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# Doing Business in Asia

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Abstract

Rapid economic growth and globalization in Asia are driving new investment opportunities and intensifying competition. To sustain competitive advantage in this new business environment, which is marked by both fierce competition and unprecedented opportunities for collaboration, business leaders must expand their vision beyond their local markets and industries to the rest of Asia and the world.

As Japan's population declines and ages and the yen continues to appreciate rapidly, attention is being drawn to the rapid growth of emerging markets, especially in Asia. Confronted with these new circumstances, many Japanese companies have adopted the "expansion of business overseas" as their growth strategy, but this is a very steep path to climb. However, successful cases of growing business in Asian countries are emerging.

In this RIETI discussion paper, we will introduce successful cases of business growth by Japanese companies in Asia, especially in China and India. Key lessons from these cases are as follows: allowing globalization to drive a new business model; hybridization of the new business model and the existing business model, and effective human resource management.

*Keywords*: Globalization, China, India, New business model, Human resource management
*JEL classification*: L1, L2, L6, M１, M3

## Problem Statement

Given the lack of significant growth in the domestic market, global business growth is a must for corporate Japan. In fact, with the new challenges of a hyper-aging society punctuated by a rapidly-declining domestic population, a sharply-appreciating yen, and, above all, the rapid growth of newly-developing overseas markets looming before them, nearly every company in Japan, regardless of its industry or size, has established “global business growth” as its growth strategy. But the question is to what extent have companies actually initiated genuine efforts towards that end.

Efforts by leading companies in Europe and the United States to transform themselves in the name of globalization began around 2000. For Proctor & Gamble (P&G), the market leader in shampoo and other consumer goods and a classic example of a multinational corporation, those efforts began in 1999. Nestle, the world’s leading food products manufacturer, began standardizing its operations in each overseas market in 2000 while also continuing to place importance on its handling of individual markets. In 2007, IBM declared its intention of becoming a Globally Integrated Enterprise (GIE) [1]. Compared to these corporations, Japanese companies are easily 10 years behind in addressing globalization. To begin with, not only are the majority of Japanese companies not multinational, but also, for all intents and purposes, are focused on the domestic market. At best, they end up as international companies that expand a portion of their operations (processes between manufacturing and sales, etc.) overseas.

What leading companies in Europe and the United States illustrate to us as a precedent is that global business growth requires companies to undergo a “painful” transformation as a whole. The confusion that awaited P&G upon electing to globalize itself in 1999 was truly no easy matter to overcome. For P&G, which, until then, had endeavored to optimize its business on a per-region basis for over 100 years, the extent of the company’s transformation was such that its CEO had no option but to resign. However, the succeeding CEO, A.G. Lafley, pushed forward corporate reforms that established globalization as a path from which P&G would not stray.

It will not be easy for Japanese companies to overcome the challenges currently facing then in their global business growth. And yet, it is also evident that there is no future without global business growth. The key to success in this regard lies in leadership to push forward globalization staunchly on a companywide level. Looking at corporations such as Ajinomoto, Kao, Komatsu, Japan Tobacco (JT), Nissan Motor, and Shiseido, all of which represent Japanese companies that have made dynamic progress in globalizing their respective businesses, what these companies also have in common is that their top management go beyond simply talking about the need to globalize and instead demonstrate leadership in promoting major transformation that involves required courses of action and, in particular, required changes in head office functions. This fact shows us that the

[1] Samuel J. Palmisano, The Globally Integrated Enterprise, *Foreign Affairs*, Summer 2007.

Japanese corporate world as a whole is by no means suffering at the hands of global business growth; rather, it suggests to us that the bottom line is the success or failure of global business that depends on the degree to which each corporation is equipped with transformational leadership.

Where optimum globalization is concerned, no corporation possesses a single, absolute correct answer that promises effectiveness Corporate leaders, after taking into consideration their organization's mission, philosophy, and competitive advantages, must produce that organization's own right answer. However, it is worth conducting research on the best practices of global business growth, especially in China and India that have the biggest engine for the entire global economy, identify their key factors for success, and publish these research findings so that other companies will analyze how to apply those key lessons to their context. This is why we decided to conduct on research on the best practices of doing business in Asia.

## Research Questions

In order to seize new business opportunities globally, companies have to develop excellent strategies. Currently the growth engine of the world economy exists in Asia. Global companies are eager to grow in countries such as India and China. If Japanese companies cannot grow in these growing countries, there is no future for them. Therefore, it will be useful to discover the best practices of Japanese companies in growing business in China and India, identity the key lessons from these best practices, and publish them so that more Japanese companies can follow them. For that purpose, the research on the best practices of Japanese companies for doing business in Asia was planned and conducted.

Our research questions are formulated as follows.

*How are Japanese companies growing business in China and India?*

*Why are they growing their business in China and India that way?*

## Methodology

In order to identify the questions for the research question, research was conducted from June 2011 to July 2012. The case study methodology was chosen as our research method since this research is hypothesis developing research rather than hypothesis testing research. The need for this methodology arose out of the desire to understand the complex process of growing business in markets, which are different from the domestic market. The case study strategy is most likely to be appropriate for “how” and “why” questions such as the research question explored in this research[2]. The need to spell out more precisely how companies are growing business in China and India necessitates the case study approach.

From the results of the library, the following companies were selected for intensive case study analysis. The field research including interviews was conducted in China, India, and Japan.

Daikin in China
Komatsu in China
Nissan in China
Sony in India

In addition, by adding new information from the library study to the previous data, the following two case studies were conducted as the supplement to the four core cases shown above.

Shiseido in China
Panasonic in India

## Findings from the Cases

### *1. Competing on the Strengths to Sustain “First Mover’s Advantage”*

#### Introduction

Shiseido has been continuously growing its business in China. Its achievement is amazing. In 2010, the sales in China grew over 20%, acquiring about 10% of the total market share.[3] As of March 2011, Shiseido has dedicated more than 5,000 cosmetic specialty stores in China to promote its brands.[4] Compared with western cosmetic giants such as L'Oreal and Procter and Gamble, Shiseido’s core competence is skin care. Therefore, the Chinese market was the best market for Shiseido since Chinese women are much heavier users of skin care products, for example. Skin care holds a 70% share of beauty consumption there. In the U.S., by contrast, the use of skin care, color cosmetics and fragrances is fairly evenly divided[5].

Shiseido was the most-used skin care brand by Chinese consumers, due to the fact that Chinese believe that Japanese technology is the most cutting-edge. They also believe that Japanese skin is close

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2 R. Yin, 1984, Case Study Research: Design and Methods, Beverly Hills, California: Sage.
3 Premium beauty news http://www.premiumbeautynews.com/en/Shiseido-bets-on-overseas-markets,1548?checklang=1
4 Shiseido news release http://www.shiseido.co.jp/releimg/1896-e.pdf
5 Patricia Pao, Why Shiseido Beasts Western Beauty Marketers, *Advertising Age*, September 01, 2010.

to theirs and that Shiseido has the best understanding of their skin care needs. Shiseido's strong global brand image is another big reason for its success. For example, Amore Pacific, which is the top-selling brand in South Korea, has not been able to make in-roads into the Chinese market, because of its low brand awareness in both the U.S. and in Europe. In contrast, Shiseido is well known and respected in all of these markets[6].

## Background of Shiseido

Shiseido originally started as a pharmacy back in 1872 as its founder, Arinobu Fukuhara, spent time as a head pharmacist in the Japanese Navy.[2] With this unique root in the pharmaceutical industry, Shiseido operated very differently from its competitors.

As explained by the Honorary Chairman Yoshiharu Fukuhara, the grandson of the founder Arinobu Fukuhara, Shiseido’s business was influenced by the best of two worlds at the time: Western science and Eastern philosophy. As Shiseido started out as at drug company, it was concerned with both “health” as well as “beauty” aspects its product has to offer. Consequently, the company had the tendency to pay more attention to product safety, quality, and the use of natural ingredients.[3] This became its main source of differentiation from other cosmetic companies.

## Shiseido’s Business Growth in China

Shiseido has long targeted China as its strategic market in becoming a global company. The reasons for this direction are due to Shiseido’s early entry into the China market as well as the brand awareness it enjoys in the country. This is not to mention that China itself is one of the fast growing economies in the world. Shiseido started its China business in 1981 by selling cosmetics and soaps at a few selected places such as Beijing Hotel. All the products were exported from Japan. Shiseido also helped grow the Chinese local cosmetic industry by offering technological support to Chinese local cosmetic companies. A big shift in Shiseido’s cosmetic business did occur in 1994 when Shiseido introduced *AUPRE*, a completely new brand exclusive to the China market. At that time, products by foreign manufacturers were out of reach of most Chinese consumers while national brands’ product quality was primitive.[22] By targeting this gap in market offerings, *AUPRES* successfully took over the Chinese department store channels and became a highly regarded brand.

The next big shift did occur in 2005. After enjoying success in the department store with *AUPRES*, Shiseido was pushing forward with the voluntary chain store channel strategy which the company was well-known for in Japan. The reason for this shift is that the completion in the Chinese cosmetic market became tougher and tougher> The western giants such as L'Oreal and Procter and Gamble did not want to allow Shiseido to enjoy first mover’s advantage. With richer cash flow, L'Oreal tried to beat Shiseido through M&A. Procter and Gamble began to launch its successful premium skin care brand in Japan, SK-II in 2001 and became number 1 prestigious skin care brand in Beijing and Shanghai.

