Entering the Japanese Market:
Opportunities for US High-tech Ventures

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History of US High-tech Companies in Japan

A number of US high-tech companies that were started in the 1960s and 1970s entered the Japanese market even before US-Japan trade friction started in the 1980s. IBM's punch-card system was first introduced into Japan as early as 1924, and in 1937 the predecessor of today's IBM Japan was established. It was in 1958 when IBM's computers were first installed in Japan. Other examples include NCR, which established NCR Japan in 1920, HP, which formed a joint venture company with Yokogawa Electric in 1963, Intel, which started business in Japan in 1971 and established a wholly owned Japanese subsidiary in 1976, and Motorola, which established its Japanese subsidiary in 1975. All these companies first built their business on their own turf, and then they entered the Japanese market, implored by Japanese would-be distributors or partners rather than strategically and proactively seeking to enter the Japanese market.

In the late 1970s, numerous high-tech ventures started emerging in the United States, many of them in Silicon Valley. By then, the Japanese economy had started growing very rapidly, and the Japanese market was recognized as increasingly attractive, and these companies started paying attention to the Japanese market when they were still in a very early stage of growth. These companies include Applied Materials, Apple Computer, Microsoft, Cisco and Oracle, among many others. Many of these companies made many mistakes initially in entering the Japanese market since many of them thought that their products, coming of the forefront of high technology, should sell almost automatically everywhere in the world, including Japan. Some of these companies survived many challenges and evolved into very successful companies in Japan, but through numerous trials and errors.

In the 1990s, with the advent of the Internet, another new breed of companies such as Yahoo! and Google emerged. Traditionally, most US companies were not interested in foreign markets until after they established a firm base on their own turf. However, many of these Silicon Valley-based companies were started with the concept of a "global company from day one." Founders of these companies are very international (a Taiwanese for Yahoo!, a Russian for Google, a Frenchman for eBay) and many of these companies as well as user markets had very few mental barriers to markets outside Silicon Valley. Yahoo! is very well established in Japan, and Google is growing very rapidly. An interesting exception is that eBay established a wholly owned subsidiary in Japan in 1999, but moved to Taiwan in 2002 after having some difficult times. One common point for both old and new companies is that US companies with persistence and long-term commitment have grown to become very large companies in the Japanese market.

Challenges & Obstacles

Japan is ranked third only after Singapore and Hong Kong in Asia in terms of ease of doing business, as shown in *Table 1,* and indeed there are numerous US high-tech companies that are very successful in Japan. However, there are many others that have learned or are still learning lessens in a hard way. And it's true that entering the Japanese market is not trivial.

Perhaps with the pressure from investors, many venture capital-backed US high-tech companies end up with sacrificing their long-term success for "quick" money, which can be a licensing fee based on a rather short-sighted licensing arrangement or an equity investment from a strategic corporate partner. Today, many successful US companies operating in the Japanese market generate 15%-30% of their worldwide sales out of Japan. However, there are also many US companies that are suffering from stagnant revenue growth in Japan, which is caused by cutting "quick deals" that would restrict their ability to develop further business in Japan and that would hinder their long-term growth worldwide.

In entering the Japanese market, it is too costly and the risk is very high to establish a direct presence in Japan in the form of a wholly owned subsidiary from the very beginning. Almost all the time, US high-tech ventures initially seek some kind of corporate alliance with Japanese companies. Alliances range from a distribution agreement, technology licensing, a manufacturing arrangement and joint R&D to establishing a joint venture company in Japan. It is imperative that US startups go through a very systematic process as shown in *Charts 1-1* and *1-2.*

In establishing an alliance, Japanese companies always want to understand the key values that the US partner brings to the table, and they may do that by asking excessive questions. In this kind of situation, managing the potential Japanese partner's expectation while successfully achieving the goal of consummating a profitable agreement with them could become another challenge.

