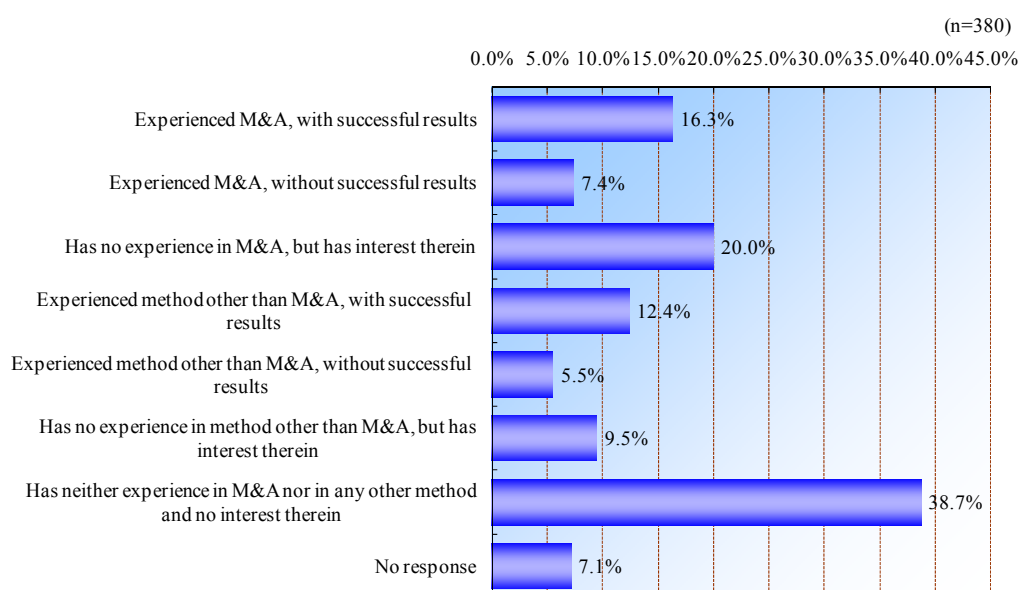


Source: *MARR M&A Data* (RECOF Corporation).

The survey on Japanese-owned companies' interests and experiences related to M&A, etc. shows that companies which neither have experienced M&A, etc. nor have interest therein marked 38.7%, which means that 54.2% of the companies (excluding the proportion of companies which did not respond (7.1%)) have either experienced M&A or have interest therein (Figure 2-2-2-11).

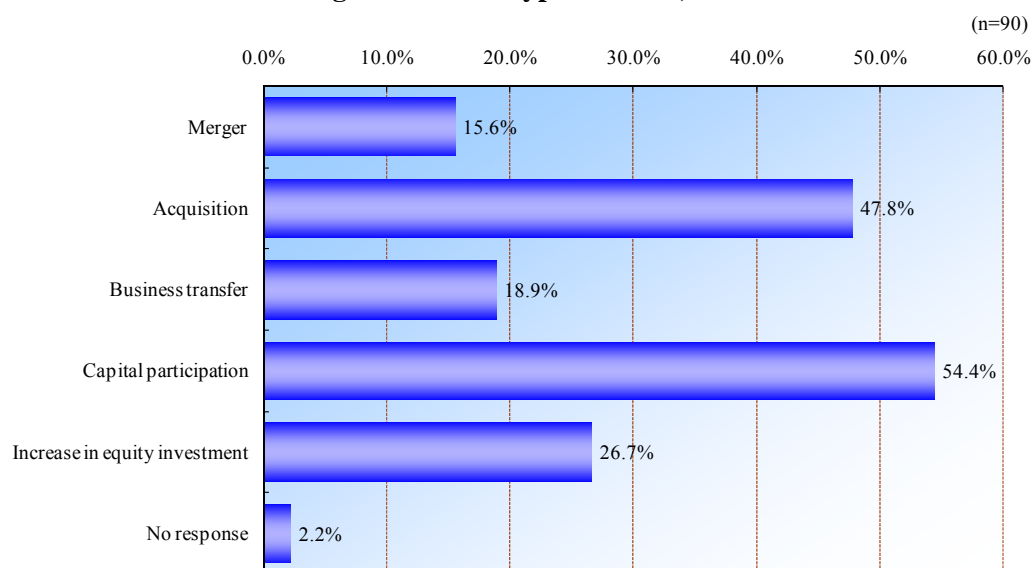
In addition, the review of type of M&A, etc. actually implemented, revealed that the proportion of capital participation marked 54.4%, which was the largest proportion, and that acquisition marked 47.8% (Figure 2-2-2-12). Looking at change in awareness of M&A, etc. influenced by the world economic crisis, the proportion of companies which have come to desire to downsize M&A, etc. marked 3.9%, while on the other hand the proportion of companies which have come to desire to expand M&A, etc. marked 13.8%, showing that inclination toward expansion has become stronger since the world economic crisis began (Figure 2-2-2-13).

**Figure 2-2-2-11 Interests and experience in M&A and business tie-ups**



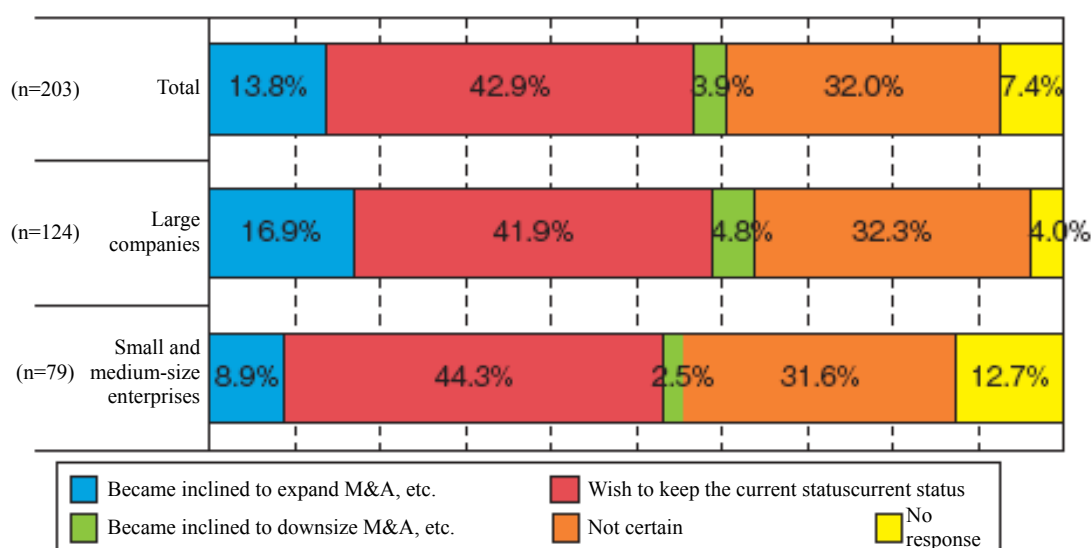
Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOUSA KENKYU (The Japan Economic Foundation, 2009a).

**Figure 2-2-2-12 Type of M&A, etc.**



Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOUSA KENKYU (The Japan Economic Foundation, 2009a).

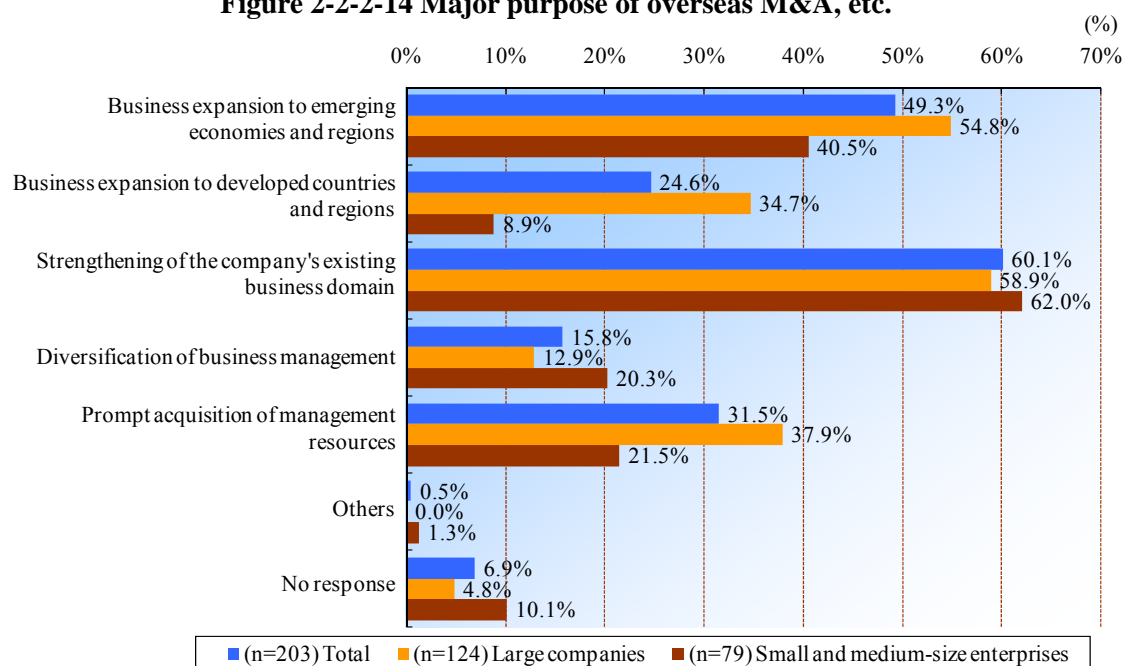
**Figure 2-2-2-13 Influence of economic crises on awareness of M&A, etc.**



Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUSHA KENKYU (The Japan Economic Foundation, 2009a).