Facing tougher competition, Shiseido had to something unique which its western giants could not imitate. The voluntary chain store system, which was introduced in Japan in 1923, provided

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[6] *Ibid.*

high-quality products with consulting services by beauty consultants who had deep product knowledge. Through this unique interaction with the customers, Shiseido was able to expand its base of loyal customers and became the top cosmetic manufacturer in Japan.[23] With this unique know-how in its organization, Shiseido saw the Chinese market as the perfect place to duplicate Shiseido's success in the voluntary chain store system it has perfected in Japan.

With approximately 800 shops in August 2005, Shiseido successfully expanded the number of chain stores to over 1,700 in the year ended March 2007 with further expansion to more than 5,000 stores by end of March 2011. Actually, as of March 2011, Shiseido has dedicated more than 5,000 cosmetic specialty stores in China to promote its brands.[7]The aggressive expansion plan was coupled with a new branding strategy similar to *AUPRES*. In October 2006, Shiseido introduced a new brand, *URARA*, which was made available only through its chain stores. The brand became an immediate success as Shiseido once again identified an underserved need in the Chinese cosmetic market. With its channel specific brands, *AUPRES* and *URARA*, Shiseido was able to have focused marketing strategies, similar to the Mega Brand strategy implemented in Japan, with expanding national sales channels in China.

From 2005, only in the China market, Shiseido achieved the remarkable year-on-year growth of 30 percent four years in a row. This high-speed growth contributed significantly to Shiseido's overseas' business. The Asia and Oceanic market segment, which included China, now accounts for 14% of total net sales and almost 40% of entire overseas' business in 2008; this was a giant leap from 8% and 29% respectively three years ago in year ending March 2005. As a whole, the overseas sales ratio, which reached record high at 32.4 percent back in 2007, once again reached new heights in 2008 at 36.5 percent.

However, with overseas sales contribution reaching 38% in year ended March 2009 with further growth expected, worldwide coordination of Shiseido's subsidiaries became the next key challenge. The person who is put in charge of integrating Shiseido's global business was Carsten Fisher. In October 2006, Maeda snatched Fischer from foreign rival P&G. This sent out a loud message as Japanese companies were not known for head-hunting outside talents, not to mention foreigners. Fischer, with his rich experience in rival companies and overseas markets, quickly became a symbol for Shiseido's commitment to global operations as he became a Corporate Executive Officer in January 2007 followed by his appointment to the Board of Director in June 2008. Not only was Fischer the only foreigner in the Japanese dominated Board, but he was also the youngest member at the time. With this new global approach, Shiseido expects to concentrate its resources in selected key markets where it can expand quickly and efficiently. Also, it expects much quicker product rollouts for successful brands from one area of the globe to another.

## Challenges Facing New CEO

In April 2011, Mr. Hisayuki Suekawa became the CEO of Shiseido. Having worked in the Corporate Planning Department and served as an assistant to previous CEO Mr. Maeda for three years, Suekawa have extensive expertise in both the cosmetic business and in the overall company

[7] Shiseido news release http://www.shiseido.co.jp/releimg/1896-e.pdf

management.[8] Setting strong values while embracing diversity, it is this unique combination of his personality that made him the youngest president from outside Shiseido's founding family.[9] In order to support Mr. Suekawa, Mr. Fisher became number 2 at Shiseido.

Suekawa's top priority is to take charge and push forward the in-progress plans already implemented from Maeda's initiatives. He aims to turnaround the declining domestic business while expand globally to grow. Specifically, the company's aspiration for Shiseido in 2018 is to achieve consolidated sales exceeding one trillion yen, with more than 50% of revenues from overseas markets. The New Three Year Plan is to be the phase II of this ten year roadmap.[10]

To get Shiseido into this growth trajectory, the measures introduced in the previous section are the main essence of the Asian Breakthrough Strategy, a major component of the New Three Year Plan. Under such focus, Asia market is the priority with China as the central hub from where it can leverage and spread its influences over its neighbors.[11]

This emphasis on Asia as Shiseido's major future growth engines, however, is just one of the four objectives under Suekawa's operation. Three other initiatives include Global Mega Brand Strategy, New Frontier Strategy, and Customer First Strategy. Each of these unique approaches is aimed at addressing a particular problem area of the business.[12]

How to balance among the four concerns simultaneously for the best interests of the whole company is a difficult task requiring much deliberation. How to allocate corporate resources between stimulating the domestic business and expanding the overseas market? On a related note, sales in China is expected to grow over 20% over 2010, acquiring about 10% of the total market share.[13] As of March 2011, Shiseido has dedicated more than 5,000 cosmetic specialty stores in China to promote its brands.[14] Can the same business model that had worked well in Japan before be successfully transplanted into China's inland cities? Is focusing on services of beauty consultants over advertising a wise decision? Can AUPRES, originally a local brand, successfully upgrade itself and become a global product? If so, how should Shiseido use its previous successful experience to show the world of its value? Given Shiseido's increasing sales from 2010 to 2011, operating incomes and profitability are nevertheless on a downward trend[15]. Mr. Maeda's stepping down marks a new beginning of era for Shiseido, as well as a new world of uncertainties and challenges for Mr. Suekawa.

## *2. Nissan in China: Growth despite a Late Comer in China*

### Introduction

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8 WorldPressOnLine SAS.(2001-2012). http://www.worldpressonline.com/PressRelease/shiseido-co-ltd-appoints-hisayuki-suekawa-its-14th-president-27774.html
9 *Fujimura, N.* & *Ozasa, S.* (2011, January 11). Bloomberg's news release http://www.bloomberg.com/news/2011-01-21/shiseido-s-suekawa-aims-to-raise-china-cosmetics-sales-at-least-15-a-year.html
10 Shiseido annual report 2011 http://group.shiseido.com/ir/library/annual/
11 Shiseido annual report 2011 http://group.shiseido.com/ir/library/annual/
12 Shiseido annual report 2011 http://group.shiseido.com/ir/library/annual/
13 Premium beauty news http://www.premiumbeautynews.com/en/Shiseido-bets-on-overseas-markets,1548?checklang=1
14 Shiseido news release http://www.shiseido.co.jp/releimg/1896-e.pdf
15 Shiseido website IR http://group.shiseo.com/ir/finance/highlight.html.

2010 has been a remarkable year for Nissan Motor in China when Nissan announced in the spring of 2011 that the yearly sales of Nissan in China has surpassed 1 million units, with a strong annual growth of 35.5% compared to Total Industry Volume growth (TIV) of 31.6%[16]. Although entering China's commercial vehicle production as early as 1993, Nissan's investment in China's passenger vehicle production was 2003, the time that most major global automobile manufacturers had already established in China for years. The China's portion of Nissan's sales has been growing so big that since 2009, Annual Reports of Nissan have been reporting China retail sales figure separately and which has been significant enough to compare with figures of Japan, United States and Europe. From 2007 to 2010, the compounded annual growth rate of Nissan retail sales in China was 30.8%[17], compare to TIV's 27.8%[18].

Nissan in China

In September 2002, Nissan announced the strategic cooperation with Dongfeng Motor Corporation (DFM). The alliance created Dongfeng Motor Co., Ltd (DFL) in June 2003 that DFM and Nissan each has half ownership. In the September 2002 partnership signing ceremony, Nissan President & CEO Carlos Ghosn commented the partnership as follows[19]:

> *"China is Nissan's new frontier. We are committed to developing Nissan's presence on the Chinese market through our association with Dongfeng."*
>
> *"This unique and comprehensive partnership between a leading Japanese company and one of China's premiere state enterprises will bring real benefits to Chinese consumers. Guided by global benchmarks, we will build on and expand Dongfeng Motor's already profitable commercial and passenger vehicle businesses by promoting the adoption of best management practices and by providing a strong performance orientation for the benefit of all stakeholders"*

DFM's automotive business was primarily based on the production and sale of commercial vehicles. By adding Nissan's lineup of passenger cars through this alliance, the new company DFL was the first automotive manufacture in China that has a full lineup of commercial vehicles and passenger cars[20].

Second Automotive Works, the predecessor of DFM, was established in September 1969[21]. In 2004, Dongfeng Motor Group Co., Ltd (DFG) was established by incorporating the major operations of several DFM's subsidiaries, including DFL[22]. DFM is a Chinese State Owned Enterprise and it holds 66.86% domestic shares of DFG, which remaining shares are listed in Hong Kong as tradable H shares.

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16 Nissan's Annual Report 2011.
17 Nissan's Annual Report 2009 and 2011.
18 Db.auto.sohu.com/cxdata/index.html; 2007 estimated 8.78million units, 2010 18.33 million unit; Imported vehicles not included.
19 Nissan (2002) News Release
20 "Nissan's China Business" May, 2009
21 Dongfeng Motor Group Company Limited Annual Report 2011
22 http://www.autologistics.org/jyhb/ShowArticle.asp?ArticleID=4234

The domestic shares hold by DFM cannot be traded on the stock exchanges and their transfer requires special approval from the China Securities Regulatory Commission even though the company is listed in Hong Kong[23]. Firms listing in Hong Kong are treated as listing overseas and such firms were forced to undergo a thorough restructuring, to be audited according to international standards, and to be disciplined and monitored by a more demanding investment community[24].

