



Trade strategy of Japanese companies on foreign markets

[Bruno Hromý](#) | 09.01.2006

One of the most common character traces of Japanese internal market is the struggle of big corporations for a share in the market. Unlike the Western style of competitive fight, in which companies are trying to maximize profit and thus create the highest financial satisfaction for their share holders through dividends, Japanese companies concentrate on proving the abilities of their managements and quality of their goods by gaining control of the biggest part of certain market segment. And so that this „harmony of competition“ was not disturbed by foreign competitors, Japanese subjects with the generous support of the government often unfairly unite and push the „intruder“ from the market (e.g. dumping prices) and after that they concentrate again on their own competitive fight.

Many historians, political economists and sociologists explain this phenomenon as a transformed continuation of samurai fight, which took place between individual daimjos in the past. Because Japan according to its constitution may not dispose of an army and does not even have the resources to get involved in a war conflict, the domestic market competition is some kind of a substitution for this development.

International environment – extended struggle for domestic prestige

International market environment represents for Japanese companies a fighting arena with very free rules which extends the limited space of domestic fight to foreign companies. If e.g. Toyota and Honda are frustrated because of the results of sales on the domestic market, they turn their attention to export so they could reach such results that their managements consider crucial for the survival of the company. The



same applies for Sony, Macushita (Panasonic-National), Hitachi or other huge subjects in every branch. When these companies consider the deployment of their products on the foreign market, they evaluate not only the local companies or transnational concerns that are already present in the market, but what is more important, they try to estimate how their Japanese rivals will react to their new moves. Foreign markets thus represent in the business of Japanese companies some kind of a measure of the management quality and its ability to survive. The worst anxiety of a Japanese manager is a sudden discovery that his biggest Japanese rival has penetrated a new foreign market. The usual answer to the situation is to follow the example and launching his own activities in the given country. A tragic event for local producers is a situation when more Japanese companies start to fight for the biggest share of the market, which results in the decrease of prices and the local producer is unprepared, trapped in a circle of competing Japanese. The Japanese way is for western companies hard to understand, moreover because it often comes suddenly without obvious rational reasons. When local subject realize what has happened, it is usually too late. For understanding this behavior it is important to realize that the domestic development is decisive for Japanese companies – the struggle for the biggest prestige, the desire to become „ichi-rju kaisha“, the company number one in Japan. If it means to become number one in the world scale, the better for the company.

Differences in the economic expansion before and after World War II

Before we start to analyze modern strategies used by Japanese corporation in order to expand abroad it is important to take a look at the foundations of so called Japanese economic miracle. We tend to forget about the fact that Japan has not started after the WWII from scratch. The true beginnings of post-war „miracle“ can be



traced into the 20s and 30s of the 20th century, which was the first period of penetration of Japanese companies into foreign markets with the focus on buying scarce goods (that means they were buying almost everything) and selling their own products. By evaluating the low-cost production of small family sub-suppliers and traditional high working standards big exporters were able to decrease selling prices and gain control over important segments in the world trade. For example in year 1932 Japan outdistanced Great Britain in the textile sales. Products were often copied from the most important world producers (nowadays many Chinese companies use world producers as an inspiration) and were sold in foreign markets for prices often lower than the production costs only to allow Japan to obtain freely exchanged currencies, which were immediately invested into the purchase and development of army technologies. Slogan „Export or die!“ has real roots in the 30s, when millions of men, women and children worked to the point of exhaustion in catastrophic environment for a greater glory of Japan. The biggest difference in the market expansion of Japan in the 30s and 70s to 80s of the last century is represented by the attitude towards the quality of exported goods and an emphasis on establishing original Japanese brands in the world. The quality of Japanese products was seen as the lowest among the industrialized countries and the pirate copying of foreign brands was a common practice, while now products „Made in Japan“ are among those of the highest world quality. Another difference between present and past is that in the past there was a tight correlation between export and colonization policy of Japan in subjected countries in Asia, which means that the exchange of products for raw materials imported from subjected regions had nothing in common with free market. But one of the key reasons stays the same for both periods – high working ethics and an absolute devotion of a Japanese worker to his work, quality of its result, and loyalty to his employer.