In addition, with regard to purposes of M&A, etc., the largest proportion of companies answered “strengthening of the company’s existing business domain” (60.1%), and the second largest proportion of companies answered “business expansion to emerging economies and regions” (49.3%). The survey reveals that companies regard M&A, etc. as an effective means to develop business in emerging markets (Figure 2-2-2-14).

**Figure 2-2-2-14 Major purpose of overseas M&A, etc.**

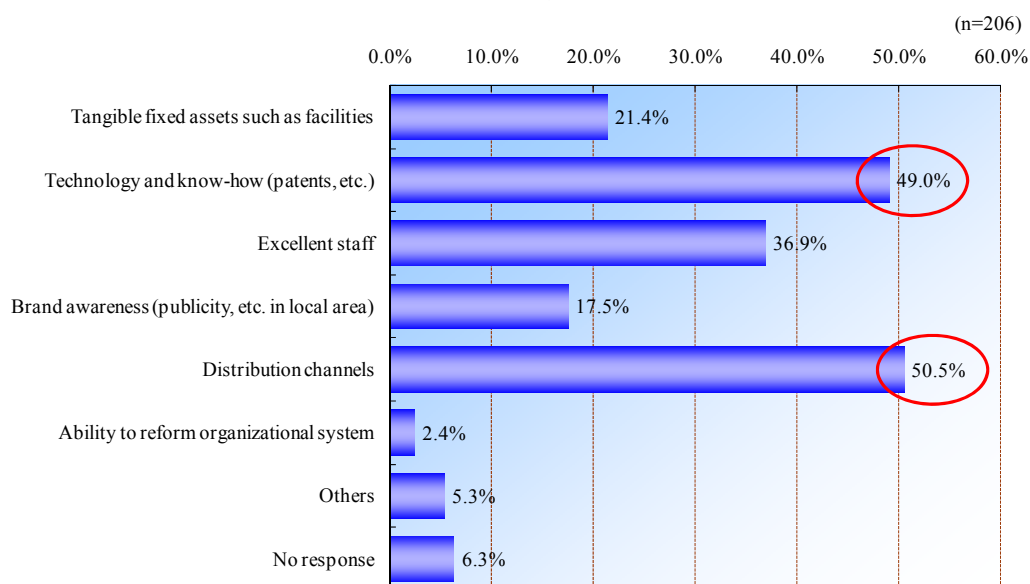


Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUSHA KENKYU (The Japan Economic Foundation, 2009a).

In response to the questions on Japanese-owned companies' specific objective of implementing M&A overseas, many companies answered "procurement of technology and know-how" (49.0%) and "capturing of distribution channels" (50.5%) (Figure 2-2-2-15).

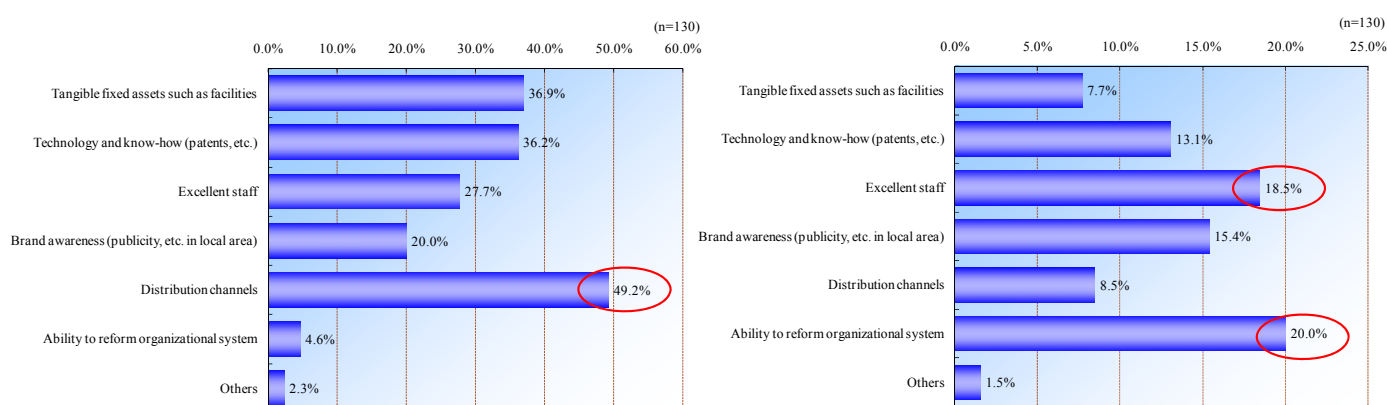
Meanwhile, looking at the results actually implemented by M&A, etc., the largest proportion of companies answered "capturing of distribution channels" (49.2%), indicating that M&A, etc. is an effective means to strengthen sales capability.

**Figure 2-2-2-15 Management resources of counterparties to M&A, etc., which are regarded as important factors for making decisions in M&A, etc.**



Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOU SA KENKYU (The Japan Economic Foundation, 2009a).

**Figure 2-2-2-16 Management resources a company has acquired (left), or has failed to acquire (right), through M&A, etc.**



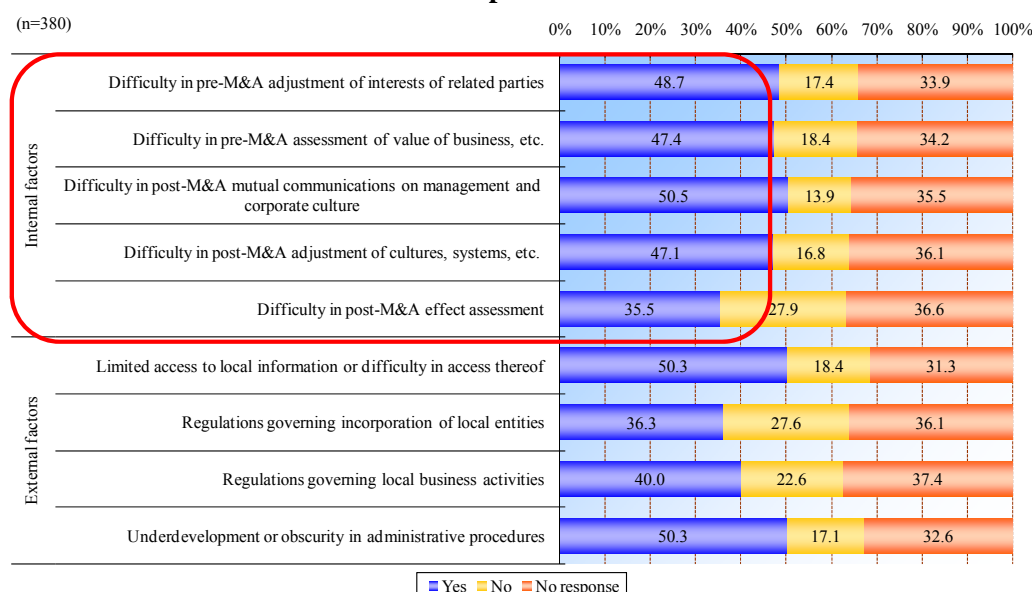
Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOU SA KENKYU (The Japan Economic Foundation, 2009a).

Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOU SA KENKYU (The Japan Economic Foundation, 2009a).

By the way, with regard to excellent staff and the ability to reform organizational systems, a large proportion of companies answered that they failed to gain them (18.5% and 20.0%, respectively) (Figure No. 2-2-2-16). Overseas M&A, etc. is considered to involve matters such as the utilization of

excellent staff and improvement of commitment related to system operation. In fact, looking at problems with and obstacles to M&A, etc., a company's internal factors, such as post-M&A mutual communications on management and corporate culture and pre-M&A adjustment of interests of related parties are recognized as problems, in addition to external factors such as underdevelopment or obscurity in administrative procedures (Figure 2-2-2-17).

**Figure 2-2-2-17 Problems and obstructive factors of M&A, etc. related to overseas business expansion**



Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUSU KENKYU (The Japan Economic Foundation, 2009a).

### (C) Toward enhancement of competence in developing products and services

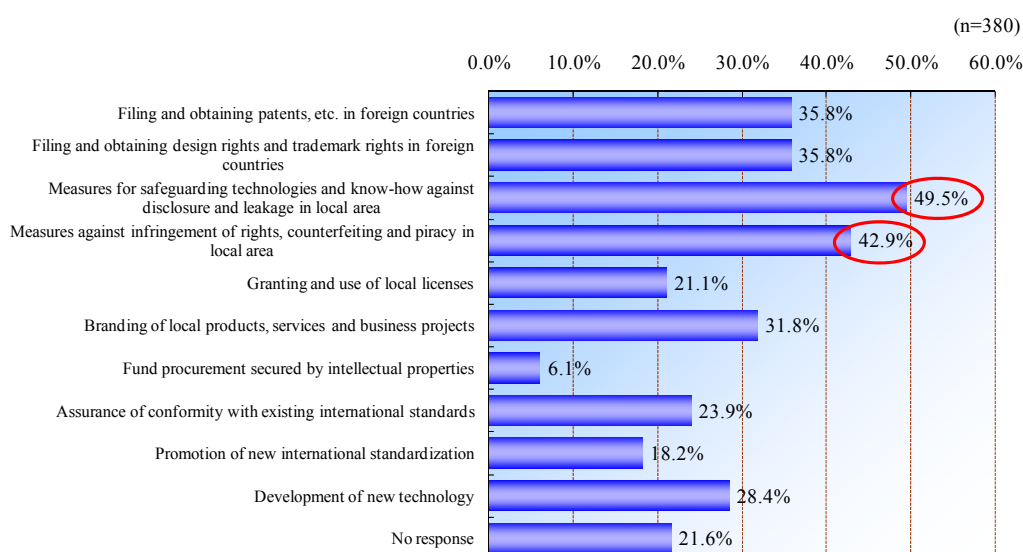
Competence in developing products and services is also a key issue for exploration of emerging markets, which are constituted by consumers and companies varying in income level, preferences, etc.<sup>29</sup>

In response to the question of what technical commitment is required for emerging markets, the largest proportion of companies answered that it was the measures for safeguarding technologies and know-how against disclosure and leakage in local area (49.5%), and the second largest proportion answered that it was measures against infringement of rights, counterfeiting and piracy (42.9%) (Figure 2-2-2-18). Many companies recognize that a technical disparity lies between them and an emerging nation's companies, and that how to safeguard information against leakage is an important issue.<sup>30</sup>

<sup>29</sup> For example, *White Paper on Monodzukuri 2008*, based on the survey, points out that, with regard to household appliances and audiovisual devices, Japanese-owned companies have shifted their targets in emerging economies, from the "provision of the same level of products, technologies and services as those available in Japan" oriented toward the wealthy class, to the "provision of products, technologies and services tailored to local needs" oriented toward the middle-income class.