In terms of sales volume in 2011, DFG ranked 1st in domestic market for heavy and medium trucks, MPVs and SUVs. Its light trucks and basic passenger cars rank 2nd and 3rd respectively. In 2011, market share of DFG's commercial vehicles and passenger vehicles were 13.1% (526K in units) and 11.4% (1.65M in units) respectively. In terms of contribution to sales revenues, commercial vehicles represented 27% and passenger vehicles represented 72.2%[25]. DFG's sales and service networks are provided by 11 brands in China.

Although Nissan is only one out of the many foreign joint venture partners of DFG, the joint venture DFL in fact represents most of DFG's brands. DFL owns 3 out of 4 DFG's commercial vehicle brands and the exceptional brand is Dongfeng Nissan Diesel, which co-owned by DFG and UD Trucks, a former Nissan owned company. For passenger vehicles, DFL owns 3 out of 7 DFG's brands including Dongfeng Nissan, Dongfeng Future and Zhengzhou Nissan. In terms of sales outlets, only 48 sales outlets among 4,146 total commercial vehicle sales outlets are non DFL owned. Around 56.5% of DFG's 3,107 passenger vehicle sales outlets are DFL owned. In terms of production capacity, DFL has more than 99% of DFG's commercial whole vehicle capacity and around 50% of DFG's passenger whole vehicle capacity[26]. Thereby, Nissan's importance to DFG can be reflected by the importance of DFL to DFG.

Drivers of the growth (1) Single Organization

Unlike other major automobile manufacturing peers General Motors, Honda, Toyota and Volkswagen who all having two distinct domestic partners for passenger vehicle production during their course of operation in China, Nissan has only been partnering with DFG. On the other hand, as of 2011, DFG has the highest number of Joint Venture partnerships with foreign automobile producers among any other in the Chinese side of automobile joint ventures[27].

While it looks more logic to make full use of the two joint ventures limit, particularly China is large that different domestic partners have different geographical strength, Nissan's choice of focusing in DFL and grow it organically does make sense. First of all, DFL's dealers can carry all China Nissan badged models but the dealers of those dual joint venture companies can only offer the models from either one of the two joint ventures. For example, Dongfeng Honda produces Civic and Guangzhou Honda produces Accord, dealers of Dongfeng Honda cannot sell Accord and vice versa for dealers of Guangzhou Honda. Dealers of DFL can offer all Nissan badged models to customers. Second, due to the channel separation, it is very difficult for the foreign automobile producers to plan a congruence strategy in China to all the

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[23] Xiaozu Wang: State-owned Enterprise Reform and Corporate Governance of China
[24] Qian Sun: The choice of foreign primary listing: China's share-issue privatization experience
[25] Dongfeng Motor Group Company Limited Annual Report 2011
[26] Dongfeng Motor Group Company Limited Annual Report 2011
[27] Wenxian Zhang, Ilan Alon. World Scientific, 2011. 9814291463, 9789814291460: A Guide to the Top 100 Companies in China

vehicles that badging their brand. Third, it is not difficult to imagine there will be inherited conflicts of interests between joint ventures of same foreign producers. There were cases that domestic partner of joint ventures fight for particular model to be launched in its own side before the foreign partner decides which venture to offer the model. Although some may see as a bargaining chip towards the domestic partners, Nissan's adopted a policy to be a "Trusted Company" from all stakeholders in the DFL context[28].

Drivers of the growth (2) *Localization of organization*

At the time of DFL foundation, President Katsumi Nakamura focused on building up the basis of the company. The board of the joint venture consisted of four Chinese and four Japanese. In addition, Management Committee, which was held twice a month to make management decisions, also consisted of four from each side. It is not difficult to expect conflicts of opinions, but Nakamura sought "Hybrid management between China and Japan" which combined strength of both countries, instead of avoiding the conflict. Right after taking up his position, Nakamura articulated "I give the priority not to parent companies, but our joint venture"[29]. He has proactively interacted with Chinese managers, and frequently visited to the front line such as dealers and plants. By showing their attitude of learning from Dongfeng, Nissan was able to gain the trust from partner.

Nissan has put effort to develop the local talents even they are not 100% Nissan's staff. Nakamura was surprised by many young, talented employees in DFL[30]. In order to leverage these Chinese staff for DFL sake, Nakamura dispatched the high potentials to Nissan's original training program in Japan. Although there is a possibility that the trained talents will be relocated to DFM's other subsidiary which is not related to DFL, Nakamura believed there is a great merit as Dongfeng and Nissan would be able to gain deeper understanding and sympathy.

DFL also set up a training center for dealers in order to improve sales activity and service. For example, Nissan's manual for customer care, "Nissan sales and service way" that globally introduced by Nissan, was also implemented thoroughly by each dealer of DFL. Thanks to the effort, DFL has achieved second rank in Customer Satisfaction Index survey in 2007.

DFL developed original product introduced only for Chinese market to capture local needs. In 2006, DFL established new "Dongfeng Nissan Technical Center" in Guangzhou to continuously improve product quality. The technical center is responsible for developing core technology and new products, whereas technical centers of most global automobile makers in China focusing on developing specific technologies (not core technologies) or just simply bringing in existing models.[31] As Chinese automobile market becoming mature, trend of the market has been changing gradually. Global automakers can't always sell their products well just by introducing global brands with minor modifications for the market. It becomes difficult to capture customers' interest only by popularity of their brand names. The more products were introduced in the market and learned by customers, the higher customer needs were

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[28] Non-public information from DFL
[29] Tahara, S. (2007) Hectic chase with Hybrid Management between China and Japan, *Nikkei Business*, December 17, 56-59
[30] Tahara, S. (2007) Hectic chase with Hybrid Management between China and Japan, *Nikkei Business*, December 17, 56-59
[31] Ali Farhoomand. (2010). HONDA: INNOVATION THE CHINESE WAY (The University of Hong Kong case HKU887). Asia Case Research Centre Publishing.

segmentalized. In this competitive environment, over thirty new models were introduced each year. To address this, DFL continuously introduced new models and particularly in 2008 when four models were being introduced[32].

DFL successfully developed attractive products with both characteristics that meet local needs and high quality of Japanese automobile, by analyzing customer needs and developing products at local technical center mainly by Chinese engineers, and utilizing common platforms of Nissan products. DFL's models were well accepted by customers as combination between localized characteristics and Japanese quality. Dissatisfaction about Chinese automobiles caused by relatively low quality cannot be solved just with localization of product development. DFL, however, addressed the issue by combining strengths of both Dongfeng and Nissan.[33] To further enhance the localization, DFL announced to launch a new brand (VENUCIA) which develops vehicles exclusively for China market.

Looking for the future: Cars made in China, for and by Chinese

In spite of recent strong growth in China that acquired a 6.2% total PV market share in 2010, DFL has launched a new five-year business plan called "Plan 1[3]" in July, 2011[34]. This plan aims at three objectives; "Significant Growth (sales volume* of 1 million units from 2010 to 2015)", "Operational Enrichment (achieving first class in quality at all levels for product, sales & service and cost competitiveness)", and "Trusted Company (respecting stakeholders to be recognized as a 'Trusted Company')".[35]

In order to achieve these objectives, DFL has been trying to take some actions with investments around RMB 50 billion.

First, the launch of China only brand VENUCIA with the hope to increase total sales volume. This new brand is expected to have lower price than Nissan badged vehicle in order to gain different customers segment from Nissan brand[36]. The first passenger vehicle of VENUCIA scheduled for line up in 2012. Five new models are expected to launch, with annual sales expected to reach 300,000 units by 2015.

Second, DFL is planning to expand its production capacity to achieve its sales target of more than 2.3 million units. By establishing new factories and reinforcing its existing factory's capacity, DFL will have six factories and production capacity of 2.3 million units by 2015, up from 1.2 million units' capacity in 2011. In addition, to support the new growth strategy, DFL plans to launch 30 new models by 2015. The number of dealer outlets is expected to be increased from around 1400 in 2010 to 2,400 in 2015.

Last but not least, DFL is preparing to launch an electric passenger vehicle (EV) under the VENUCIA brand. The car will be on sale by 2015 as an exclusive model in China.

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32 Nissan's China Business (May, 2009)
http://www.nissan-global.com/EN/IR/INSIDE/INSIDE-SP/CHINA/index.html

33 Non-public information from DFL

34 Nissan news release
http://www.nissan-global.com/EN/NEWS/2011/_STORY/110726-02-e.html

35 Non-public source from DFL

36 Hirooka, N. (2012) Nissan, Crossroads reflected by "Development in China", *Nikkei Business online*, http://business.nikkeibp.co.jp/article/topics/20120113/226105/?P=1

*3. Daikin in China: Growth through A Strategic Alliance with Chinese Competitor*

Introduction

Daikin is known in Japan as a top producer of air conditioners, and as an exemplar of Japanese-style manufacturing, or *monozukuri*. Its CEO, Noriyuki Inoue, is renowned in Japan for his human-centered and global approach to management and his leadership in growing Daikin into a globally competitive Japanese firm.

While Daikin is known as an excellent company in Japan, it could by no stretch of the imagination be considered as a lifestyle brand. A Daikin air conditioner might be seen as a good buy for a business—but not as a fashion statement. In China, however, Daikin has developed a strong brand image, as the air conditioner of choice for upscale residences and businesses, as a symbol of a comfortable and fashionable climate-controlled lifestyle, and as a leader in China's emerging environmental consciousness.