Quite often, the US management's expectation of revenue from

TABLE 1
Rankings on ease of doing business
(Ranks among 181 countries/regions)

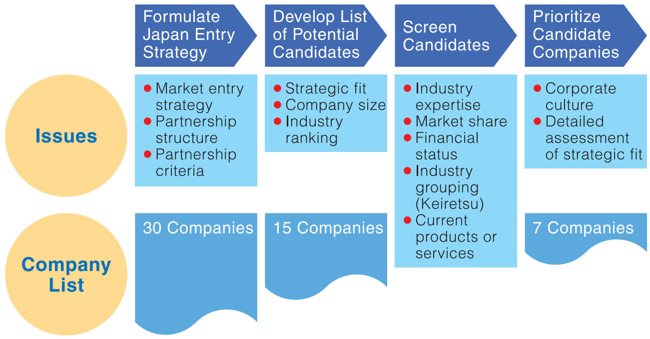
	2006	2007	2008	2009
Singapore	2	1	1	1
Hong Kong/China	6	5	4	4
Japan	12	11	12	12
Thailand	19	18	19	13
Malaysia	25	25	25	20
South Korea	23	23	22	23
Taiwan	43	47	58	61
India	138	134	120	122

Source: World Bank

CHART 1-1

Corporate alliance process

Phase I: Strategy formulation & candidate identification

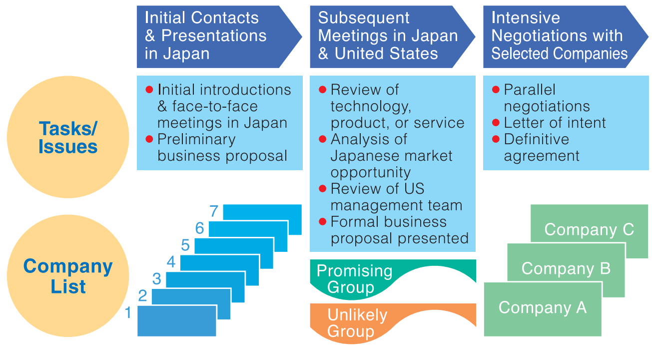


Source: AZCA, Inc.

CHART 1-2

Corporate alliance process

Phase II: Implementation & negotiations



Source: AZCA, Inc.

Japan is too high, too quick. This kind of attitude may pose a difficulties in maintaining good working relationship with the Japanese partner, and this comes from the difference in performance expectation, especially in terms of time. Differences in business practices and corporate cultures of respective companies may also cause difficulties in maintaining a good working relationship with the Japanese partner. Managing own expectations and the expectations of the partner could often be a serious challenge.

Japanese companies tend to be very thorough in evaluating new technology and business opportunities, and also they tend to be risk-averse when it comes to the question of extremely new emerging technologies. These traits of Japanese companies may lead to very slow decision-making. US startups may not be able to tolerate this slowness and perceived “indecisiveness.” Japanese companies may lose a new business opportunity by being too slow in making decisions, but by the same token, their US partners may lose a long-term lucrative business opportunity because of lack of patience.

Japanese companies are typically very demanding. They may demand the same level of thoroughness from their US partners as they demand from their domestic counterparts in providing information and documentation. It is common that each end customer demands customization of the product or service to meet their own need without spending their own money.

Certainly, the cultural and language barriers, and differences in business practices present themselves as serious challenges for many foreign companies trying to do business in Japan. These barriers will be a hindrance to understanding “what’s really going on.”

Formidable Opportunities

Despite all these challenges and obstacles, for almost every US high-tech company, Japan presents itself as a strategically very important marketplace. US startups will be able to enjoy a very long-term business once they overcome these obstacles and challenges. As challenging a marketplace as it is, if a company proves itself as a successful company in this demanding Japanese market, the probability of winning in other countries is extremely high. In fact, as shown in *Table 2,* many US companies that entered the Japanese market within the last 30 years and survived, such as Applied Materials, Apple, Microsoft and Yahoo!, are enjoying very lucrative businesses in Japan today by generating more than $1 billion in annual revenue.