<sup>30</sup> According to JBIC, "Survey Report on Overseas Business Operations by Japanese Manufacturing Companies — Results of JBIC FY2006 Survey: Outlook for Japanese Foreign Direct Investment," compared with Japanese-owned companies, the competitiveness of South Korean and Taiwanese companies have become almost equivalent to that of Japan, and the difference between the competitiveness

**Figure 2-2-2-18 Technical commitments required in emerging nations**



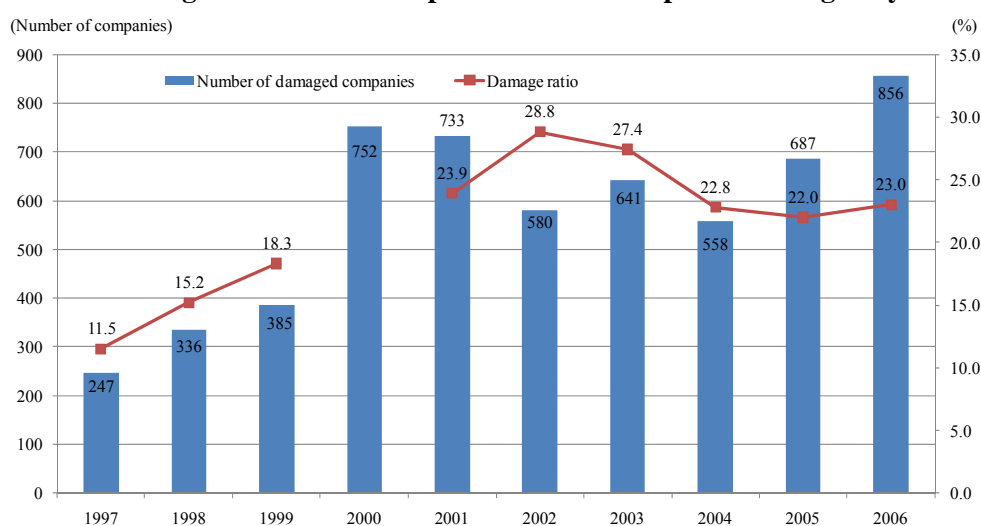
Source: *EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAIJIGYO TENKAINIKANSURU CHOU SA KENKYU* (The Japan Economic Foundation, 2009a).

#### (a) Toward protection of intellectual property rights

Although the government agencies and private sectors have worked together to tackle the issue of protection of intellectual property rights, such issues still remain serious.

According to the "Annual Report on the Office of Intellectual Property Protection"<sup>31</sup> published by the Ministry of Economy, Trade and Industry and related ministerial offices (2008), 856 Japanese-owned companies suffered damages arising from counterfeits in 2006, which is the highest level in the past ten years (Figure 2-2-2-19).

**Figure 2-2-2-19 Changes in number of Japanese-owned companies damaged by counterfeiting**



Note: Damage ratio = number of companies damaged by counterfeiting/total number of companies which responded to the survey  
Source: *The Annual Report of the Office of Intellectual Property Protection on government measures against copyright violations and piracy taken in the past year* (Ministry of Economy, Trade and Industry and relevant government agencies, 2008).  
Original Source: 2007 *NENDO MOHO HIGAI CHOU SA* (Japan Patent Office)

of Chinese companies and that of Japanese-owned companies has become smaller in recent years.

<sup>31</sup> The descriptions contained in this in (a) are based on the descriptions contained in such report.



Major issues involved in preventing or curbing damage to rights holders and companies accrued overseas can be categorized into proposals for the improvement of the legal system and the operation thereof, the provision of information for customs and police efficiency in detecting counterfeits and pirated products, and access to useful local information. For example, some industry associations independently exchange opinions with foreign government agencies, hold seminars for foreign customs aimed at facilitating the distinction between genuine products and counterfeit products, and exchange information within such associations.

However, as this independent commitment of industry sectors has limitations, the Japanese government is now in the process of implementing the following commitments, with the objectives of resolving issues involving rights holders and companies:

- (i) Making a request to a counterparty government authority, so as to seek improvement for solving issues related to legal systems and the operation thereof;
- (ii) Providing assistance in support of enhancement of competence of a counterparty government authority, as may be required for such authority to properly grant rights and efficiently denounce infringements;
- (iii) Providing information related to intellectual property systems and regulatory systems relevant thereto, and handling damage accrued from counterfeit products, in relation to the country where the infringement took place; strengthening the sharing of information through public-private sector cooperation;
- (iv) Advancing the securing of consistency in the operation of legal systems, under the international framework; and
- (v) Advancing activities in a third party nation, through cooperation between Japan and the U.S. and cooperation between Japan and Europe.

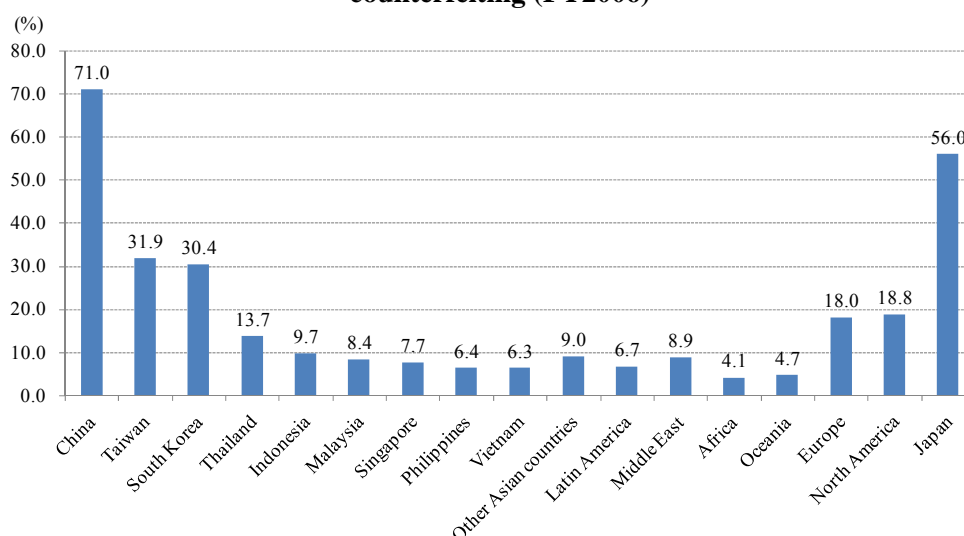
A comparison of the proportion of companies that suffered damage, as categorized by countries and regions, shows that 71% of the companies have suffered damage caused by Chinese parties, which is an overwhelmingly large figure (Figure 2-2-2-20). Therefore, the Japanese government has taken various opportunities to request the Chinese government to strengthen the protection of intellectual properties, and has implemented assistance for Chinese agencies in charge of the enforcement of laws, in support of the enhancement of its competence<sup>32</sup> and opinions exchange through means such as dispatching the public-private sector joint mission for protection of intellectual properties. In June 2009, the “Memorandum of Understanding on Exchange and Cooperation for the Protection of Intellectual Property Rights” was executed between Mr. Nikai, the Minister of the Ministry of Economy, Trade and Industry, and Mr. Chen Deming, the Minister of Commerce of the People’s Republic of China, under which the parties reached an agreement on establishing a working group for

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<sup>32</sup> More specifically, Japan carries out information provision and training for the officials of the agencies in charge of or having material impact on drafting bills related to intellectual property rights in China, in connection with legal systems and the operation thereof of countries better equipped with intellectual property laws, such as Japan; training on the patent examination system and training on cutting-edge technologies for examiners of agencies in charge of granting intellectual property rights, from the standpoint of expediting the examination of patents, etc. and for the purpose of international harmonization; training for customs officials for the purpose of enhancement of their ability to control goods infringing intellectual property rights; and opinion exchange with Japan’s judicial circles for the purpose of enhancement of abilities of officials of juridical agencies of China.

intellectual properties and holding a meeting once a year.