In 2011, 16% of Daikin's sales came from China, and China was on the way to replacing Europe as Daikin's second largest market. However, while Daikin China's corporate philosophy as very much consistent with that of Daikin's headquarters, the strategy and corporate culture of Daikin China were quite distinct, very much tailored to fit the unique situation and needs of China's new and rapidly developing air conditioning market. Daikin China employees saw themselves as members of a Chinese company, part of a larger global group, that aspired to be number one in the world.

Overview of Daikin and its China Operations

Daikin industries Ltd. was founded in 1924 by Akira Yamada under the name of Osaka Kinzoku Kogyosho Limited Partnership with initial production primarily in aircraft radiator tubes. Current company chairman Noriyuki Inoue started work as CEO in June 2002. The company's sales in March of 2012 were reported as a total of 12,187 hundred million yen, with a total number of 44,110 employees on a consolidated basis.

The company's foundation is based on the following three principles; 'Absolute Credibility', 'Enterprising Management', and 'Harmonious Personal Relations', and their mission statement is, "to identify and realize our customers' needs and dreams." The Daikin group philosophy is as stated by chairman Inoue, to "let us continue evolving both individually by challenging ourselves to accomplish our ambitious goals believing in our infinite potential, and together by striving to become an overwhelmingly first-class global corporate group- a group in which employees can have pride and enthusiasm."[37] Daikin's foreign business ratio is about 60%. After Japan, Daikin's second largest market is Europe, with about 21% of sales. China comes in third at about 16%, but it is likely to surpass Europe as growth continues in China and slows in Europe.

The China business has approximately 20,000 employees: 12,000 in the air conditioning business, 3,750 at the subsidiary, McQuay, 1,100 in the chemical business and 3,600 in other businesses. It has 10 production facilities in air conditioning, one R&D center, 4 production facilities in chemicals.

[37] www.daikin.com

These are all under the administration of a holding company located in Beijing, although the business operations are run out of Shanghai. There are about 10,000 dealers, in China, which are independent from Daikin, and employ around 80,000 to 100,000 people. Daikin has about 2,000 people in 100 sales offices throughout China.[38]

Daikin began operations in China in 1995. It sent a small group of employees to China, and established a joint venture, which began to produce air conditioners in the next year (see Table 3 for a timeline of Daikin's China operations). In 2001, Daikin established the Daikin (China) Investment Company, based in Beijing, as holding company for Daikin's China businesses. In 2008, Daikin achieved another milestone, signing an alliance agreement with Gree Electric Appliance, China's largest air conditioning company. In 2011, Daikin established its largest air conditioner production base in Suzhou.

## Daikin's Business Model in China

Daikin initially entered China in 1995. In its first years, it focused on promoting its core business, industrial air conditioners. These air conditioners were purchased by large operations such as hospitals and schools, as well as by restaurants and stores. Daikin's strategy was to provide a very high quality, top of the line product, to become known as the "Mercedes Benz" of air conditioners.[39] The Chinese market was crowded with air conditioner manufacturers, and Daikin did not want to compete with these lower-priced, mass production manufacturers.

Gradually, Daikin began to find business in large residential projects. These projects were usually sold to buyers as shells—which then the buyers had to provide the equipment, interior design—everything. Daikin reached these buyers through a dealer channel, which they called "pro shops." These were local entrepreneurs, who set up shop near new projects, and took orders for Daikin air conditioning systems from new buyers. The pro shop would help homebuyers choose and configure the new system, and then install it, providing quality assurances.[40]

In order to provide choice and flexibility to buyers, Daikin offered a wide range of models—up to 1000 it is claimed—when counting differences in color and design.[41] In large urban centers, Daikin also set up Solutions Plazas, showrooms where buyers could see not only the Daikin products and examine their design and technology, but where they could also see examples of work by leading Chinese designers, in incorporating Daikin air conditioning systems into their most stylish interior designs.

Daikin became renowned in China for its quality, technology and style, and soon became the air conditioning system of choice for upscale residences, to the point where property developers would offer Daikin air conditioning as an enticement to buyers of expensive residences.

Daikin worked very hard to expand coverage throughout China, developing a network of dealers that has reached about 10,000. These include pro shops, dealers of equipment who sell to large projects, and newly established air shops, which sell individual units to consumers. Daikin does not use distributors, rather selling directly to dealers, which removes a layer between themselves and the consumers. Although

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[38] Interview by author

[39] Takahashi (2005) How to win in China without Competing with the Chinese. *Nikkei Biztech*, March, 40-45.

[40] Nakashima Megumi (2010) Selling eco-air conditioners to China's rich, *President*, July 19, 170-172

[41] Chu Xiang Dong (2011) How to succeed in opening up a huge market, the age of selling to Chinese! *Business Research*, January 2, 82-90

Daikin does sell through some of the big electronics appliance stores, it does not consider this as a desirable sales channel, since it prefers to give more personalized service to consumers, and sell Daikin products as solutions, rather than boxes.[42]

Daikin also developed a very strong service network, with Japanese levels of service. It prides itself in being able to tell a caller immediately if its service personnel could make a call the same day or the next day. It is also able to follow up on all service calls to monitor quality.[43]

While Daikin had established a strong reputation as the Mercedes Benz of air conditioners, Daikin management believed that success in China was not possible unless a company entered into the "volume zone." [44]The notion of "volume zone" was particularly apt to a market like China's, which was the second largest air conditioning market in the world. A product in the volume zone is not a commodity—rather, it is a product that delivers value to the largest number of customers possible. Daikin China management gave examples of products that are in the volume zone that include the iPhone, Adidas shoes, and Starbucks.[45] For Daikin to enter into the volume zone, it took two major steps. One was to open a new factory in Suzhou, the largest Daikin air conditioning factory. The other was to enter into an alliance with Gree Electric Appliances, China's largest maker of air conditioners.

### The Gree Aliiance

In 2008, Daikin and Gree entered into an alliance, which included joint ventures for production of components as well as production of air conditioners. The most controversial part of the alliance, as well as, in Daikin's eyes, the most important, was the provision of inverter technology to Gree for production of inverter air conditioners for China.

Inverter technology is an energy-saving technology that has been the specialty of Japanese air conditioner makers. Nearly 100% of air conditioners in Japan used inverter technology, but this was only 7% of the China market, and a relatively small percentage of the world market when Daikin and Gree signed the alliance. This alliance was strongly opposed by Daikin engineers, to the point where a member of the board submitted his resignation. Engineers were appalled and frightened that Daikin was giving up a central technology to a Chinese company. Daikin provided all specs and information, but did not open up the software for the operating system, and this remained a black box. However, it was just a matter of time before this could be reverse engineered.[46]

Despite strong opposition from engineers, Daikin's CEO Inoue decided to provide the technology to Gree. The rationale was that in order to go into the volume zone, it was important to promote inverter technology. China was not only the largest producer of air conditioners in the world, but China was becoming very conscious of environmental issues, and the government was setting environmental standards, such as energy consumption.[47] By making inverter technology the standard, Daikin could

[42] Interview by author
[43] Interview by author
[44] Iketomi (2012) Building the largest factory in China, Daikin's growth strategy. Shukan Diamond. January 21, 16. Tada K. (2008) Inoue Noriyuki, This year was a good year to try out new things, 15 years of increasing profits. *Nikkei Information Strategy*, July, 32-36.
[45] Interview by author
[46] *Shukan Toyo Keizai* (2009) Japanese companies that are selling in China. November 28, 60-63
[47] Kato and Onishi (2011) Daikin has taken the whole market. Nikkei Business, July 11, 46-50

increase its potential markets, and also contribute to the improvement of global environmental standards.[48]

Daikin also reckoned that keeping technology like that private and internal was not a strategy that was sustainable. Other Japanese manufacturers also had inverter technology, and it could leak from anywhere. And, Chinese makers were like to reverse engineer the Japanese products and get the technology sooner or later. Daikin believed that the better strategy was to offer the technology through an alliance, to develop a close partnership with a leading Chinese company, and together, to develop the market for the benefit of all. This strategy seems to have been effective in promoting inverters in China—as the sale of inverter air conditioners in China has gone from 7% to 60% of the market, according to Daikin China officials.[49]

Daikin China as part of Daikin's Global Strategy

Daikin gives its China operations a considerable amount of leeway in both strategy and management. This is consistent with Daikin's philosophy, which emphasizes empowerment, and encouraging diversity. It also reflects the air conditioner market. The market for air conditioners depends very much on local climate conditions, building practices and standards, and environmental standards. Customer preferences, for design and function, also vary very much by location.

Daikin's top management in China consists of a Japanese executive and Chinese executive, both who have been at Daikin China since its very beginning. CEO Inoue travels to China 3-4 times a year, and considers the China business a top priority, but leaves strategy and operation to local management. In 2012, a Daikin corporate board meeting was held in Shanghai, to give board members a closer look at conditions in China. Ken Tayano, the Japanese top executive at Daikin China also serves as a corporate vice president and board member, increasing the information flow between headquarters and Daikin China. Of the 9 board members of Daikin China, 5 are Chinese. There are about 100 Japanese expatriates in Daikin China, about 50 of whom are in the air conditioning business. Many of the Japanese expatriates have been at Daikin China for a long time, and they have built a deep understanding of and strong ties to China.[50]

The technology platform for Daikin air conditioners comes from Japan, and Japanese technology is an important sales point for Daikin. Daikin has also localized some R&D, and has built an R&D center for China, with nearly 300 staff members. The R&D center focuses mainly on localizing design, to fit Chinese tastes and building specifications.

