

MARKET ENTRY IN JAPAN: KEY FACTORS FOR SUCCESS

Promising Strategies for Market Entry into a Saturated Market



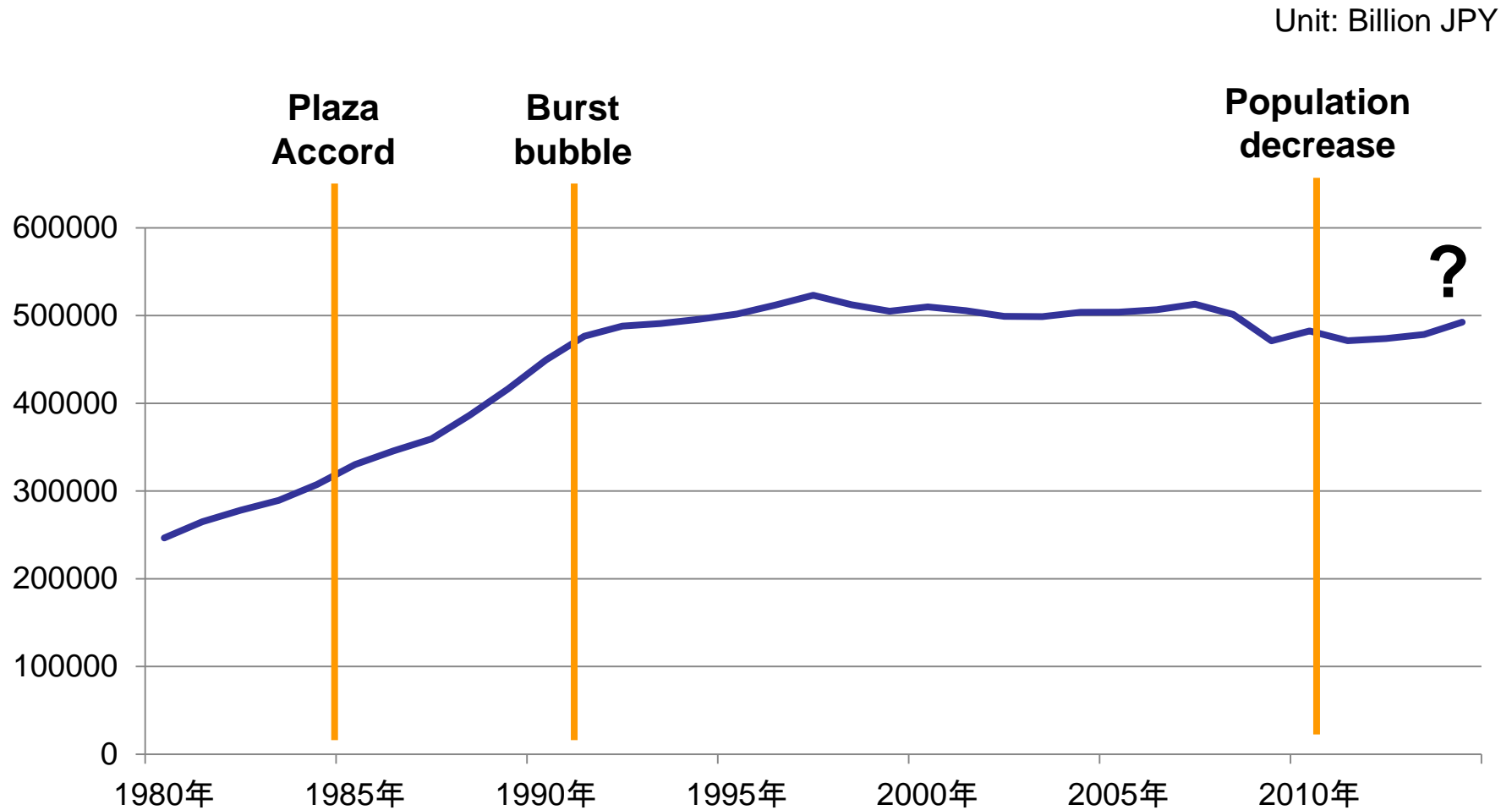
フェネトル・パートナーズ Fenetre Partners

Fenetre Partners - Company Overview

- Leading consulting firm of trade, investment, and international marketing, based in Tokyo, Japan
- Our clients are mainly from the US, Germany, the UK, Hong Kong, Korea, Singapore and Japan
- The main scope of our service is market entry support into Japan by providing market research, entry strategy consulting and its implementation
- Employs 18 staff and conducted over 170 international projects in the past 9 years