**Figure 2-2-2-20 Countries and regions in which Japanese-owned companies were damaged by counterfeiting (FY2006)**



Note: Damage ratio = number of companies damaged by counterfeiting/total number of companies which responded to the survey  
Source: *The Annual Report of the Office of Intellectual Property Protection on government measures against copyright violations and piracy taken in the past year* (the Ministry of Economy, Trade and Industry and relevant government agencies, 2008).  
Original Source: 2007 NENDO MOHO HIGAI CHOUHA (Japan Patent Office)

### (b) Open innovation<sup>33</sup>

In order for Japanese-owned companies to sustain and develop their dominant position in technology, it is also important to commit to open innovation, whereby multiple management resources are flexibly combined to create new added value.<sup>34</sup>

However, Japanese-owned companies' commitment to open innovation lags behind that of companies from other developed countries.<sup>35</sup>

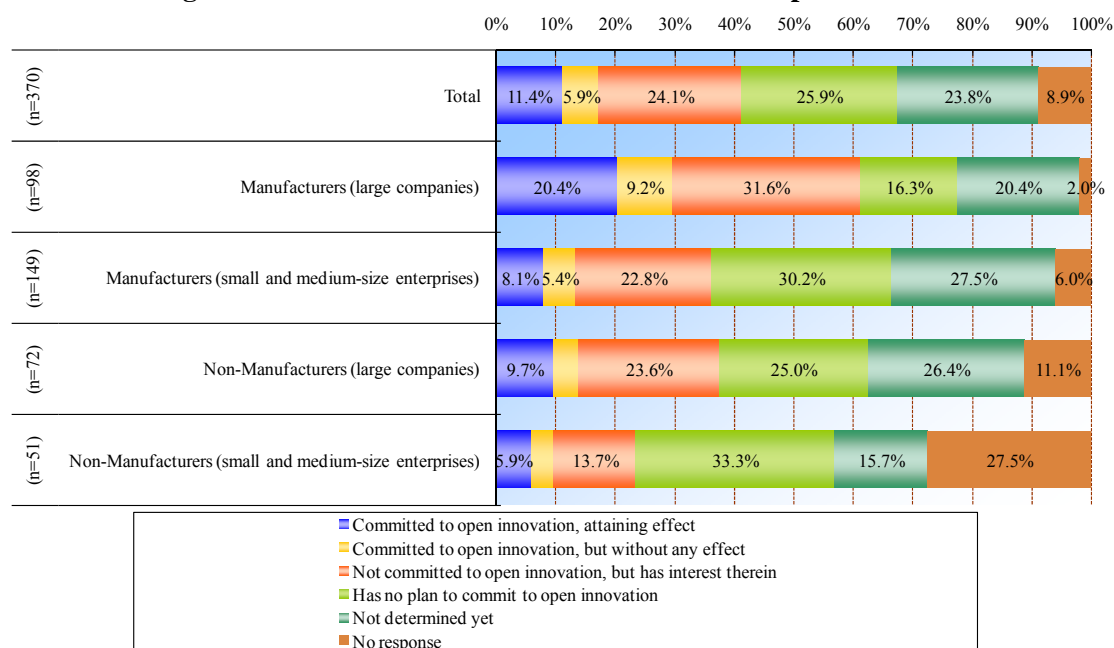
According to the Japan Economic Foundation (2009a) survey entitled *EPA/FTA NO SHINTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUHA KENKYU*, 16.3% of the companies surveyed were committing to open innovation; and approximately 40% of the companies were interested in open innovation, including the companies that had already made a commitment thereto. The above shows that an open innovation is an issue drawing considerable attention (Figure 2-2-2-21). In particular, 20.4% of large manufacturing companies have already started open innovation, and approximately 60% of them are interested in doing so, demonstrating a stronger interest than that shown by other sectors.

<sup>33</sup> Open innovation is a concept promoted by Professor Chesbrough of UC Berkley HAAS Business School, and is defined as the "inflow and outflow of knowledge, to accelerate internal innovation, and to expand the use of (internally achieved) innovation by external parties".

<sup>34</sup> Open innovation is not always applicable to all technologies and cases, and it requires strategic use.

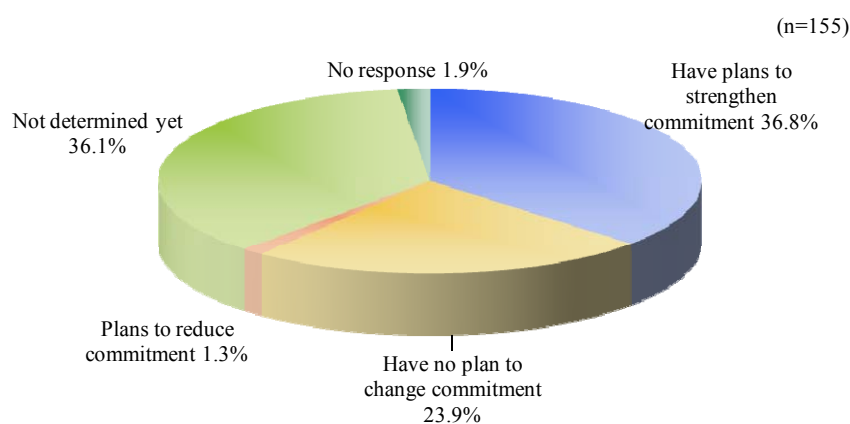
<sup>35</sup> For example, according to OECD (2008), "Open Innovation in a Global Perspective," approximately 1% of the Japanese-owned companies made a commitment to open innovation in 2005. In contrast, more than 5% of companies in France had made commitments to open innovation, and more than 10% of companies in Denmark and Luxembourg had made commitments thereto.

**Figure 2-2-2-21 Current status of commitment to open innovation**



With regard to the perspective of Japanese-owned companies toward future open innovation, 36.8% of companies intend to strengthen their commitment thereto, which suggests that open innovation has aroused a certain degree of expectation (Figure 2-2-2-22).

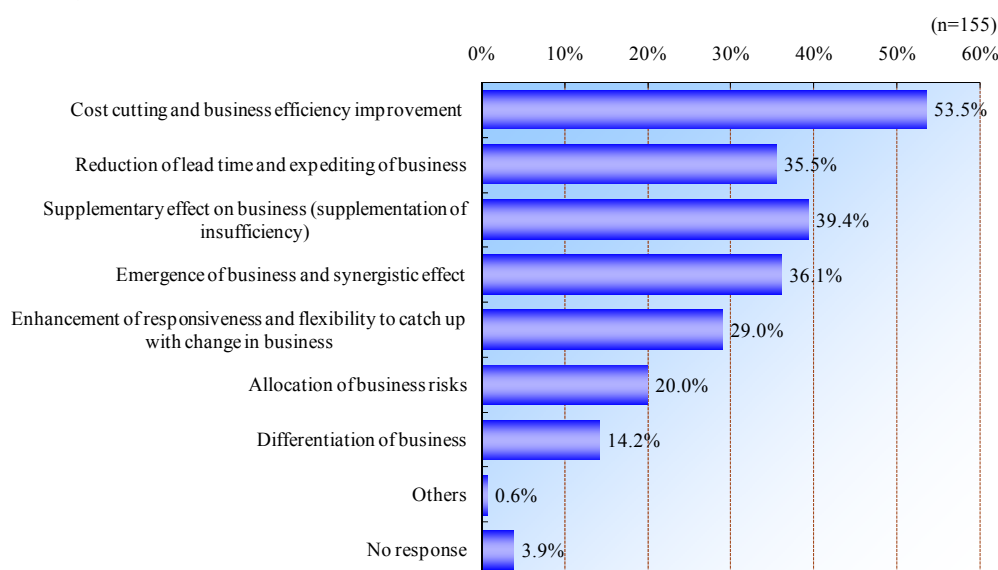
**Figure 2-2-2-22 Current status and future perspective for open innovation**



Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUSA KENKYU (The Japan Economic Foundation, 2009a).

In addition, many effects of open innovation are pointed out by the companies actually conducting it, such as reduced costs, supplementation of activities that cannot be performed by the company alone, and creation of business opportunities (Figure 2-2-2-23).

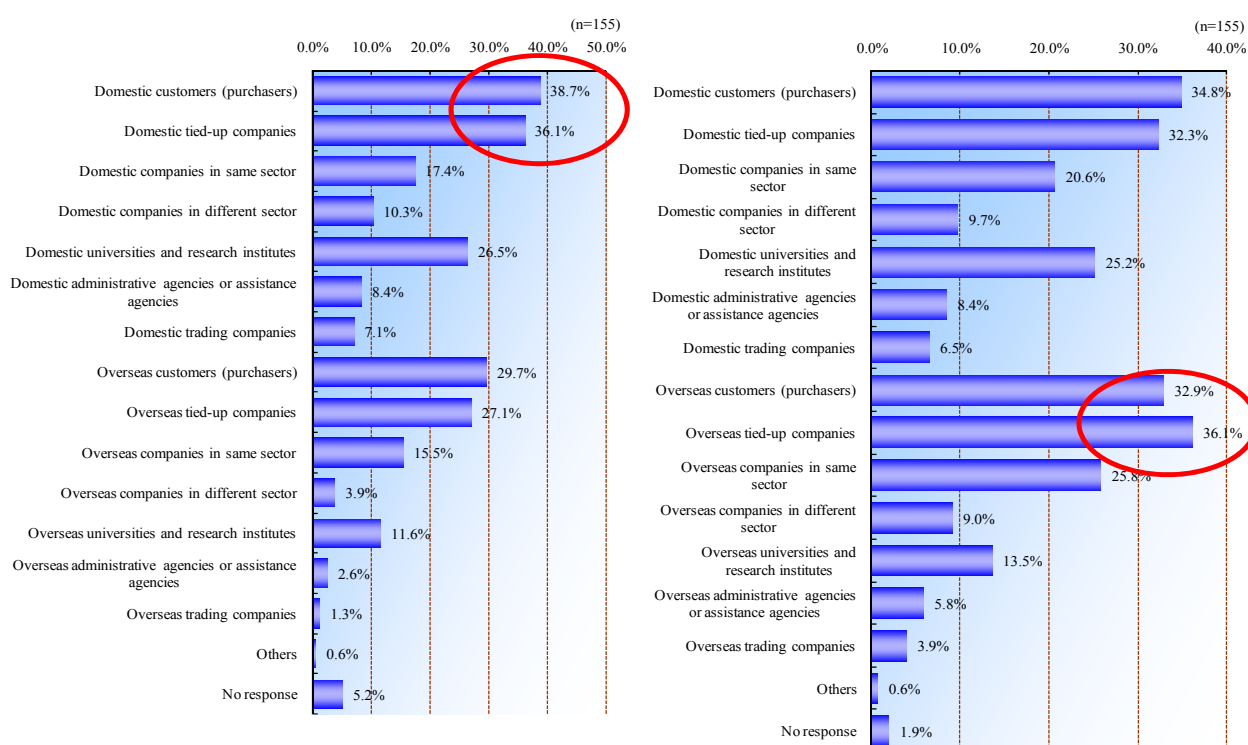
**Figure 2-2-2-23 Effect of open innovation on overseas business expansion**



Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUSA KENKYU (The Japan Economic Foundation, 2009a).

