Entering the Japanese market

Dr. Daniel Isenberg, CEO, Triangle Technologies

Triangle Technologies assists relatively mature technology-based ventures in penetrating the market in Japan. **Dr. Daniel Isenberg**, Triangle's CEO, discusses the benefits of doing business in the Japanese market and the steps that high-tech companies should take to realize a successful market entry.

The economic shift to Asia

One of the dramatic changes in the global venture community in the past five years has been a shift in the economic "center of gravity" from the US and Europe towards Asia. This is a process that will take many more years, but it is inevitable and inexorable. A generation from now India, China, Japan and Korea will be the world's major consumers of technology and, to a large extent, its major producers as well. The shape of this new regional economy is forming rapidly. Japan, China, India, and Korea have a total population exceeding 2.4 billion people, a combined GDP exceeding $13 trillion (versus the US $10.5 trillion) and growth rates ranging from three to nine percent.

Although now increasingly recognized by VC fund managers, this economic sea change initially caught the predominantly Western VC community unprepared, since US (and, to a lesser extent, Israeli) VCs have been traditionally oriented toward US institutions for fund raising, US financial markets and acquirers for fund liquidation, and US customers and revenues for value creation.

The Japanese economy

Whereas the Chinese and Indian economies are rapidly emerging, exhibiting dizzying growth rates in the 4-9 percent range, the Japanese market is well-established, with a long legacy of development and acquisition of technologies and products, and (now that the 12-year recession is officially ending) slow to moderate growth. And even while emerging from its long, painful recession, the Japanese economy is much larger than China's (in real terms), with modern and relatively transparent legal systems, patent laws, financial markets, governance systems, and a highly ethical and predictable business code. China, on the other hand, has a long way to go in modernizing its financial and legal systems, which are riddled with problems such as non-performing loans and non-economic criteria for credit issuing.

Japan's advantages

In the context of the above macro factors, Japan has numerous advantages for venture-backed, early stage high technology companies:

- A plethora of sophisticated customers with a hefty and consistent appetite for the latest technology
- A very advanced technology development capacity enabling its corporations to serve as development partners
- Laws to protect IP and a legacy of IP enforcement
- Segmental technology leadership (WLAN, mobile data services, broadband, consumer electronics, some medical devices, storage, displays – and increasingly biotechnology and drug discovery)
- Low cost of doing business (despite impressions to the contrary) due to high concentration of businesses in the greater Tokyo area (although human resources are expensive, roughly on a par with the US)
- A large pool of capable, highly educated human resources with a very strong work ethic
- Increasingly, a gateway to China, as Japan's exports to China grow rapidly.

Japan's disadvantages

Japan's many advantages should not cloud objective consideration of the shortcomings. Its disadvantages include:

- A high degree of thoroughness in evaluating new products and technologies, which leads to long assessment periods and slow decision-making
- A strong customer service ethic, which creates demands on venture firms to provide the same level of service as their larger, domestic counterparts, including customized solutions with little or no customer participation in the necessary investment.
- An aversion to certain forms of risk taking, which impedes the uptake of really new and emergent technologies, particularly as they are deployed in service industries.
- High expectations regarding documentation – quantity, quality and consistency between documentation (e.g. spec sheets) and reality (actual product features and performance)
- "Followership" in certain key segments, such as networking and data security
- Language and cultural barriers that decrease transparency for the novice

Insight into the advantages and disadvantages of doing business in Japan can help the entrepreneur or manager of high growth ventures mitigate the risk of doing business in Japan and tap into tremendous opportunities.

Advice to foreign start-ups (and their boards)

Have a strategic rationale for entering Japan. Since decision-making and other processes take longer in Japan and require a commitment of resources, it is important that Japan be a strategic market and not only just another big market. Typically, Japan accounts for 10-20 percent of a technology-based company's worldwide sales, but if Japan is a strategic market, and if penetration is managed professionally, relative sales in Japan can be higher and more profitable. Moreover, the impact on a company's reputation, product planning and quality can be significant.

Manage expectations and strive to improve. Since a company's initial products are not completely mature in terms of performance and features, it is important to keep expectations accurate and not over-commit, even at the expense of losing business. Once a reputation for accurately communicating reality is damaged, it is very hard to restore.

At the same time, the concept of continual improvement is fundamental to Japanese culture, and partners and customers expect that suppliers will recognize any shortcomings, and continually strive to improve products and services. The notion of resting on one's laurels does not have currency in Japan.

Build relationships based on trust. Japan has a concentrated, relatively homogeneous population, with tight, long-lasting networks of relationships. Collective memory is long, and one's sins and virtues are ultimately recognized and accounted for. In short, it pays to invest in long-term relationships built on interpersonal trust, which, once firmly established, form the infrastructure for healthy and fruitful business relationships.

Use intermediaries. The prerequisite of interpersonal (and intercompany) trust for conducting business in Japan obviously poses a dilemma for start-ups, which by virtue of their age have not had the time to establish long-term relationships, credibility and reputation. In Japan, it is common to "lend" or "broker" trust using formal or informal intermediaries – if A and B trust each other, and B and C trust each other, then if B introduces A and C, then A and C are trustworthy vis-a-vis each other.

Commit to the market. Since processes tend to be long in Japan, it is important to both be committed to the market over a relatively long period, and also to signal this commitment. A corollary to this is the need to show presence, with frequent visits to Japan and, eventually, establish a local presence.

Acquire respected customers. As a relatively homogeneous and concentrated market, with informal and formal channels for information sharing among companies, success at a respected lead customer in Japan will be noticed and have a relatively large impact on receptiveness to new products and technologies, and thereby reduce marketing costs.

Get support from the board. Penetrating Japan is not a frivolous affair. It requires significant commitment of resources to generate the significant positive value. Therefore, it is important that one's board of directors be solidly behind the effort and understands the investment required, as well as the level and timing of expected returns. ■

Triangle Technologies, founded in 1989, has executed over 100 transactions in the Japanese market. Dr. Isenberg, Triangle's CEO was on the faculty of the Harvard Business School from 1981-1988 and holds a PhD from Harvard University.