Mechanisms influencing the market strategy of Japan

Because Japan always has to worry about an undisturbed supply of strategic materials, it is a vital part of its trade strategy to have control over the sources of those materials which are essential for the survival of its industry. Japanese economy works due to the processing of those raw materials, sales of products (made out of those materials) with added value, which is used to purchase materials needed to satisfy the domestic demand. If there was a large natural catastrophe or political disturbance influencing the flow of raw materials, the circle would be broken and Japanese economy would collapse. Japanese politicians and businessmen are well aware of the fragility of the system and that was the actual reason for the militant expansion of Japan and the war in Pacific. Even though the Japanese attempt to gain dominance over the raw material sources is being repeated nowadays, militant resources were luckily substituted by economic. Another logical step for an island country is, after the guarantee of continuous supplies of materials, to build and control sea transport, which was the main reason for the expansion of Japanese ship producing companies during the post-war period. And it was the steep increase in world prices of raw materials, especially oil in 1973 and subsequently steel, which made Japanese ship production too expensive and finally deprived Japan of the first place and thus confirmed the country's dependence on the world's environment.

Parts of Japanese market strategy

A very important factor of successful penetration and establishment of Japanese producers in foreign markets is the creation and maintenance of information networks and supplies of wonderful information in the business relations. Japanese companies traditionally co-operate very well with their government institutions as far



as intelligence and reporting about the countries where they work or have a representation is concerned. Huge corporations often have their own intelligence networks which supply central offices and analytic centers with fresh, detailed and professional information, which is the heritage of the top Japanese intelligence during WWII. Another strategic element that helps Japanese companies in foreign trade is a supporting system which is provided by the government. For example official foreign help to the developing countries (Official Development Aid) is conditioned by purchasing Japanese products and using the services of Japanese companies or banks. This way Japanese subjects receive market shares in those countries being ahead of the European or American competition, moreover with lower costs on market exploration and formulation of market strategy. Probably the most significant help is provided by a Japanese company named JETRO (Japan External Trade Organization), an equivalent to Slovak Agency for Development of Investments and Trade (SARIO), unfortunately with higher quality standards and extent of data and services. JETRO introduces Japanese companies to the market shares, gives them exact information and data about the international trade, intensively monitors and analyses European and American competition on all significant world markets and in all product categories. The main purpose of the agency is to help the growth of Japanese export and co-operate with every Japanese company that requests help. It has 74 representative offices in 56 countries, 38 offices in Japan with two headquarters in Tokyo and Osaka and more than 10 thousand employees. Basic assets of JETRO is 104,4 mld. JPY (almost a billion USD) and the budget in year 2004 was 42,1 mld. JPY, almost 400 millions USD. One of the many activities of JETRO is to justify economic interests of Japan in the centers of political power in important countries and political alignments – European Union, USA, China, Russian Federation etc. It hires the best law consultants for monitoring the legislation and gives financial support to former important political actors in order to gain information



and use their counsel. An important instrument, which is currently used by many Japanese companies to gain larger market shares, is an investment into marketing and promotion of the brand and image. Many of them rely on the creation of a connection between their brand and some kind of a sport. Because a large number of them offers products of mass consumption, a popular place for commercials has become soccer – e.g. during the World Championship, European league or Master League UEFA one can observe from where the majority of promoted brands close to the field comes. The asset of such investments was very quickly grasped also by South Korean brands and they promptly follow their Japanese competitors. Japanese companies usually penetrate foreign markets one by one using low prices, high quality, massive promotion and detailed knowledge of the market which they gain before they decide about establishing a branch in the given region. At first they establish an „intelligence office“, which is called a „representative office“ or „trade representative agency“. The office usually includes two or three employees whose function is to inform the headquarters in Japan about the regional trade customs, legislation, investment support, infrastructure and life standards. If the information is suitable, they usually soon expand their activities. A priceless role in supporting the penetration of Japanese products into a foreign market plays the Japanese Ministry of International Trade and Industry (MITI), which not only provides companies with every kind of help, but it provides so called „industrial targeting“. It is a continual observing of the international market scene and an attempt to estimate which technological or production segment will be most important for growth and expansion in the future. Due to this policy Japanese companies are able to orientate and adapt their production focus more quickly than their foreign competitors.

Even though Japanese economy was able to make a great progress since the end of WWII from the point of engaging themselves into the international distribution of labor



and success in foreign trade (and although in the support of its export or foreign business Japan can serve as an example for other countries), the last decade confirms that not even high trade surpluses necessarily have to be a remedy for economic recession. Apart from the structural problems in Japanese economy many countries (or economical groups), which threaten the results of Japanese trade, have emerged since the 80s as a result of political and social changes. Such countries are primarily China and South Korea which have learned a lesson from Japanese successes and mistakes and by using their own comparative advantages started to shorten the distance between them and Japan in economical efficiency. As it is more and more visible even Japanese themselves - satisfied by the quick rise to leading positions in world economy – complicate the accomplishment of sustainable growth by their conservativeness and slow execution of social and economic reforms. Moreover, the already mentioned lack of raw materials could cause that Japan will watch its neighbors gaining advantage.