Currently, domestic customers and tied-up companies account for a large proportion of Japanese-owned companies' collaborative partners in open innovation. However, companies are showing willingness to promote commitments with overseas customers and cooperative companies, a tendency which proves that Japanese-owned companies are eager to establish access points to overseas markets (Figure 2-2-2-24).

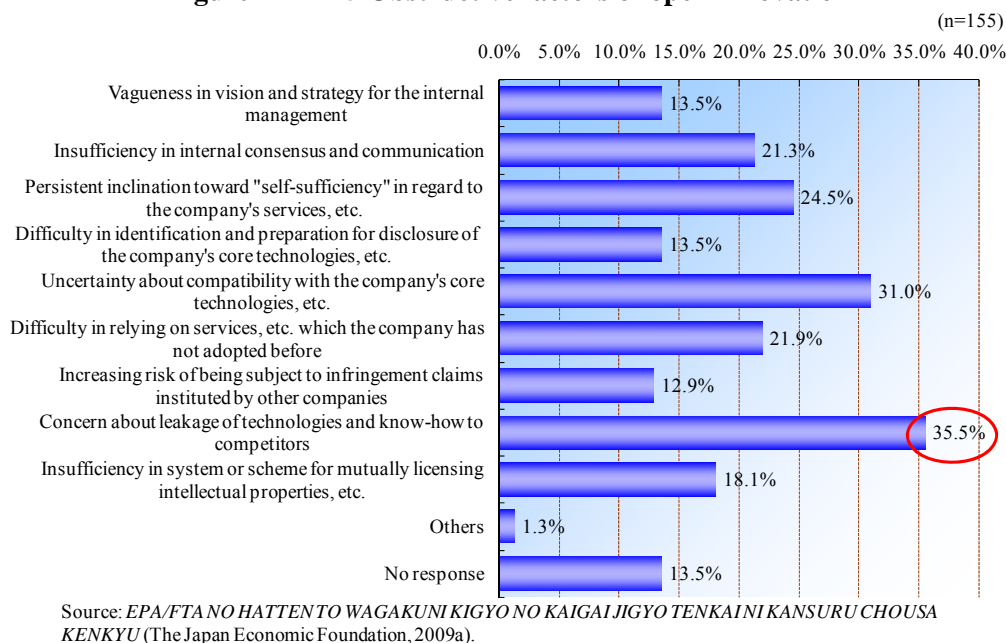
**Figure 2-2-2-24 Partners of open innovation (left: current status; right: future prospects)**



Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUSA KENKYU (The Japan Economic Foundation, 2009a).

On the other hand, as an obstacle to open innovation, a strong concern about leakage of technology and know-how can be pointed out. The Japanese government has made commitments for safeguarding technology against leakage, but it is necessary to further enhance the efficiency of such commitments (Figure 2-2-25).

**Figure 2-2-25 Obstructive factors of open innovation**



## **Column 12: Protection of trade secrets**

With a view to overcome the obstacle to open innovation, the Japanese government has made commitments for safeguarding technology against leakage. In February, 2009, the Subcommittee on Protection of Technological Information of the Intellectual Property Policy Committee of the Industrial Structure Council has published a report entitled “The direction of the amendment bill about the criminal protection of trade secrets.”<sup>36</sup> Such report focuses on revision of the ongoing system for the purpose of protecting confidential information on technology and business, which is useful for business activities and which sometimes has importance equivalent to or greater than information worthy of a patent application, from the disclosure of the contents thereof, such as in the case of disclosure of patent applications.

The report refers to the promotion of open innovation as one of the grounds for the necessity to properly protect trade secrets, from which the competitiveness of companies stems. In order for Japan to enhance its international competitiveness, commitment to open innovation is important, and the implementation of such commitment requires mutual disclosure of trade secrets held by each of the relevant companies. The revision of elements that would constitute a criminal penalty is under way, for the proper protection of such trade secrets.

Based on this report, the bill to amend the Unfair Competition Prevention Act was submitted to the 171st diet ordinary session on February 27, 2009, and has been the subject of ongoing discussions.

<sup>36</sup> The report, in Japanese, can be found at <http://www.meti.go.jp/report/downloadfiles/g90216a01j.pdf>

In recent years, in the U.S. and other countries the concept of open innovation has changed from acquisition and supplementation of technology not owned by a company to creation of value through the synergy effect of collaborative work.<sup>37</sup> However, Japanese-owned companies do not have a function which sufficiently allows them to break free from the vertical framework of organizations and utilize technologies of different fields that are owned by various organizations. Thus, in order to create a brand new business model enabling combinations of technologies and staffs of various fields, it is necessary to envision a systematic strategy for a project in Japan's advantageous technical fields, which covers from the research and development phase through to the commercialization phase. The creation of such business model also requires a certain scale of business and funds. Based on the necessity for establishing a system that would facilitate the accumulation of staff and a long-term loan fund, so as to overcome obstacles to creating a brand new business model, a bill to amend the Law on Special Measures for Industrial Revitalization and Innovation was enacted in April 2009, based on which Industrial Revitalization Corporation of Japan was determined to be established.

### **(c) International standardization**

As products and services have become more and more advanced and sophisticated, it has become more difficult than in the past to find a case where market share is dominated by a single company alone and where products and services of such dominating company become the de facto standard. On the other hand, an international trend has come to light, where multiple companies, etc. establish common rules applied as international standards, strive to develop and disseminate their products in conformity with such framework, and dominate large market shares.<sup>38</sup> This trend has resulted in a phenomenon of unacceptability of products and services not in conformity with what could be termed the "common rules" (i.e. international standards) so established, notwithstanding the high quality of such products and services.

It is important to promote the prevalence of Japanese products and services to various groups and classes throughout the world, by encouraging Japanese technology, products, quality, etc. to be adopted as international standards. Quite a few companies are aware of the importance of obtaining international standards (Figure 2-2-2-26). However, it has been pointed out that Japan has made a slow start in committing to decision-making bodies for determination of international standards.<sup>39</sup> It is

<sup>37</sup> Industrial Structure Council, New Growth Policy Committee, Fundamental Issues Subcommittee report (2008), "CHISHIKI KUMIKAE NO SHOGAKI — GENDAI SANGYO KOZO NO HENKA NO HONSHITSU —"

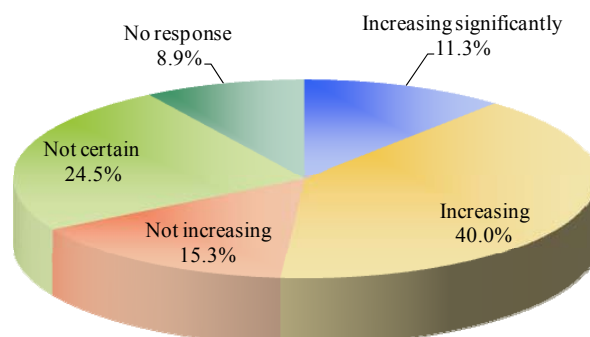
<sup>38</sup> In addition to de jure standards such as ISO, standards established based on agreements among multiple interested parties, such as forum standards and consortium standards, have increased in importance. The term "de jure standard" means a standard established based on the agreement among the members comprising standardization organizations of each country, in accordance with the predetermined process. The term "forum standard" means a standard established based on the agreement reached at the forum voluntarily created by the companies having interests in establishing international standards. The term "consortium standard" means the standard established by federations of companies, whereby multiple companies jointly carry out technology development, in pursuit of surpassing other competing technologies and of capturing markets through the use of the outcome technologies (New Energy and Industrial Technology Development Organization, an independent administrative agency (2008), "NEDO GIJUTSU KAIHATSU KIKO NI OKERU KENKYU KAIHATSU TO HYOUJUNKA MANAGEMENT NI KANSURU CHOUA")

<sup>39</sup> Harada, S. (2008), *SEKAI SHIJO WO SEIHA SURU KOKUSAI HYOUJUNKA SENRYAKU NIJUUSSEIKI NO BUSINESS STANDARD*, Tokyo Denki University Press

important to strengthen connections with such decision-making bodies.