One of the most striking innovations of Daikin in China is the variety of colors and designs it offers for its air conditioners. While air conditioners in Japan are generally one color—white or cream—Daikin offers red and gold options, which are highly desirable in China. It also allows customers to customize air conditioners with family photos or other designs. Wedding pictures and baby pictures are particularly popular. Daikin also has introduced a service that enables customers to control their air conditioners with their iPads. This is not available in Japan, and attests to the widespread use of iPads in

[48] Interview by author
[49] Interview by author
[50] Interview by author

wealthy Chinese households. It also associates the Daikin brand with Apple, another popular and fashionable brand in China.

Implementation of Daikin's global strategy is centered on relationships between Japan and the national subsidiaries, although each national subsidiary is given considerable autonomy. There is relatively little horizontal exchange across local subsidiaries, but there are also some exceptions. One notable exception is the transfer of heat pump technology developed in Europe to China.

Human Resources in China

Daikin has a reputation for being able to maintain a low turnover rate, and to retain and motivate Chinese employees. A Daikin official noted that the appropriate question to ask is not why employees join Daikin, because there is a wide range of reasons. Rather, the question is why employees choose to stay.[51]

According to Daikin, Chinese employees stay at Daikin because they see their future as unlimited and full of possibilities.[52] Chinese employees can discuss anything with their bosses, and in most cases bosses are Chinese, not Japanese. Chinese employees see that they, too, have the potential to rise to the top of their organization. They also see Daikin as a successful company, a strong brand, and they want to help make Daikin number 1 in the world.[53]

Daikin works hard to create a culture that includes both employees and dealers. The theme this year for the annual top dealers conference was "Daikin family" and there was emphasis on how all dealers and employees are part of a greater family that extends across China and around the world. There is very little mention of Japan, and little sense that Daikin is a Japanese company, though the top Japanese executive, Mr. Tayano speaks only Japanese, and CEO Inoue speaks Japanese during his visits.[54]

Daikin is trying to develop employees who think for themselves and do things themselves, and who value teamwork and work well in teams. Employees who do not fit tend to leave the company. In order to develop this sense of independence and responsibility in employees, Daikin sponsors different programs. In the Residential Business Creation Project, young employees explore the world around them, studying examples of great brands like Starbucks and Nike and then reporting about what Daikin can learn from them. Young employees also participate in projects to design new Daikin products—which is the origin of Daikin photo-embossed air conditioners.[55]

One of the hallmarks of the Daikin China culture is well-produced and moving videos, shown at company events. Employees themselves produced a video for an event honoring employees who were sent to open up new business without their families. The videos are filled with tearful interviews with family members, who then vow to support their Daikin employee. Another video shows pictures of dealers and their families in various recreational activities all over China, and adds scenic pictures of China and the world—identifying Daikin as a great Chinese, and global, company.

In terms of pay, pay for management level is about the same as in Japan. According to Mr. Tayano, increasing pay levels in China are not a problem—because as pay increases, the market for

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[51] Interview by author
[52] Kato and Onishi (2011)
[53] Interview by author
[54] Interview by author
[55] Interview by author

Daikin products also increases.

Daikin China tries to spread its culture not through education and training as much as through events, and day-to-day business. There are events such as meetings for dealers, parties for employees. While Daikin does not prominently feature itself as a Japanese company, it does not hide this either—and one popular event is a Bon Odori, where employees dress up in yukata and dance, Japanese-style.[56]

Concluding Remarks

Ken Tayano, VP of Daikin Industries and top of Daikin China, has been in China for 16 years, since the very beginning of Daikin China. He has a strong vision for Daikin China, and has been central in creating the Daikin China culture.[57]

He summarized Daikin's strategy and operations in China in 4 points:

1. People: The development of people and diversity of people are the most important things to Daikin.
2. Culture: This refers to the Daikin brand and the value of the brand. China had now air conditioning culture until recently, and an important objective of Daikin is to build this culture—in other worlds, help people to build a lifestyle around an unfamiliar technology of air conditioning.
3. Open: Daikin's goal is to make the market bigger, and create win-win situations. Its goal is to open up technology, and to spread Japanese technology around the world.
4. Volume zone: This is the place where value is delivered to the most people as possible. Daikin is striving for this place in China.

*4. Komatsu: Allowing Globalization to Drive a New Business Model*

Introduction

Komatsu has been well-known as a successful Japanese company in China. It has over the last decade made a large amount of its revenue from the China market. It has also been a leader for Japanese in China management strategy—for example, making a very public announcement that it would make the tops of all of its local companies local employees—seen as the Japanese company that has been most ahead of the pack in doing this.

Komatsu has also faced various challenges in the China market. Due to its high exposure to the China market, and the reliance of the construction market on state policy, it faced a serious drop in sales in 20xx, and there was question about a global strategy that was so dependent on China.

While Komatsu dominated the market in China, with its reputation for quality and service, and its Komtrax GPS tracking system, Chinese competitors had emerged, in particular, Sany, which had been hiring Japanese engineers, and positioning itself as a quality player. While had not taken market share from Komatsu in 2012, it was not clear what the future would bring, and whether Sany would be a competitive challenge in China, or, in particular, in the growing markets in Southeast Asia, in the future.

56 Interview by author
57 Interview by author

Current company president Kunio Noji took position as CEO in June 2007. In 2011 the company reported a total sales of 1,843,127 million yen, and a total of 41,059 employees on a consolidated basis. 55% of these employees are not-Japanese, located in Komatsu's overseas subsidiaries. Because of the slowing down of growth in Japan, it has been imperative for Komatsu to expand its market overseas. The weight of sales in Japan, Europe and North American was decreasing, dropping even more dramatically from 50% to 30% after the financial crisis in 2008. This made expansion to the developing world imperative. China, the largest market in the world for one of Komatsu's key and most highly value-added products, the hydraulic excavator, featured especially prominently in Komatsu's profitability. China sales about 20% of company total in 2011.

Komatsu in China: History and current status

Komatsu's long history in China began in 1956, when it exhibited in China. In 1965, it received an order for 1,510 bulldozers from the Chinese government. It had no idea how and where the bulldozers would be used, but showed that the Chinese government had taken a keen interest in Komatsu and its products.[58] In 1975, the president of Komatsu visited China, where he was warmly greeted by Premier Zhou En Lai, who expressed gratitude to Komatsu as someone who had "dug the well"—reflecting appreciation for Komatsu products' support in building infrastructure.

In 1979, Komatsu began a technical collaboration with the Chinese government to build bulldozers. In 1995, a new era for Komatsu began with joint ventures for production facilities; and this marked the real beginning of Komatsu's business in China. In 2001, Komatsu opened a holding company in Shanghai, to be the umbrella for all Komatsu subsidiaries.[59] Komatsu reached another milestone in 2010, when it announced that it would make the top of all 16 key subsidiaries Chinese, something that stood out against other Japanese companies, and stood out against Komatsu's other global markets as well.[60]

By 2011, Komatsu had 8 manufacturing facilities in China, including three assembly facilities, in Shandong, Changzhou and a distribution network of 32 distributors, 4000 employees, and 4000 employees of its distributors. Its growth in China was rapid—estimated as around 350,000 million yen per year with an estimated growth of 25% a year.[61]

In 2011, Komatsu was the object of much speculation in the business press as to how it would deal with a slowdown in China's building boom, due to fiscal tightening. For Komatsu, China was just one part of a global business, and slowing sales in China were made up for by increasing sales in other emerging markets, especially in the mining industry.[62] And despite the slowdown, China was still the

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[58] Interview by author.

[59] Yoneyama, M. (2010) Business in China, Komatsu strategy. Hosei University Innovation Management Research Center.

[60] Yoneyama (2010). Nikkei (2010) Komatsu appoints Chinese to presidents of 16 Chinese subsidiaries. July 29, p. 1)

[61] Kayata, T. (2011) Present and future of Chinese business. Global Keiei. June, 34-35.

[62]Sugimoto, R. (2011). Construction manufacturers continue to leave China, moving towards mining. Nikkei

largest market for construction equipment in the world.[63]

Over 90% of Komatsu's sales to China were of hydraulic excavators. Most of the competitors in this market were other foreign companies: Hyundai and Doosan of Korea, Hitachi Construction Machinery and Kobelco of Japan, and Caterpillar of the US. Komatsu's share was about 24% in 2009, growing to about 33% in 2011. A Chinese competitor, Sany, was also gaining share, growing from 7% of the market in 2009 to 11% in 2011.[64]

### Komatsu's Business Model in China

Komatsu produced core components of its machinery in Japan. These were the components that were most technologically sophisticated, and required the highest levels of quality. Other components were manufactured in China, and the final machine was assembled in China. This was not a temporary solution to a developing market—Komatsu was committed to continuing to manufacture these core components in Japan.[65]

The center of technology development for a product was in the mother plant. According to the mother plant system, each product had a mother plant, which was responsible for development. Komatsu had 9 mother plants, four in Japan, four in Europe, and one in North America. Technological development in China was limited to localization issues, and the main source of technology was Japan. One exception to this however, was development of the KOMTRAX system, which will be discussed below.