Nominal GDP of Japan



Reference: IMF – World Economic Outlook(2014)

Thriving Japanese Companies in the Last Decade (Top 20)

■ Top Companies in Growth from 2005 to 2014 on Tokyo Stock Exchange

Ranking	Company Name	Industry	Increase in net sales from 2005 to 2014 (Billion JPY)	Net sales in 2014 (Billion JPY)	Rate of increase in net sales from 2005 to 2014	Overseas sales ratio in 2016
1	TOYOTA	Transportation Equipment	8,683	27,235	47%	78%
2	Softbank Group	Information and Communication	7,833	8,670	936%	
3	Toyota Tsusho	Wholesale Trade	5,327	8,663	160%	69%
4	Marubeni	Wholesale Trade	4,796	7,834	158%	
5	Honda	Transportation Equipment	3,997	12,647	46%	86%
6	ITOCHU	Wholesale Trade	3,601	5,591	181%	
7	Mitsubishi	Wholesale Trade	3,524	7,669	85%	
8	AEON	Retail Trade	2,883	7,079	69%	9%
9	Nissan Motor	Transportation Equipment	2,799	11,375	33%	85%
10	NIPPON STEEL & SUMITOMO METAL	Iron and Steel	2,221	5,610	66%	39%
11	MITSUI	Wholesale Trade	1,880	5,405	53%	
12	Tokyo Electric Power	Electric Power and Gas	1,755	6,802	35%	
13	Sumitomo	Wholesale Trade	1,713	3,762	84%	
14	KDDI	IT and Communication	1,653	4,573	57%	
15	DENSO	Transportation Equipment	1,509	4,309	54%	61%
16	Daiwa House	Construction	1,445	2,811	106%	
17	Fuji Heavy Industries	Transportation Equipment	1,431	2,878	99%	81%
18	Tokio Marine Holdings	Insurance	1,429	4,328	49%	30%
19	Mitsubishi Heavy Industries	Machinery	1,401	3,992	54%	55%
20	ORIX	Other Financing Business	1,257	2,174	137%	23%

Source: Toyo Keizai Online (September 9, 2015)

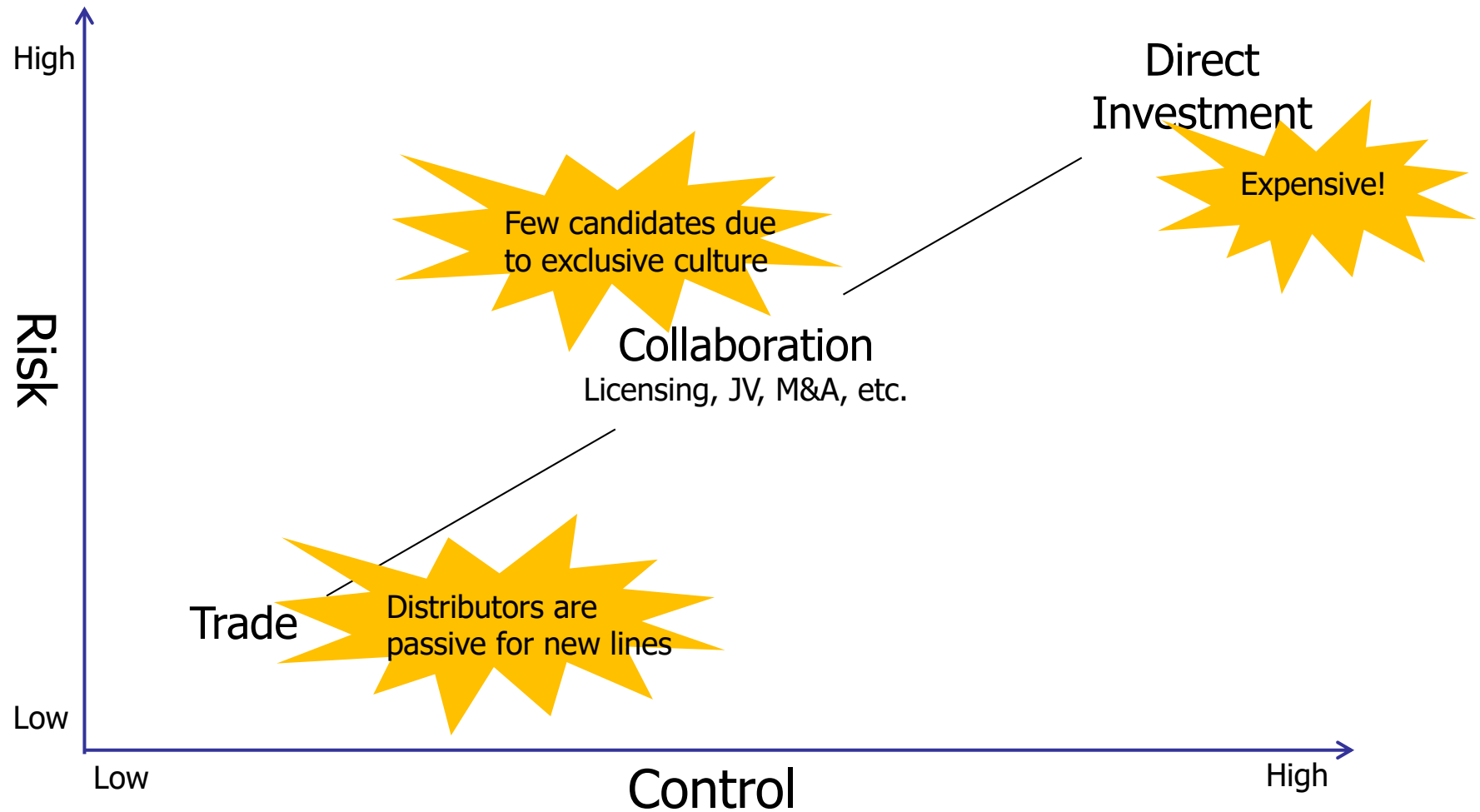
Thriving Japanese Manufactures in the Last Decade (Top 20)