**Figure 2-2-2-26 Importance on international standardization related to technologies, products and services**

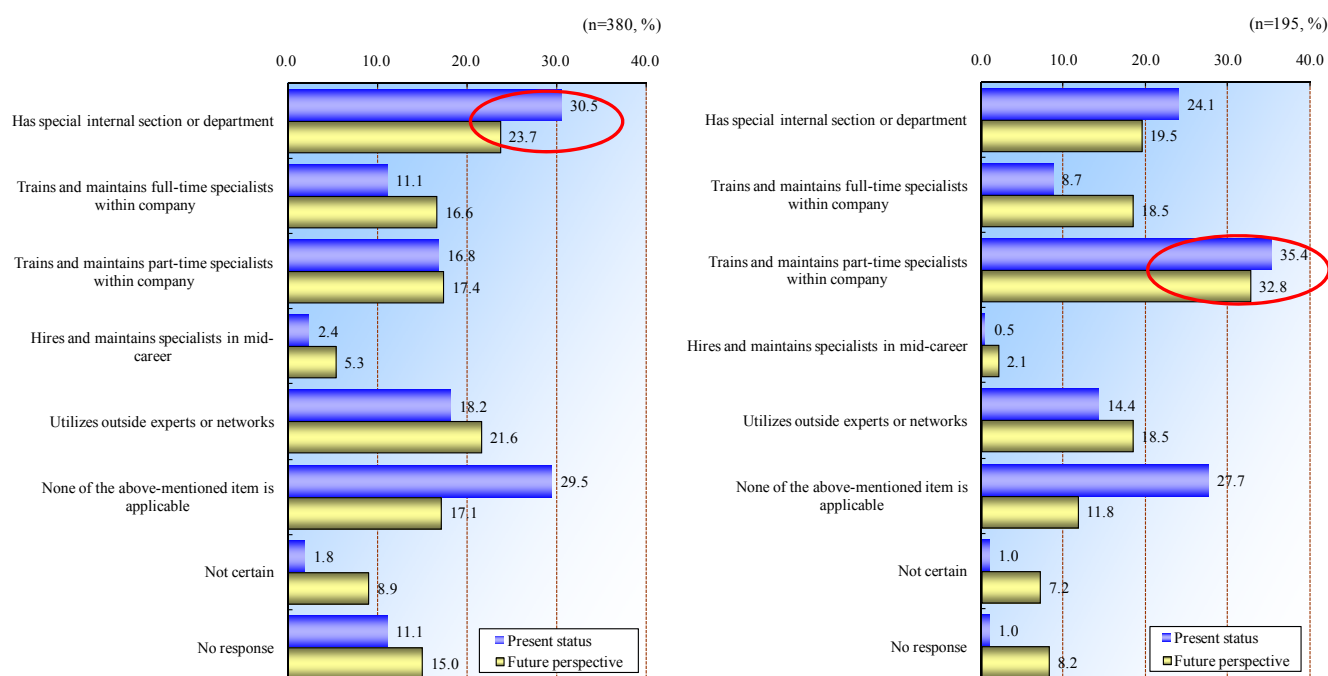
(n=380)



Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUA KENKYU (The Japan Economic Foundation, 2009a).

So far, Japanese-owned companies' commitments to international standardization activities have not made much progress. For example, with regard to a strategy for intellectual properties, many companies have specialized sections or divisions and specialist staff members; however, with regard to international standardization, many companies tend to cope by training staff members specialized in multiple tasks in addition to international standardization (Figure 2-2-2-27).

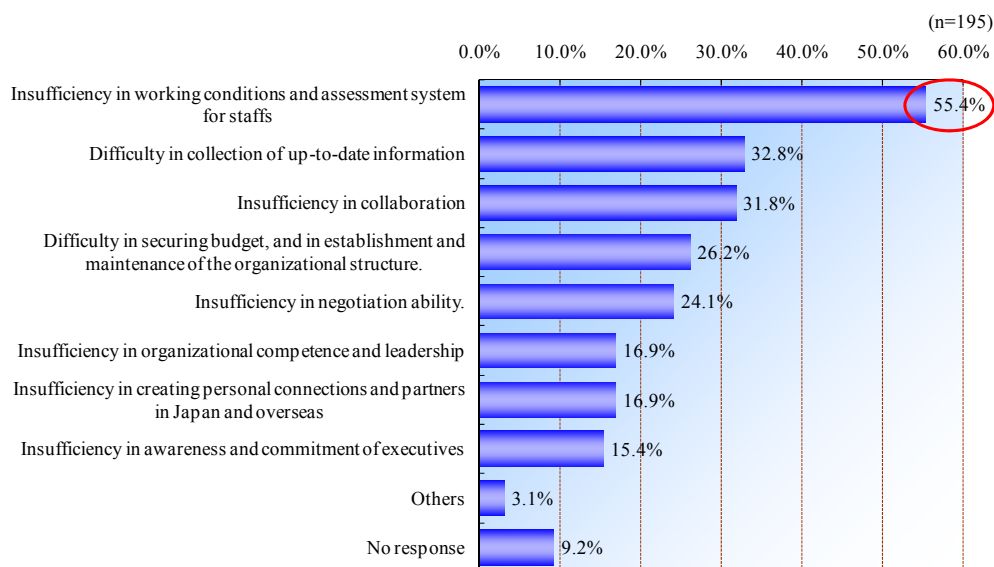
**Figure 2-2-2-27 Current status and future prospects for establishment of special section, staffing, etc. (left: strategy on intellectual properties; right: international standardization)**



Source: EPA/FTA NO HATTEN TO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAI NI KANSURU CHOUA KENKYU (The Japan Economic Foundation, 2009a).

With regard to tasks and obstacles involved in international standardization, inadequacy in treatment and assessment of staff members has also been pointed out (Figure 2-2-2-28). In order for Japan to gain presence at decision-making bodies for international standards, it is necessary to develop human resources with expert knowledge in international standardization, and to encourage commitment to human resources development from a medium- to long-term perspective.

**Figure 2-2-2-28 Problems and obstructive factors in coping with international standardization**



Source: EPA/FTANO HATTENTO WAGAKUNI KIGYO NO KAIGAI JIGYO TENKAINI KANSURU CHOUSAKENKYU (The Japan Economic Foundation, 2009a).

The number of positions on ISO or IEC technical committee secretariats assumed by a country<sup>40</sup> is one of the benchmarks showing the degree of advancement of international standardization. In relation to such number, although Japan still has not reached a level equivalent to that of European countries and the U.S., it has shown an upward trend (Figure 2-2-2-29). In addition, Japan has gradually submitted more proposals for international standardization (Figure 2-2-2-30).

**Figure 2-2-2-29 Changes in number of secretary positions of technical committees of ISO and IEC assumed by each country**

February, 2006						
	Germany	U.S.	U.K.	France	Japan	China
ISO	126	123	100	77	47	9
IEC	25	25	25	25	13	3
Total	151	148	125	102	60	12
↓						
July, 2008						
	Germany	U.S.	U.K.	France	Japan	China
ISO	132	128	85	75	58	25
IEC	32	23	20	24	15	3
Total	164	151	105	99	73	28

Source: The Ministry of Economy, Trade and Industry

<sup>40</sup> Assumption of a position at the secretariat of an ISO or IEC technical committee may enable a country to take a considerable initiative in discussions related to the field that is the subject-matter of such technical committee.



**Figure 2-2-2-30 Changes in number of proposals for international standardization submitted to ISO/IEC (average of three years)**

	Number of proposals submitted		Number of proposals submitted
2001-2003	63	2004-2006	94
2002-2004	71	2005-2007	96
2003-2005	86	2006-2008	102

Source: The Ministry of Economy, Trade and Industry

#### **<<Example Case>> International standardization of photocatalysts**

A photocatalyst is a substance that functions as a catalyst when exposed to light. Research and development of photocatalysts has unveiled their various functions in purifying the environment, such as soil-resistance, air purification, water purification, and antibacterial and fungicide functions. Photocatalysts have been used in exterior walls and floors of buildings, and in guardrails, for example. However, there had not been sufficient information on the effects of photocatalysts, due to a lack of methods for objective assessment thereof. Such a lack of assessment methods led to the distribution of poor-quality products in foreign countries, and nearly ruined the reliability of the products.

The Japanese government commissioned to the Japan Fine Ceramic Association a project to establish international standards for methods and criteria for assessment of photocatalysts, and submitted proposals on the methods, including a test method for evaluation of self-cleaning performance and test methods for evaluation of water purification performance.

So far, in relation to the test method for evaluation of performance of photocatalyst through the use of ultraviolet light, ten draft international standards submitted by Japan have been adopted, and one of them has come into effect as an international standard. Such case is expected to contribute to future overseas market expansion for Japanese products.<sup>41</sup>

#### **<<Example Case>> Preparation of systematic texts on international standardization (commitment to human resources development)**

The Ministry of Economy, Trade and Industry has tackled the issue of human resources development, announcing a targeted strategy to be implemented by 2015, which focuses on doubling the number of proposals submitted for international standardization, and on increasing the number of technical committee secretariats on which Japan assumes positions to the same level as those of Europe and the U.S. The Ministry of Economy, Trade and Industry, as a further commitment, intends to prepare a systematic text on knowledge and know-how related to standardization easily understood by students as well as to experts, thereby expanding the variety of human resources engaged in international standardization.