Komatsu's pricing in China was similar to Japanese levels, and preserving price levels was very important. This meant for very high levels of margins, as fixed costs in China, in particular, labor costs, were very low compared to Japan. However, the importation of key components from Japan was a critical source of exchange risk. Komatsu accompanied this high price, high quality strategy with high after sales service of Japanese levels.

The reason that this high priced strategy worked in China is that quality and service were very critical to Chinese operators. Ninety percent of operators of Komatsu excavators in China were individual proprietors.[66] The operating time of the equipment was 3 to 4 times that of Japanese equipment, and it was not unusual to see shifts working a machine for 20 hours a day.[67] It was critical for these individual proprietors to minimize breakdowns and work stoppage, by purchasing the equipment with the best record of quality and service.

Komatsu carefully developed its network of distributors, allowing only one distributor per province.

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Shimbun electronic version. October 28. Shukan Toyo Keizai (2011) Healthy even though China is slowing down, Komatsu bets on resource business. June 11, 16-17.

[63] Sugimoto, R. and S. Takahashi (2011). Who is the rule of the great Chinese market? The Romance of the Three Kingdoms in the construction machinery business. Shukan Toyo Keizai. September 17, 78-85.

[64] Sugimoto and Takahashi (2011).

[65] Ichihara, A. (2010) How to preserve domestic employment. Nikkei, December 31, 9.

[66] Kayata (2011)

[67] Yoneyama (2010)

The idea was to cover the entire country (several distributors covered multiple, less populated provinces), and to minimize competition. Distributors were not allowed to carry competing products. This network was built up distributor by distributor, and Komatsu combined close communication and development of distributors with high standards and performance goals.[68] Komatsu also provided considerable support, both technological and financial, to suppliers, establishing a branch of its supplier association, the Midori-kai, in China in 2011. Half of the members of the Midori-kai of China were Chinese companies. [69]

It is impossible to talk about Komatsu in China, or Komatsu anywhere for that matter, without mentioning the KOMTRAX system. This is a GPS system, which tracks not only the location of the equipment, but a number of metrics regarding usage, and the state of the equipment, and has been key to Komatsu's success in China.[70]

Komtrax was initially developed in the late 1990's, to support the rental business, and soon found an important role as a way to avert theft after a spate of crimes in Japan in which heavy equipment was stolen and used to remove ATMs. A Chinese distributor suggested a new use that was well suited to the China market: as a means to assure that the equipment was paid for. [71]The KOMTRAX system allowed a piece of machinery to be turned off remotely. Komatsu equipment was expensive, and individual proprietors would purchase by installment. If an installment was missed, the machine could be turned off. In China, where most of the equipment was purchase by individuals, by installment, this was a great advantage to Komatsu, and currently, there are more installed KOMTRAX systems in China than anywhere else. Komatsu has invested considerable resources in China, further developing the KOMTRAX system, and the product of these efforts has flowed back to other parts of Komatsu's global operations.

It soon became clear that KOMTRAX had benefits beyond assuring timely payments. It allowed owners to assess usage rates, and to maximize their efficiency. It also allowed Komatsu to obtain immediate data from the market to instantly assess rises and falls in demand for its products. In 2004, there was much talk about tightening by the Chinese government and a resulting slowdown in construction. Komatsu's competitors began to cut production in anticipation. Komatsu, however, could not detect any slowdown based on the KOMTRAX data it was collecting, and as a result maintained capacity. This gave Komatsu a great advantage when the slowdown never materialized.

Komatsu adds KOMTRAX on all of its equipment as standard equipment. It monitors the KOMTRAX data globally in all cases except for China, in which, due to government concerns about information, it is monitored in a China-specific network.

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68 Zhang, S., & Fu, C. (2010). On Komatsu's strategy of distribution channels in China--Take Komatsu excavators as an example. International Journal of Marketing Studies, 2(1), 254-257.

69 Sugimoto and Takahashi (2011)

70 Terayama Masaichi (2010) Making your own way to win. Nikkei Business. December 13, 24-27.

71 Nikkei Business (2007) June 4, 26-41

## Governing the Global Business

Komatsu considers itself a global Japanese business. In other words, while it sells globally, its business culture is very Japanese, and it is devoted to the Japanese business culture of "monozukuri"—literally translated as "manufacturing" or "making things" but really, something much deeper than that—a culture of quality, of attention to the gemba where things are made, to constant improvement. As Komatsu Chairman Sakane says in the title of one of his books, Komatsu is a "Global Company with Japanese Nationality." [72]

This culture of monozukuri is embodied in the Komatsu Way. This set of principles, with their specific examples and applications, determines how products are made, problems are solved, employees deal with their customers, managers with their subordinates. The Komatsu Way was developed in Japan, but considerable attention was given to the feedback by non-Japanese—in particular, in matters of translation—for example, how to translate "monozukuri." While the direct translation of monozukuri into English is "manufacturing, this does not capture the full meaning, of a word that evokes a complete approach to all aspects of business, and not just activities that occur on the shop floor.[73] Komatsu Way training has been rolled out across the world, and competitions related to aspects of the Komatsu Way open to Komatsu engineers around the world.

While the Komatsu Way is based on very Japanese concepts such as monozukuri, and is cultivated and promoted from Komatsu's very heart, at its training center in Ishikawa Prefecture, Komatsu is also devoted to localization of human resource management, and the development of local staff to run local subsidiaries. However, while Komatsu believes that the top of local businesses should be local, it also believes that Japanese expatriates have a critical, in communicating with Japan, and in interpreting and spreading Komatsu Way culture. Business at the headquarters in Japan relies on internal networks of people who have been at Komatsu for their entire careers, and of tacit understandings. It is difficult for people who have not grown up in this system, and who are not in constant contact with it, to understand what is going on. For this reason, Komatsu prefers a "tag-team" approach, where, if the top is local, the second is Japanese. [74]

Komatsu has very clear policies in determining employee assignments: for example, in the degree of localization for specific jobs and functions, succession planning, and expatriate assignments.

### HR System and Development of Local Staff

The CEO of Komatsu China, Wang Ziguang, is Chinese. Komatsu first hired him as an interpreter in their Beijing office in 1985. Through his experience as an interpreter, he was able to get to know Komatsu and its senior management. He soon moved into sales and management. In 1994, he became head of the Beijing Office. Then he was transferred to the Komatsu joint venture in Shandong, as the representative for Komatsu. When Komatsu started its holding company in 2001, Mr. Wang was called

[72] Sakane, M. (2011). Dantotsu management, Komatsu seeks to be a global company with Japanese nationality. Tokyo: Nihon Keizai Shimbun-sha.

[73] Interview by author.

[74] Yoneyama (2010)

back. In 2002, he took over as president.[75]

Mr. Wang was probably the first Chinese in a major Japanese company to be promoted to be head of a local office (Beijing), to represent a Japanese company at a joint venture, and to head the Chinese operations of a Japanese company. He is fluent in Japanese, and has had an extraordinarily long tenure at Komatsu, growing with it from the beginning. He has a great understanding of the Komatsu Way, and is very much trusted by headquarters. Currently, one of Mr. Wang's most important responsibilities is developing Chinese employees who can take his place, and Komatsu reports that there is a very rich and qualified team of Chinese who can take his place.[76]

Komatsu's announcement in 2010, to appoint Chinese to the top of its key subsidiaries in China came in the aftermath of labor unrest directed towards several Japanese companies. This move was meant to demonstrate Komatsu's desire to develop and treat Chinese employees at a high level, to motivate Chinese employees, and to show its commitment to the Chinese market. Komatsu was also determined to fill these positions with long-term staff, rather than to hire from the outside. Though Komatsu had made use of headhunters in overseas markets in the past, it was increasingly committed to promoting internal hires, who understood Komatsu and the Komatsu Way.[77]

Komatsu China makes sure to pay its local staff competitive wages. It had benchmarked wages against the top 25% other Japanese companies, but in the past few years decided that it had to benchmark against the top 25% of all global companies in the Shanghai area. It, however, distinguishes pay rates between cities, with employees in Shanghai making more than in Shandong. [78] Labor costs are a very low percentage of the cost of a Komatsu machine produced in China, estimated at around 3%.[79] Thus, increasing labor costs in China to not appear to be a threat to Komatsu's competitiveness.

Komatsu employees in China stay at Komatsu because, according to Komatsu, it is global, full of energy, has a strong presence in China and a long history, and has been a good corporate citizen. Also, young people look at people like Mr. Wang at the top of Komatsu, and they see a future for themselves. They see that the can go far.[80]

Komatsu puts considerable attention into training of employees. It has signed an agreement with Tongji University, for training and education of personnel. Komatsu staff attend training programs in Japan, especially various programs around the Komatsu Way. For Komatsu, one important method of training is through company-wide contests, around quality or technical skills. These provide motivation to Japanese and national staff, and are an opportunity for global staff to get together and share knowledge and insight.