■ Top Manufacturers in Growth from 2005 to 2014 on Tokyo Stock Exchange

Ranking	Company Name	Industry	Increase in net sales from 2005 to 2014 (Billion JPY)	Net sales in 2014 (Billion JPY)	Rate of increase in net sales from 2005 to 2014	Overseas sales ratio in 2016
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19	Mitsubishi Heavy Industries	Machinery	1,401	3,992	54%	55%
21	BRIDGESTONE	Rubber Products	1,257	3,674	52%	83%
24	DAIKIN INDUSTRIES	Machinery	1,186	1,915	163%	75%
26	Aisin	Transportation Equipment	1,135	2,964	62%	
30	Sumitomo Electric Industries	Nonferrous Metals	1,083	2,823	62%	60%
31	Sumitomo Chemical	Chemicals	1,080	2,377	83%	61%
33	SONY	Electric Appliances	1,056	8,216	15%	71%
34	JFE Holdings	Iron and Steel	1,047	3,850	37%	
37	Toyota Industries Corporation	Transportation Equipment	925	2,167	75%	52%
38	TOSHIBA	Electric Appliances	923	6,503	17%	59%
39	Mitsubishi Electric	Electric Appliances	912	4,323	27%	43%
42	Toyota Boshoku	Transportation Equipment	849	1,306	186%	55%
44	Astellas	Pharmaceutical	800	1,247	179%	64%
47	JTEKT	Machinery	786	1,356	138%	60%

Source: Toyo Keizai Online (September 9, 2015)

Options of Entry Mode (Theory)



Why Just Finding a Distributor Wouldn't be a Solution?

- Selling hundreds of products and passive to add new ones
- Working in a particular industry or a particular customer
- Focusing on Just In Time delivery for a particular manufacturer
- Not involved in deep technical discussion
- Most of sales staff don't speak English (Feel unsafe with foreign products)


- However, you have to work with a distributor nominated by a larger manufacturer when you work with the manufacturer...



No perfect distributors

Why is Collaboration Difficult in Japan?


- Less number of Japanese sellers on M&A for foreign buyers
 - The total number of M&A (In-In, In-Out and Out-In) in Japan, 2015 was 2,428
 - The case Out-In M&A (Foreign investors bought Japanese entities) was just 96 in 2015, consisting of 57 businesses and 39 investment companies (Source: Recoftdata)
 - “My Business is My Life”... Work Life Balance is not important for most of Japanese business owners
- Japanese business people are not good at making a decision on discussion due to its hierarchal culture. They like to make clear who is boss