#### **(Future direction for international standardization)**

In November 29, 2006, the “International Standardization Summit in Japan” (i.e. a council comprising the Minister of the Ministry of Economy, Trade and Industry and members of the industrial

<sup>41</sup> Standards and Conformity Assessment Unit, Industrial Science and Technology Policy and Environment Bureau, Ministry of Economy, Trade and Industry (2008), "WAGA KUNI NO KOKUSAI HYOUJUNKA SENRYAKU NI TSUITE"

community with the objective of discussing international standardization issues) was held for the first time, during which the “Strategic Goals for International Standardization” for strategic promotion of international standardization was adopted. The major goals set by the Strategic Goals for International Standardization are (i) doubling the number of proposals submitted for international standardization and (ii) increasing the number of technical committee secretariats on which Japan assumes positions to same level as those of Europe and the U.S. countries by 2015. As concrete measures for achieving such goals, the strategies further direct the advancement of commitments focusing on the following five points: (i) changing the awareness of companies’ executives, (ii) enhancing prioritized assistance for submitting proposals for international standardization, (iii) fostering world-class international standardization specialists, (iv) strengthening cooperation ties in the Asia-Pacific region, and (v) responses to the establishment of unique domestic standards and technical regulations by foreign countries.

#### **(D) Brand establishment for overseas markets**

Brand establishment is a crucial issue in expanding business to emerging economies, particularly to overseas markets, in which high value is placed on brands including the company’s image.<sup>42</sup> There are quite a few Japanese-owned companies which place value on marketing and brand establishment (Figure 2-2-2-5 above).

However, Japanese-owned companies excluding automobile manufacturers and home electronics appliance manufacturers are not always good at branding. For example, according to a ranking of the world’s brands<sup>43</sup> published by Interbrand, five out of the world’s top 50 brands are brands of Japanese-owned companies, but all five of such brands are of performance-oriented automobile or home electronics appliances. On contrary to this, high-ranked European and U.S. companies also include many service sectors (Figure 2-2-2-31).

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<sup>42</sup> Nomura Research Institute, Ltd., “TSUGINARU CHUGOKU SHIJO NO SHUYAKU TACHI ‘CHUGOKU SHINSEDAI’” (*CHITEKI SHISAN SOZO*, January 2009)

<sup>43</sup> This ranking was conducted by Interbrand from among the brands that fulfill the conditions that: the company’s financial information is adequately disclosed; that at least one-third of the profits are generated in the countries or regions other than their countries of origin; that the brand is well-known in the market; that the economical value added is in the black; and that the brand does not fall under B2B business, which is not well-known to general consumers. As for the value of brands, Interbrand makes valuations from the viewpoint of how much profit will be generated from the brand while taking into account financial conditions, the brand’s impact on decisions for purchasing the products, and the certainty of future profit generated from the brand. [http://www.interbrand.com/best\\_global\\_brands\\_methodology.aspx?langid=1005](http://www.interbrand.com/best_global_brands_methodology.aspx?langid=1005)

**Figure 2-2-2-31 Best Global Brands 2008 (by Interbrand)**

Ranking	Brand	Country of origin	Sector
1	COCA-COLA	U.S.	Beverage
2	IBM	U.S.	Computer services
3	MICROSOFT	U.S.	Computer software
4	GE	U.S.	Diversified
5	NOKIA	Finland	Consumer electronics
6	TOYOTA	Japan	Automobile
7	INTEL	U.S.	Computer hardware
8	McDONALD'S	U.S.	Restaurants
9	DISNEY	U.S.	Media
10	GOOGLE	U.S.	Internet services
11	MERCEDES-BENZ	Germany	Automobile
12	HEWLETT-PACKARD	U.S.	Computer hardware
13	BMW	Germany	Automobile
14	GILLETTE	U.S.	Personal care
15	AMERICAN EXPRESS	U.S.	Financial services
16	LOUIS VUITTON	France	Luxury
17	CISCO	U.S.	Computer services
18	MARLBORO	U.S.	Tobacco
19	CITI	U.S.	Financial services
20	HONDA	Japan	Automobile
21	SAMSUNG	South Korea	Consumer electronics
22	H&M	Sweden	Apparel
23	ORACLE	U.S.	Computer software
24	APPLE	U.S.	Computer hardware
25	SONY	Japan	Consumer electronics
26	PEPSI	U.S.	Beverage
27	HSBC	U.K.	Financial services
28	NESCAFE	Switzerland	Beverage
29	NIKE	U.S.	Sporting goods
30	UPS	U.S.	Transportation
31	SAP	Germany	Computer software
32	DELL	U.S.	Computer hardware
33	BUDWEISER	U.S.	Alcoholic beverage
34	MERRILL LYNCH	U.S.	Financial services
35	IKEA	Sweden	Home furnishings
36	CANON	Japan	Computer hardware
37	J.P. MORGAN	U.S.	Financial services
38	GOLDMAN SACHS	U.S.	Financial services
39	KELLOGG'S	U.S.	Food
40	NINTENDO	Japan	Consumer electronics
41	UBS	Switzerland	Financial services
42	MORGAN STANLEY	U.S.	Financial services
43	PHILIPS	Netherlands	Consumer electronics
44	THOMSON REUTERS	Canada	Media
45	GUCCI	Italy	Luxury
46	EBAY	U.S.	Internet services
47	ACCENTURE	U.S.	Computer service
48	SIEMENS	Germany	Consumer electronics
49	FORD	U.S.	Automobile
50	HARLEY-DAVIDSON	U.S.	Automobile

Source: *BEST GLOBAL BRANDS, 2008 rankings* (Interbrand).

In addition, only one Japanese-owned company was included in the 25 companies awarded as “China’s Most Respected Companies” of 2007. This shows that, in China, the quality of Japanese products and services have won a good reputation, but the companies’ images in general are not given so much credit (Figure 2-2-2-32).

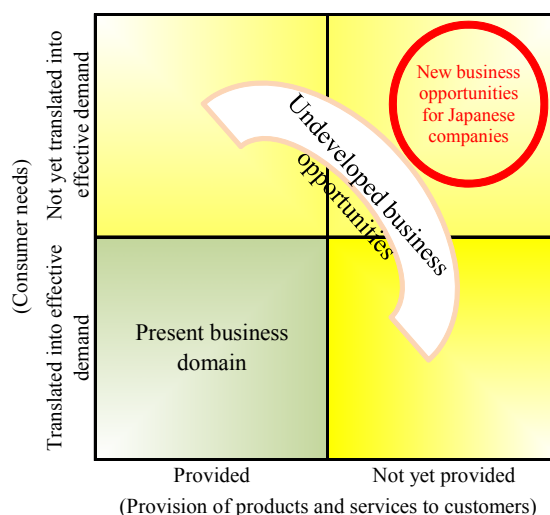
**Figure 2-2-2-32 China's Most Respected Companies (2007)**

Chinese companies	U.S. companies	Japanese companies	South Korean companies	European companies
Lenovo	IBM	Guangzhou Honda	Samsung	Nokia
China Merchants Bank	Hewlett- Packard			Siemens
Huawei Technologies	Shanghai GM			
Vanke	Microsoft			
Phoenix Satellite Television	Cisco System			
ZTE Corporation	GE			
SINA Corporation				
Inner Mongolia Mengniu Dairy				
Alibaba				
Tsingtao Brewery				
Bank of China				
Zhejiang Geely				
Inner Mongolia Yili				
China Overseas Property				
Ping An Insurance				
15 companies	6 companies	1 company	1 company	2 companies

Source: "China's Most Respected Companies" in 2007 (Economic Observer); *CHUGOKU NI OKERU NIHON KIGYO NO CSR – BEIKOKU KIGYO NO TORIKUMI TONO HIKAKU NI YORU SENRYAKUTEKI CSR NO HITSUYOUSEI NI TSUITE* – (Noriko Unosawa, 2008)

However, it should be noted that many products and services generally offered in Japan are not marketed or disseminated in foreign countries at all. So, such products and services may be used as seeds of business opportunities, subject to marketing appropriate to the overseas markets, and the translation of latent demand into effective demand if any latent demand is found to exist (Figure 2-2-2-33).

**Figure 2-2-2-33 Provision of products and services accommodating latent consumers' needs not yet translated into effective demand**



Source: Prepared by the Ministry of Economy, Trade and Industry based on Competing for the Future (Harvard Business School Press, Gary Hamel and C.K.Prahalad, 1994).

**<<Example Case>> Yellow Hat Ltd.<sup>44</sup>**

Yellow Hat Ltd., a company engaged in the business of auto parts and goods sales, launched business in China in 2004. It has incorporated a joint-venture area franchise company in Shanghai and operates stores. The company was able to capture a new market by carrying out overseas business of a modern auto parts store, which is an ordinary system for offering products and services in Japan. The company has expanded its business to operate 13 stores in China, 5 in Taiwan and 2 in the United Arab Emirates, as of March 2009.

The amount of automobile sales in China in 2006 was the world's second largest, ranking above Japan. However, auto parts stores in China have not been modernized, and most of such stores were small or medium-size sole proprietor stores. Such sole proprietor stores were not accustomed to display goods in a manner visible to customers, and the prices were determined on a bargaining basis. The company succeeded in attracting consumers in China, by introducing displays visible to customers and sale at fixed retail prices, which was regarded as the normal way in Japan.

In addition, the company studied the environment of local automobile users and made good use of the results for its business. For example, in China, in many cases, a car-wash service was provided by a sole proprietor store located in the downtown area, and car washing services offered by gasoline stations were not common. The company launched car washing services at its stores. In Japan, the ratio of the sales amount of the service section, including parts installation services and oil change services, which generate high profitability rates, to the total sales amount of stores is approximately 15%. In contrast, such ratio is 40% in China, as many customers visit the stores for car washing services.