Komatsu's policy is to develop and empower local staff, but to train them and socialize them as a member of the Komatsu Group, a global Japanese company. This attitude is captured by the President of Komatsu South Africa: "In South Africa, people of South Africa run our Japanese company." In order for the company and staff to grow, we, as a member of the Komatsu Group, which has its roots in Japan, must understand what is required and operate in a way that best fits local needs, by connecting this

[75] Author's interview
[76] Author's interview
[77] Author's interview
[78] Yoneyama (2010)
[79] Yoneyama (2010)
[80] Author's interview

understanding with local wisdom and knowledge."[81]

## 5. Panasonic Electricals in India: Regaining the lost market by means of Effective PMI

### Introduction

After establishing strong presence in Japan, China and the ASEAN markets, when Panasonic CEO re-focused his attention on the once lost Indian market, he was faced with the question of choosing the right growth and expansion strategy. After the bubble crash in Japan, Panasonic had to reduce its focus toward the India market and as a result was now forced to play catching up, due to the development of strong competition from domestic and international players. The choices faced by Panasonic were either to rejuvenate its almost extinct presence in India by investing in manufacturing facilities, extensive advertising and branding or take the M&A route to expedite gaining market share and regain its rightful position.

### History of Panasonic in India

Panasonic electrical, first entered India in 1972 with its batteries. But since inception it faced tough competition both from strong domestic players and other International manufacturers. To make matters, in 1990's, after the burst of the bubble economy, Panasonic had to downsize its operations in India to prioritize their attention toward the Japanese market. While this helped Panasonic to stabilize its position in Japan and other international markets it lost vital market share in India.

Around 2007, fascinated by the huge growth opportunity in Indian economy, Panasonic's CEO Otsubo decided to position Indian market as one of his priorities and boldly allocated the company's resources toward capturing this once lost market.

The struggle in Indian however, was not restricted to the electrical business alone. Panasonic's other businesses were suffering as well. For Instance as of 2009, in terms of sales in the Indian market, Panasonic's 40 billion yen was significantly behind LG's 250 billion yen and Samsung's 190 billion yen sales figures[82]. Hence it was clear that something had to be done and time was of vital essence.

### Overview of Indian Market

Indian landscape was burgeoning with growth and rising affluence but the economy continued to have its challenges, especially infrastructural and political. For one it had challenges of inadequate road and rail connectivity hampering domestic trade, the country had complicated legal and taxation system, the demographic in general varied from region to region, and retail in India relied heavily on the 10 million plus small retailers. In addition to these, owing to vast population and significant income disparities, the needs of different classes of the society varied in their product usage expectations and price point acceptance.

81 http://www.komatsu.com/CompanyInfo/csr/2011/

82 Nikkei Business (2011) Panasonic's setbacks and counterattack in India, Nikkei Business, March 21, 90-93 2

While time to market was a crucial factor owing to rising competition, taking the right approach to enter the market was also important. Right brand perception was crucial to conduct business in the Indian market which was essentially defined as a word of mouth society. India around 2007 was one of the fastest growing economies on the planet. With the second largest population in the world and a rising middle class, India started attracting brands and companies from around the world and the falling trade barriers and being identified as one of the BRIC countries (Brazil, Russia, India, China – High growth countries) brought in foreign investments which propelled further growth.

## Reason for M&A Strategy for the Indian Market

After a thorough study of the modern India and its challenges and in light of the above factors, Panasonic decided to rejuvenate its position in the Indian market via the M&A route. Very soon its prime target became the Mumbai based Anchor Electricals, which was founded in 1963 and was recognized as almost a byword for electrical switches in India.

As a company, Anchor had 70 agents, over 6000 dealers, about Rs. 8.5 billion (JPY 17 billion approx.) in annual sales and over 9000 employees. Anchor was a reputed name in electric wiring and switches in the Indian market, was known as a super-brand and enjoyed a premium for its products over that of the competition. Anchor had a wide products suite which coincided with that of Panasonic. Its range of products catered to all the segments of the society (commodity, middle income group and upper class) and was reputed for its quality.

While the reasons to merge with Anchor seemed over-whelming the following factors merited management's attention and were a cause of worry:

1. There was difference in management style and hitherto management philosophy of the two companies
2. Anchor's had strong cultural heritage and so the same had to be dealt with extreme care to avoid employees resistance
3. Anchor essentially was a family run enterprise and hence relied more on personal relationships then formal documents and transforming the same into a professionally managed organization required planned implementation, extensive communication and structured execution of strategy.
4. Anchor relied heavily on its business collaborators, i.e. the dealers and franchisees and hence their buy-in into the merger was essential for the smooth transition of the management.

In addition to the above Anchor given its reputation in the Indian market and its ambitious growth plans was being targeted upon by many MNC's and also commanded a healthy market price for its shares on the Bombay Stock exchange.

## Merger and Post Merger Integration

After heavy debates and negotiation with the major stakeholders in the company, on 23rd April 2007 Panasonic (then Matsushita Electric Works, Ltd. (MEW),) issued an official press release declaring its intention to acquire 80% of equity in Anchor Electrical Co Ltd. The merger was met with enthusiastic reaction from people both internal and external to the Joint venture. While acquiring Anchor was part 1 of the growth strategy for Panasonic electrical, it was crucial to see as to how would this laggard handle the post merger issues and how far it be able to derive synergies from its new acquisition.

In order to ensure smooth transition and early post merger integration Panasonic India focused on establishing the following key requirements[83].

1. Visual control
2. Strategy process
3. People process
4. Operation process

*Visual control*

Firstly, Panasonic took stock of the current situation. It took cognizance of the unique Indian culture which was quite different from that of the Japanese. Panasonic introduced administrative changes which were simple to follow yet effective. Monthly financial report, intranet, drawings of products, QC circles were a few of them. Also, new IT infrastructure for ordering, delivery management, and accounting online was introduced to enhance the efficiency of the Indian operations. This centralized system made the company's control effectively and more accountable.

*Strategy process*

Panasonic did not try to enforce a top down 'Panasonic way' or style of working and thus avoided potential employee's resistance. Instead, it collaborated with Anchor's existing employees by: (1) Developing vision and mission for the company. (2) brainstorming to decide the strategy for growth and (3) Sharing management policy by holding national agent meeting.

In addition to the above, Panasonic recognized that it was necessary to transform Anchor from a family managed system to an enterprise managed organization. This required effective change management to transform that which was redundant and retain that which added value. In order to accomplish this uphill task, Panasonic divided the organization into three divisions; Sales division, Production division, and Headquarter staff and set out clear vision and mission.

*People process*

Part of Anchor's success lied in its loyal and talented employees and Panasonic recognizing this fact leveraged them further by introducing the activities such as: Management training, QC circle, and participating in all Panasonic technology contest. Also, in order to bring the two companies closer, Panasonic held voluntary educational activity such as calculation class and Japanese language class

[83] Internal Presentation shared by Panasonic Electricals Works Co Ltd

before/after working time and offsite event such as Rain Dance which was local traditional event participated equally by both the local Indian employees and the Japanese officials present in India. This created a sense of intimacy and affinity among the Anchor employees toward Panasonic and the feeling of one organization was sowed in.

*Operational process*

Panasonic saw the opportunity of improvements in Anchor's manufacturing process and introduced best practices to enhance the same. In particular Panasonic undertook the following as immediate actionable:

- Working Environment; from "dark working space, operation on floor" to "Bright working space, working environment with air condition".
- Productivity: convert from line production to cell production.
- Cash flow: transformation of awareness for stock (good to bad).
- Maintenance of Drawings: taught importance of drawings (There was no drawings of products and no accurate drawings of buildings in the erstwhile operations).

Panasonic constantly strived toward superior post merger integration (PMI). It focused on (i) Establishing Governance, (ii) Close communication and Education and (iii) Working harder together to attain optimal post merger synergies.

Recognizing Anchors strong brand image in the Indian society Panasonic decided to retain its original brand name and logo and introduced its proprietary technologies and know-how to help Anchor become a global electrical wire and switch manufacturer. While many factors worked against the integration many worked toward it and Matsushita (now Panasonic) effectively used the positives to lead the integration toward a smooth process. Despite the difference in work and management style both the companies shared similar corporate values and in order to further strengthen the same Panasonic from the very beginning focused on enhancing the technical expertise of its local employees and encouraged them to be a part of the overall Panasonic fraternity rather than just Anchor Electricals.

Post-merger Panasonic helped Anchor in developing the corporate mission which stands true till date: Anchor mission: "To manufacture, Innovate, Eco-Friendly, Energy saving world class products for making user's life Simpler, Safer and Comfortable[84]. Anchor today is recognized as the world's largest switch manufacturer with 50 switches manufactured every second[85]

After the successful merger of Anchor Electricals, with the objective of revitalizing all Panasonic businesses Panasonic India Pvt. Ltd (PI), was established in 3rd October 2008, and all Indian operations were unified under the same[86]. This marked the beginning of Panasonic's counterattack at that time. Following the successful merger in India, Panasonic continued its growth trajectory around the world using

84 Anchor website, www.anchor-world.com/?page_id=24
85 http://www.superbrandsindia.com/images/brand_pdf/business_2nd_edition_2008/anchor.pdf
86 Panasonic India's homepage; http://www.panasonic.co.in/wps/portal/home/aboutpanasonic/corporateprofile/messagefromthepresidentofpanasonicindia

the M&A strategy by acquiring brands such as Sanyo, Aeromobile and in more recent times Firepro systems Private Ltd in India.