While the Chinese and Indian markets are rapidly emerging, the Japanese market is very well established and, at the same time, highly concentrated, with many years of history of adapting advanced technologies from Silicon Valley startups. Moreover, Japan’s economy remains the second largest in the world. Based on the World Bank’s figures, in 2007, Japan’s GDP was $4.4 trillion, whereas China’s GDP was $3.3 trillion and India’s $1.2 trillion.

The legal system in Japan is very well established, and there is great respect for and enforcement of intellectual property and business ethics. Also very well established are financial markets and government systems. China still has a long way to go as far as modern financial and legal systems are concerned.

Traditionally, US high-tech companies that have entered the Japanese market extract incremental revenue, and certainly today Japan presents such an opportunity. However, in many areas of high technology, including advanced precision manufacturing and robotics, electronic components, nanotechnology and materials, many Japanese companies offer opportunities for joint R&D. Thus US high-tech firms can capitalize on these advanced technology capabilities of Japanese companies through “open innovation.”

It’s been a common knowledge that the cost of doing business in Japan is very high. This was true 10 years ago. Today, perhaps the office cost of the central Tokyo area may be still slightly higher than that of San Francisco (depending on the exchange rate), but actually the cost of doing business in Japan could be relatively low because of the high concentration of companies and customers in the major city areas in Japan such as the greater Tokyo and Osaka areas. The “GDP” of Tokyo alone is $790 billion and that of Osaka is $340 billion.

In addition, it is noteworthy that US companies can capitalize on the abundance of highly educated human resources. Today, many young, talented people in Japan are excited by the opportunity of working in an entrepreneurial working environment that Silicon Valley startups can offer as opposed to working at a very traditional, rigid organization.

A symposium titled “The Absolute Growth Protocol For Your Technology” was held jointly by JETRO (Japan External Trade Organization) and the US Department of Commerce in Sacramento, California, in November 2006. In panel discussions at this sympo-

TABLE 2

Examples of US companies successful in Japan

Company	Year founded	Date of Japan entry (JV or subsidiary)	Estimated revenue in Japan ($1.00=¥100)
Applied Material	1967	1979 Applied Materials Japan	$1.6 billion (2007)
Microsoft	1975	1986 Microsoft Japan	Not public $60 billion worldwide (2008)
Apple Computer	1976	1978 Toray as master distributor 1983 Apple Japan	Not public $33 billion worldwide (2008)
Oracle	1977	1985 Oracle Japan 1991 Strategic alliance with Nippon Steel	$1.1 billion (2007)
Sun Microsystems	1982	1986 Sun Microsystems (Japan)	$0.63 billion (2007)
Trend Micro	1988	1989 Trend Micro (Japan)	$1.0 billion (2008)
Amazon.com	1994	2000 Amazon Japan	$1.5 billion (2007)
Yahoo!	1994	1996 Yahoo! Japan	$2.6 billion (2007)

Source: Company websites

sium, some key comments from the US side included:

- Japanese firms, both large and small, have invested considerable amounts of time and money in R&D activities to develop competitive technologies. A combination of advanced Japanese technologies and original ideas from the United States can help strengthen the industrial competitiveness of firms from both countries.
- Japan's business environment is improving and becoming more open to foreign entrants, and US companies are finding it easier to link into distribution channels, giving them wider access to Japanese consumers.
- In general, it takes time to establish business relationships with Japanese firms. But once agreements are made, business moves at a rapid pace towards maximizing the relationship's potential.

Keys to Success in Doing Business in Japan

As mentioned above, US companies that are enjoying successful business results in Japan have some commonalities, and these could be good advice to US startup companies as keys to success in doing business in Japan.

