Five Percent: That's Your Benchmark

Whoever isn't making five percent of their global sales volumes within Japan either doesn't offer suitable products for this marketplace or else is doing something fundamentally wrong. So says Günter Zorn, a bit provocatively. The owner of consulting firm z-anshin, and expert on Japanese business for many years, Zorn is convinced that in the oft-neglected Japanese market much profit is to be had even today. Possibly even more than ever.

The interview was conducted by Patrick Bessler.

JM: Mr. Zorn, you make the following argument: Whoever does business in Japan should achieve not less than five percent of their global sales volumes from such activities otherwise something is profoundly wrong.

Zorn: This is, of course, a provocative and over-simplistic assumption. I'm not averse to only four or even three percent of a company's global sales being generated in Japan – that's fine with me. However, this country accounts for approximately eight percent of global GDP. This fact ought to be reflected in the revenue distribution of global players. If it isn't, these companies aren't utilizing the full potential of the domestic market.

There are many companies that have been active in Japan for a long time and who enjoy respectable market shares, both here and as part of their overall worldwide trading. On the other hand, there are also many companies that have been present in Japan for decades whose share of global consolidated turnover is still well below one percent. To get at the heart of the issue, searching questions need to be asked, such as why these companies are even present in Japan in the first place? Either they are offering products unsuited to the market or else they have created an organization, which doesn't meet specific local requirements. More often than not, there is also a lack of support and a dearth of investment from the parent company.

JM: So, fundamentally, a defined strategic approach is what's missing? Or is it more a lack of genuine commitment?

Zorn: Without doubt there are certain companies whose local competition is just so strong that they don't stand a chance. Nonetheless, it is my opinion that, amongst small and medium-sized companies (SMEs) in particular, few have developed a clear strategy for doing business in Japan. During the heyday of Japan's economic might, many companies entered Japan simply because one "just had to be present there". However, engagement with Japan never was, and still is not, a must. Engagement here, as in any other country, only makes sense if one has a strategy for gaining market share, for realizing profit, and if such an approach is relevant to the group's internal strategies as well. Gaining significant market share doesn't only impact upon revenues and profit levels: in my own experience, there is a threshold – namely, that same five percent of global sales – which a local CEO needs to cross in order to garner the attention of his executive chairman and thereby also attract strong support from the parent company.

JM: What, in your opinion, are the odds that this viewpoint will gain traction right now – after all, in Germany there is often palpable skepticism towards Japan's economic development?

Zorn: There are industries and industrial sectors where Japan never actually vanished from the radar. Take the automotive industry as an example. Japan domestically produces more than 9 million cars per year, after all. As a whole within the last ten years, however, Japan has taken a back seat. Many foreign companies have preferred to focus on the BRIC nations, an approach that has, admittedly, been wholly defensible. In the last couple of years, however, growth in the emerging markets has conspicuously slowed. I think that this has had the knock-on effect of encouraging many companies to re-acquaint themselves with the fact that Japan still remains the third largest economic power and still affords significant growth potential.

JM: Do you also regard this as a natural corollary of the country's current economic policy?

Zorn: I do think the PR of "Abenomics" has influenced this change as well, yes. But there's more to it than simply that. Foreign companies have been tremendously impressed by just how expeditiously Japan recovered from the recent earthquake and tsunami disaster; how it re-launched industrial production and was able once again to deliver. During those difficult times, when production was at a standstill and, all of a sudden, there was a shortage of parts across the globe, people realized just how profound their dependency on Japan actually was. That was an eye-opener. Pertinent, too, is the fact that Japan still counts itself amongst the industrial vanguard when it comes to several critical, cutting-edges technologies, such as e-mobility and medical technology. As

▲ It's just like in baseball,"explains Günter Zorn."One can win in the Japanese market using concepts or products from abroad – just so long as they are the right ones.

such, the country still plays an important role as a potential marketplace, as a center for technological innovation or as a potential partner, with the latter point likely being the most complicated aspect.

JM: Is it not a fact that the trend towards globalization largely stymies the potential for business in Japan? When Japanese companies relocate abroad then the Japanese market diminishes accordingly.

Zorn: Partially, yes. On the one hand, it doesn't really apply to the consumer goods sector where, after all, sixty percent of Japanese GDP is generated. On the other hand, it stands to reason that due consideration must be paid to how any response to the trend toward relocating abroad is calibrated. For instance, one could add up the revenue generated with Japanese customers both locally and abroad. So, rather than a country Japan view, one can take a global customer view, and what's called "share of wallet" of such a customer is what really counts. For example, what amount of Toyota's worldwide expenditure in our product class does our company capture?

JM: Nevertheless, in Japan itself there are only a few markets which are exhibiting real growth. In the main, enormously taxing, cut-throat competition prevails, doesn't it?

Zorn: Yes, that's undeniable. That's why one's strategy also needs to be oriented toward the goal of how best to thwart the competition. And to do so is perfectly feasible. When, for instance, in 1991 I came to Japan, it was on behalf of a company that had already been present in the domestic market for decades yet had only captured a paltry market share whilst simultaneously delivering anemic growth. Immediately, my set objective was to win significant market share away from our major Japanese competitor. It was a company that virtually owned the market. We, on the other hand, offered a new, markedly superior group of products, not only in terms of functionality and quality but also in terms of pricing. Battling resistance even from within our own ranks, we still managed to drive through radical changes whilst investing heavily. In no time at all, we gained almost fifty percent of the market in this product class. The crucial factors are always product, price, performance, service, good marketing and supplier reliability – quality in its broadest sense. All of this is well-known business lore, of course, but it needs to be put into practice notwithstanding. Moreover, even though the market itself may not be growing, it's more than possible to increase market share all the same. The best current example of this is the market for cell and smart phones in Japan.

JM: Is the potential for crowding out today different from in the past?

Zorn: In the past, for sure, the Japanese took a greater pride in their industrial products. Also the "keiretsu" issue was considered much more important than today. Conditions these days are much more benign simply due to the fact that many companies have relocated abroad. Others simply fell behind in their core business. What's more, Japanese consumers and B2B buyers now more than ever scrutinize alternative products and pricing, and also what has become an enormously important factor, trendiness. It may be a bit of a stretch, but I'd still contend that nowadays it's far easier to gain market share in Japan than it was twenty years ago.

JM: So, are you optimistic that such notions might also prevail in Germany?

Zorn: Absolutely. In the last two years, and much more than in previous years, I've seen a strong increase of enquiries from companies planning to launch new subsidiaries in Japan. At the same time, many well-established companies are suddenly – and once again – scrutinizing more closely just how well their Japanese subsidiaries might actually be performing whilst examining whether there may be opportunities for further development. ■

Günter Zorn is the Representative Director/President of z-anshin K.K. He has accumulated more than 30 years' experience in executive positions, including, inter alia, his stewardship of a leading global transport and logistics corporation. In addition, he has held several public offices, including those of both 'Präsident der AHK Japan' and 'Gouverneur of the European Business Council'.

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