Long time for finding good candidates and reaching agreements

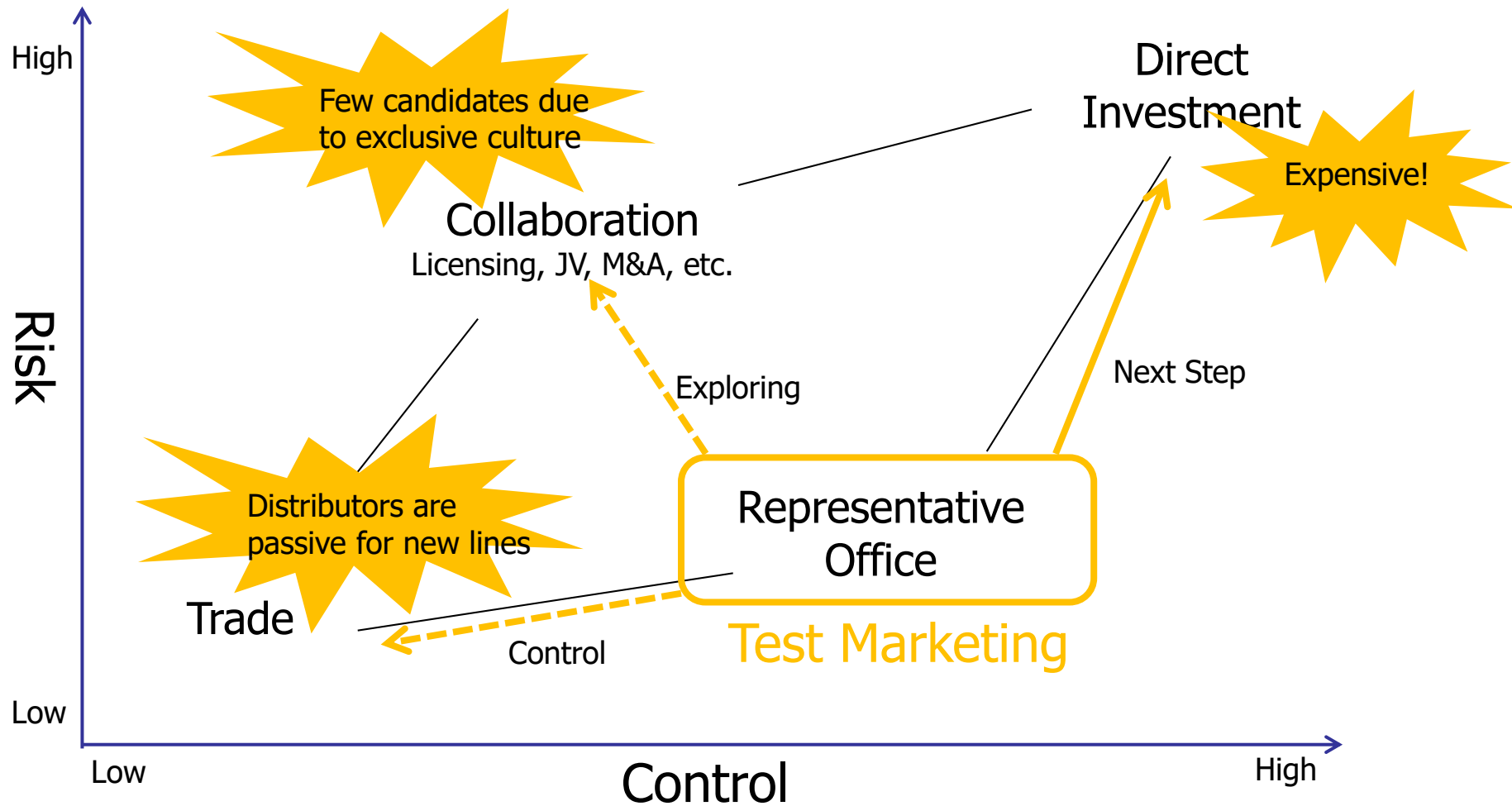
How Is It Expensive When You Establish Your Office?

- Company registration and accounting: EUR 7,000
- Rent for small space in the center of Tokyo: EUR 1,500 x 12 = 28,000
- Office set up: EUR 3,000
- Salary for a bilingual sales manager and assistant: EUR 10,000 x 12 = 120,000
- Recruitment fees: EUR 120,000 x 35% = 42,000
- Social insurance: EUR 120,000 x 20% = 24,000
- Sales costs (Transportation, etc.): EUR 1,000 x 12 = 12,000
- Utilities (Phone, copy, electricity, etc.): EUR 400 x 12 = 4,800
- Tax: EUR 600



EUR 241,400
for the first year
without sales revenue

Options of Entry Mode (Reality)