Of course, a business model of offering attentive services and products, which is a distinctive nature of Japanese service and products, requires sophisticated operation know-how. Product sales and customer service at Yellow Hat relies on the existence of a sophisticated information system for unit control. It may be possible for local companies to imitate Yellow Hat on the surface, for example, serving customers and displaying goods, yet in terms of operation, they have not gained sufficient know-how in general. Such circumstances would give competitive advantage to Yellow Hat.

Reference: Prepared based on the Yellow Hat website and *Nikkei Business* (February 17, 2007 edition)

**<<Example Case>> TOTO Ltd.**

TOTO Ltd., a manufacturer and distributor of wet area products such as toilets, baths and kitchens, introduced to the Chinese market the concept of the luxurious toilet and the "Washlet" hot water bidet, which was accepted as a brand-new value by people mainly in the wealthy class. The company has succeeded in improving its publicity and reputation as a luxurious brand through selling its products mainly to expensive hotels and office buildings and also by establishing show-rooms with an upscale atmosphere.<sup>45</sup>

The company has succeeded in tailoring Japanese common practice, whose selling points are "Japanese-style attentiveness in every detail, leaving nothing unattended," to the local market needs. In Japan, the bidet has gained prevalence and is in approximately 70 percent of western-style toilets.

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<sup>44</sup> Based on the Yellow Hat, Ltd., website, *Nikkei Business* (February 12, 2007 edition), etc.

<sup>45</sup> Public Relations Department of TOTO Ltd.

Meanwhile, in China, rinsing one's buttocks had not been an apparent consumer need and no products or services for rinsing buttocks had been offered, until the launch of TOTO's product in China. Introduction of the products to such area enabled accommodation of latent demands not yet translated into effective demand, which had remained as an unattended spot in foreign countries. The company saw growth in sales of the Washlet in the Chinese market at a rate of approximately 20% per annum in the past five years.<sup>46</sup>

In addition, in the Chinese market for luxurious sanitary ware, which is estimated to accommodate five million units, the company has captured 38% of the market share in 2007, more than European and U.S. manufacturers, and ranks the highest.<sup>47</sup>

#### **<<Example Case>> Benesse Corporation “Kodomo Challenge” (Kids’ Challenge)**

In 2006, Benesse Corporation launched its Chinese business of “Kodomo Challenge,” a membership correspondence course for children, which is famous for its character “Shimajiro.” In January 2008, Benesse Corporation became the first Japanese-owned company to incorporate a wholly-owned local subsidiary licensed for distribution of publication, called “Benesse Corporation China,” and started business activities. Educational materials for children have been popular in China; however, there had been no packaged product like “Kodomo Challenge” aimed at supporting children's personality growth, including discipline and daily life habits. In the absence of competitors offering the same type of product, the number of members steadily increased to reach more than 100,000 in April 2008. The company aims to gain 200,000 members by 2010. The character “Shimajiro” is now popular in China, where it is known as “Chiao Fu.”

As the Chinese lifestyle and yearly events are different from those of Japan, the contents of the Chinese version of “Kodomo Challenge” are programmed and edited in China.

Moreover, the company has adopted a marketing method different from that used in Japan. In Japan, as Benesse is well known, many customers subscribe for membership in response to solicitation through direct mail, while Japanese people tend to dislike telephone solicitation. When it comes to China, however, telephone solicitation has become a major marketing method, as Chinese people do not show a negative attitude toward telephone solicitation.

Another aspect on which the company laid emphasis was the selection of a partner. The CWI Publishing House, which has become the partner, is under the umbrella of “China Welfare Institute,” a welfare fund established by Ms. Soong Ching-ling, the wife of Sun Yat-sen, who has served as the vice president of the People's Republic of China. The CWI Publishing House shares Benesse Corporation's vision, and in addition, the publicity and reliability of China Welfare Institute in China have served as positive factors.

#### **<<Example Case>> Yugen Kaisha Nakamura Chaho (Nakamura Tea shop)**

Nakamura Chaho (headquartered in Shimane Prefecture; with 32 employees and ¥7.2 million in capital) is a manufacturer, wholesaler and retailer of Japanese tea. As a first step for expanding business overseas, the company hired a foreigner with a PhD to prepare a website in four languages in 1998. The company was the first to make such commitment in the tea industry, and gained individual

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<sup>46</sup> Public Relations Department of TOTO Ltd.

<sup>47</sup> Survey of TOTO, Ltd.

import orders from various regions, including Europe, the U.S. and Oceania.

The striking aspect of Nakamura Chaho was its business expansion to Thailand. When the company participated in the Japan Food Fair held in Bangkok in 2005, it took the opportunity to ask a food consultant to introduce a potential local business partner. In March 2007, Nakamura Chaho opened stores with cafés attached in Thailand. The company uses the brand name “Chaho” and now operates twenty stores in Thailand.

### **Column 13: “The Four Ps” for gaining business chances overseas**

In the early 1960s, Jerome McCarthy, an American marketing professor, suggested a basic marketing theory called the “marketing mix,” wherein sales strategy is implemented by combining four elements starting with the letter P, i.e. product, price, place and promotion, in the most adequately balanced manner. It is said that each of the letters P nowadays refers to the following<sup>48</sup> (Table of Column 13-1).

**Table of Column 13-1: Element of four Ps**

Elements of Four Ps	Contents
Product	type, quality, design, characteristics, brand name, package, size, service, warranty, products return, etc.
Place (distribution channel)	market, distribution channel, journalizing, location, inventory, shipping, etc.
Price	list price, discount, discount in relation to distribution, due date, terms and conditions for credit transactions, etc.
Promotion	sales promotion, advertising, sales forces, public relations, direct marketing, etc.

Source: Philip Kotler (2000), *"Kotler on Marketing"*

The conditions under which Japanese industries can cultivate potential demands on a global basis and gain business opportunities in the future, streamlined from the standpoint of the four Ps while taking into account the precedent cases, shall be as follows (Table of Column 13-2):

**Table of Column 13-2: Streamlining of four Ps**

Elements of Four Ps	Condition for Successful Results of Japanese “Common” Products and Services in Overseas Markets
Product and Service (Product)	<ul style="list-style-type: none"> <li>•Offering of products and services which "leave no points unattended," which is common in Japan but remains as latent demand overseas</li> <li>•Offering of meticulous services, including improvement of after-sales service</li> </ul>
Distribution and Sales (Place)	<ul style="list-style-type: none"> <li>•Competence in finding markets in which a company can discover potential needs and expand its business</li> <li>•Store location suitable for building brand awareness</li> <li>•Localization of products and services depending on markets</li> </ul>
Price	<ul style="list-style-type: none"> <li>•Price which is affordable and reasonable for targeted customers of local market</li> <li>•Establishment of organization structure lucrative even based on sales of low-price products and services</li> </ul>
Promotion	<ul style="list-style-type: none"> <li>•Implementation of promotional actions depending on distinctive natures of products and services</li> <li>•Utilization of experimental marketing and word of mouth marketing for sensuously promoting “Japanese-style good quality”</li> <li>•Display of products “visible to customers”</li> </ul>

Source: *Kotler on Marketing: How to Create, Win, and Dominate Markets* (Philip Kotler, 2000).

<sup>48</sup> Philip Kotler (2000), *"Kotler on Marketing"*

In the case of products and services offered in Japan, for which the same type are offered also in foreign countries, the distribution of such products and services after adding value, which may be created by anyone, would often put such products and services into intense competition, and it would be difficult to make them lucrative.

Based on a different point of view, an adoption of a concept of introducing products and services accommodating latent needs not yet translated into effective needs as pointed out above, while taking into account the following aspects, may give Japanese-owned companies competitive advantage over their rivals again, even in regard to the fields in which Japan has the advantage, such as the field of electrical devices.

### **(Products and services)**

For example, in the case of a vacuum cleaner, a product other than Japanese products is often superior in terms of its primary function (e.g. suction) and design; however, a Japanese product is often superior in terms of secondary functions (e.g. silence, easy storage, handiness) compared to foreign products. This is the very proof of “Japanese-style attentiveness in every detail, leaving nothing unattended.” It is important for Japanese-owned companies to develop products while making a wise choice of functions to be incorporated therein, based on the precise identification of what the unattended spots for consumer needs are in the relevant local market, instead of merely selling unmodified products in overseas markets.

Some Japanese manufacturers, in the course of product differentiation, tend to incorporate too many functions, including those unnecessary for customers. As a result of this, such product tends to become costly and too complicated to use. There has been a phenomenon where foreign-owned companies manufacture low-cost and simplified products, depriving Japanese-owned companies of their market shares. Some people have pointed out that it is important for Japanese manufacturers to switch their engineer’s mind-set inclined toward incorporating many functions to the mind-set of precisely identifying customers’ needs.<sup>49</sup>

### **(Distribution channels for products and services)**

As suggested by the examples shown above, it is essential to find a potential market that will accept Japanese-owned companies’ products and services, and to localize such products and services in an appropriate manner. In relation to distribution channels required for local business expansion, it is important to find a partner who understands products, services, management policies and management concepts.

In addition, the location of a store is an influential factor for establishing brands. For example, increasing awareness would require a location with considerable foot traffic, including targeted customers.

With regard to high-end products, the adoption of channels such as directly managed stores and internet sales would effectively prevent prices from collapsing.

### **(Price)**

In order to establish a sustainable business model, it is important to set an adequate price

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<sup>49</sup> Michael Porter, "MICHAEL PORTER KYOJU GA NIHON NO MONOZUKIRI WO SHINSATSU"  
<http://monoist.atmarkit.co.jp/fpro/articles/forefront/08/forefront08c.html>