First of all, US startups should determine the strategic importance of entering Japan or establishing working relationships with Japanese companies. As mentioned earlier, since Japan is fairly demanding as a market, success in Japan means success in many other parts of the world. Also, increasingly, Japan could serve as a gateway to China as many Japanese companies are entering China and exports growing. If Japan is seen as just an incremental source of revenue, probably the effort and cost of entering the Japanese market will not pay off within an acceptable time. Only with a long-term commitment based on the recognition that Japan will be a base for their competitive strength in the global market, startup companies would devise means to fully capitalize on various capabilities, resources, and quality consciousness of Japan, and will have a chance to win long-term success. Once a company starts being seen as a successful company, its credibility and reputation will further enhance the chance of success, not only in Japan but also in other marketplaces of the world.

Second, US startups need to be patient and know how to manage their own expectations. As mentioned earlier, Japanese companies, whether a potential strategic partner or potential customer, tend to be slow in making decisions relative to the pace familiar to Silicon Valley startups. This is because typically Japanese companies involve almost everyone within their organizations who will be involved in the project in the early stage, and therefore it takes time for consensus building. In the United States, in contrast, a few top management people quite often cut a deal quickly without involving those who will be actually working on the project until the deal is done. Therefore, in Japan, by the time actually the project starts, everyone on the project knows exactly what will be happening during the next 12 months, and things move very smoothly, whereas in the United States, people sometimes stumble after the project is started because people are brought into the project only after it is started. Patience will come into play also in terms of satisfying the customer. Japanese customers are quite demanding, as mentioned earlier, and probably they will not be easily satisfied with the initial product or service offered. It is very important for US startups not to try to force their available product/solution/service to customers as it is, but they should be willing to carefully listen to what customers demand. Sometimes, the customer's demand may sound unreasonable or too severe (e.g., product specification), but US startups should try to improve their products first before abandoning the business opportunity. Once customers are satisfied, they tend to remain loyal and provide various insights that would help US startups further build their business in and outside Japan.

Third, US startups should appreciate the importance of trust in building business in Japan. Japanese people are relationship-oriented. Once a good relationship is built based on trust, Japanese customers or alliance partners will cherish the relationship for a long time as a basis for doing business.

Help You Can Get

In entering the Japanese market or in establishing a strategic partnership with Japanese companies, US startups can take various approaches. But trying to do everything on its own would be too risky. US companies may not be sensitive enough to the cultural differences between the two countries, they may not be familiar with business practices in Japan, and they may not have a good contact base in Japan. As mentioned earlier, Japanese companies value relationship and trust. Some 15 to 20 years ago, most of Silicon Valley startups had no experience in dealing with Japanese companies. Since then, many Silicon Valley companies have accumulated institutional knowledge and experiences in dealing with Japan, but still US startups trying to enter Japan for the first time may have not spent enough time to build relationships required to build a long-term presence in Japan.

In such a case, US startups can enlist the service of intermediaries who are familiar with the culture and business practices of Japan, and who have a quality contact base. If a US company uses the help of an intermediary who is well trusted in the Japanese business community, the company can take advantage of his/her credibility and reputation in dealing with companies and people in Japan. US companies can engage consultants specialized in bridging between the United States and Japan. They can also get help from JETRO, a Japanese government organization which provides, among other services, one-stop services to foreign companies trying to enter the Japanese market. These services include general guidance on how to set up business in Japan, legal and accounting guidance (including introduction to professionals in respective fields), and guidance in cost estimation for establishing a direct presence in Japan. JETRO even provides incubation facilities for foreign startup companies for a limited period of time. These services are either free of charge or at a nominal cost. JETRO may be a good starting point of entry to Japan.

Summary

In summary, if US startups consider Japan is of strategic importance, make a long-term commitment to success, and work diligently paying attention to the difference in business practices and culture, then the payoff would be tremendous. In a matter of five years, they may be well-established in Japan, enjoying a very profitable business. JS

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