Laws & Regulations on Setting Up Business in Japan

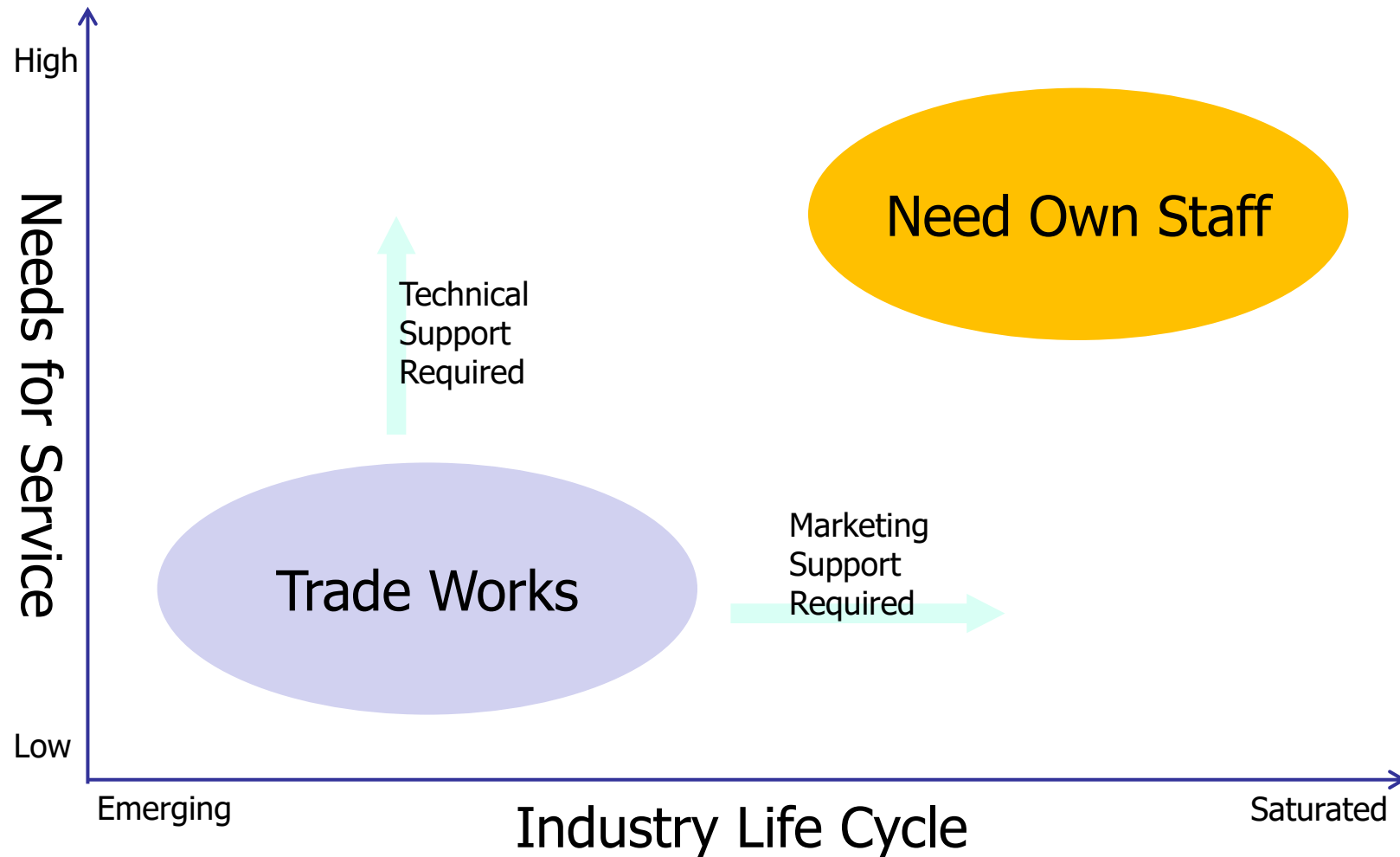
- Representative Office
 - No registration, no capital and no taxes required
 - No involvement in sales transactions
 - No bank account and no lease of real estate

- Branch Office
 - Registration, capital and taxes required
 - Headquarters have to be ultimately responsible for all debts and credits

- Subsidiary Company
 - Registration, capital and taxes required
 - Basically choose K.K. (Ltd) or LLC.
 - More complex in registration than branch

Source: Japan External Trade Organization (JETRO)

How to Choose the Best Entry Mode



Entry Barriers of the Japanese Market

- Language
 - Few people can speak English
- Business Culture
 - Conservative and non-direct communication
- Distribution Channel
 - Complex and passive



Key Factors For Success in Japan

- Choose the right entry mode as your market entry strategy
- Have your own local staff (in many cases)
- Prepare all the documents in local language
- Answer to all the questions immediately even they don't make sense
- Establish personal relationship with key persons from potential partners/customers
- Understand the local proverb "A customer is God"
- Understand quality control is religion or philosophy
- Be patient