## 6. Sony in India: Regaining the Lost Leadership

### Introduction

As the world economy appeared to be entering a period of financial turbulence and recession in 2007-2008, Sony India faced a growing price war with aggressive, diversified South Korean and Japanese competitors in its primary markets, changing demographics and evolving needs among its customers, and increasingly sophisticated local competitors nipping at its heels. Sony India's management team felt the need to devise a new strategy that would not only enable it to regain its lost market leadership in the consumer electronics space but also make growth more sustainable and predictable in the future.

Sony established a strong presence in the Indian electronics market well ahead of its international competition (since 1994) and leveraged its early mover's advantage effectively. It became the market leader shortly after entry, a position that it held for many years. But as competition strengthened, particularly with the entrance of aggressive players such as Samsung and LG, profits drained out of the sector.

The South Korean firms made extensive use of attractive discount schemes, frequent sales promotions, extensive advertising, and high profile celebrity endorsements to woo customers. While Sony enjoyed premium pricing on its products for most of the previous decade, margins eventually succumbed to competitive pressures as it lost market leadership in the late 2000s. During early 2008, Sony India's Managing Director was faced with the task of selecting the right pricing strategy and corporate philosophy as the company approached the end of the first decade of the 21$^{st}$ century.

### History of Sony in India:

Sony India was established in Nov 1994 as a 100% subsidiary of Sony Corporation (Japan). Even before its formal launch in India, Sony products such as the Walkman, Sony cassette players (VCR), tape recorder etc were already popular among those that travelled abroad and hence upon launch Sony received almost instant acceptance from the India consumers. Sony since its inception enjoyed price premium over competition as it differentiated itself as a quality and innovative products manufacturer and this led toward building a strong brand appeal in the minds of its consumers. Sony today is a house hold name in India and is recognized as a brand with tremendous repute and loyalty[87]. Despite the fact that Sony had to face challenging times during the mid to late 2000s to the point of falling behind in the competition, it continued to remain a benchmark in the consumer electronics market and continued to be in the top segment when it came to brand recall for electronics in India.

### Indian Electronics market

[87] http://www.sony.co.in/article/211979/section/overview

The electronics market in India saw a sky rocketing effects post 1992, essentially after liberalization in terms of number of brands, kind of products being offered and the price points at which products were available.

India has benefited from the Government of India's liberalized policies to encourage trade in 1991. As an industry, Electronics India is turning out to be a growth engine to India's economy and has experienced double digit growth for many years. Electronics India has been increasing in its share of India's GDP as well.

Electronics devices have been slowly becoming part of the Indian way of life and daily activities as India becomes more developed as a nation. The rapid growth of the Electronics India industry is due to the proliferation of the consumer electronics especially the television and audio systems in the 1980's and the personal computer in the 1990's.

The opening up of the economy on the one hand led to elimination of inefficient local players and on the other enabled the domestic players to find stronger, technological capable international collaborators. The broader Macros economic factors such as average GDP growth of 6% since 1991, robust industrial and agricultural growth and continuing good future forecasts have been helping the industry in general[88].

In addition to the above the changing lifestyle of people, such as with more people looking for flat panel TVs, in-car music and entertainment systems etc has been affecting the industry in a positive direction[89]. The potential of the Indian consumer market was becoming more visible to the world as the theory of "fortune at the bottom of the pyramid" was evidently playing out itself in the Indian situation.

**Consumer Electronics market in India Today**

The consumer electronics market in India was at $21 billion in 2009[90] The consumer electronics market during the period 2007-11 had grown at an average annual growth rate of 10.8%. Consumer electronics continues to be the main component of the Indian electronics Industry and is expected to grow at 10 – 12 % annually from here-on as per the Consumer Electronics Report 2012.[91] In a consumer market study conducted by Deloitte Touche Tohmatsu, India was forecasted to become the 5th largest market by 2025 (Consumer 2020: Reading the signs')[92]

Sony as a company has growth from strength to strength since its launch in the India markets. From a humble beginning in late 1994 it has grown to become a billion dollars plus corporation in India and has grown at double digit growth figures for most of the years.

**Distribution Pattern in the Consumer Electronics Market**

88 http://www.state.gov/www/about_state/business/com_guides/1998/southeast_asia/india98.html
89 http://www.euromonitor.com/consumer-electronics-in-india/report
90 (Business insights, 2012)
91 http://www.cci.in/pdf/surveys_reports/consumer-durables-industry
92 Consumer 2020: Reading the signs' conducted by Deloitte Touche Tohmatsu Ltd., http://www.thehindubusinessline.com/industry-and-economy/marketing/article1156440.ece

The Indian demographic could be split on lines of multiple regions, cities categorized as Tier I, II and tier III cities, income level, and even age. As a society the economy was characterized as a word of the mouth society as more people relied on references or views from a friend or family member than an advertisement and hence treating the existing customer well was in effect leveraging on them for “Word of Mouth publicity”. Hence sales intermediaries such as agents, dealers and retailers played a crucial role in accomplishing sales in the Indian markets. Success of any retail endeavor required, to a great extend, an extensive network of distribution. The major types of intermediaries involved in taking the products to the end consumers could be dealers, distributors, national retail chains, regional retail chains, sub-dealers, and recently evolving e-commerce route. Apart from the above companies also maintained their own retail units but the same had limited reach as they could be established only in the larger cities with minimum sales potential.

Realizing this fact has for years worked on improving its sales and distribution network, not only in the tier one cities but also in the tier II and III cities. By 2010 Sony had over 5000 dealer and distributors, 240 exclusive Sony outlets[93] and multiple e-commerce websites where Sony products were sold.

While most companies tried to enhance their distribution network what differentiated Sony was its policy of not only creating new dealers, sub-dealer and distributors but also nurturing them by providing adequate training, inventory management support, marketing and customer handling guidance and adequate after sales service support. [94]

**Competition in the India Electronics Market**

India’s consumer electronics market is highly competitive, with major global competitors like Samsung and LG from South Korea, Panasonic from Japan, and local Indian players jockeying for the leadership position. Late 2000s saw the emergence of companies such as Samsung and LG turning the electronics business into a low price volume game and reduced the profitability for the entire Industry. While Sony tried to avoid this price war scenario, but in light of the ongoing financial crisis around the world, generally grim economic scenario and consumers tendency to postpone purchases in anticipation of further correction in prices forced Sony to enter the competition to maintain its sales volumes and market position. While the plan was to increase revenues via increased sales, the rise in sales was marginal and gave an opportunity to the other players to drag down prices further due to the tough competition in the Indian electronics arena.

Samsung Electronics

S. Korean heavy weight, with global presence and reasonably established foothold in the Indian market. Since its entry on the Indian landscape Samsung adopted aggressive strategies to penetrate the difficult Indian market. This included competitive pricing of products, heavy advertising, extensive sales promotions, and rapid distribution network expansion. Apart from electronics Samsung also had presence in home and office appliances such as micro-wave oven, fridge and washing machines, printers and fax

93 http://www.sony.co.in/article/211979/section/overview
94 (Sony India, 2012)

machines and positioned itself as a one stop shop for all electronic and appliance needs.

Samsung's President for India and Southwest Asia expected the firm's sales in India to double to $10 billion by 2014 on the back of mobile devices and flat panel televisions. As for investment plans, the firm proposed investment of $70 million to expand its existing factory in Tamil Nadu, state in the south of India.[95]

**LG**

LG originally entered the India market in 1993 (preceding Sony) under the Lucky Goldstar brand, as a joint venture with local firm Bestavision. As the regulation turned easier and the local markets became more palatable LG decided to enter the markets directly. It changed the name of its company in India to LG in 1995, and made JV its fully consolidated subsidiary in 1997. Just like Samsung LG too offered a wide range of products and used aggressive pricing as its key selling point.

Y.V.Verma, LG's chief operating officer for its India subsidiary, expected Indian revenues contribution to LG global to double from 6% to 12% by 2015.[96]

**Panasonic**

Panasonic initially entered the Indian under the joint brand name of National Panasonic but soon split the two as individual brands. Panasonic in its initial years enjoyed brand image and product reception almost equivalent to that of Sony but lost focus of its strategy in the Indian markets due to issues with its parent in Japan and other international issues. As of 2009, in terms of sales in the Indian market, Panasonic's 40 billion yen was significantly behind LG's 250 billion yen and Samsung's 190 billion yen sales figures[97]

In future, during the 2011-206 period, Panasonic plans to build a new plant and a research and development facility in the northern state of Haryana, for $200 million and $100 million respectively to boost sales and innovation, and to further localize its products.[98]

**Local Indian Brands**:

Apart from the above smaller towns were flooded with local brands such as Onida, and Videocon. A new competitor that started rising was the in-store brands developed by National retail chains such as Croma (backed by the Tata Sons ltd), eZone (Future group company) and those developed by the regional retail chains, dominant in their respective regions. These goods were cheaper and started gaining acceptance based on the stores reputation.

### Sony India's Recent Efforts

Realizing the fact that competition was set to further intensify and margins destined to evaporate, Sony had to decide on a clear strategy to guide its path into the next decade.

Based on the lessons learnt during the period of sales stagnation around the 2008-09 Sony decided to step away from the price competition and decided to compete using other characteristics such as innovative products, easy of accessibility to the end consumers, better after sales service and superior product quality. This strategy had to be converted into an implemented plan and also had to be

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95 (Krishna & Thoppil, 2011)
96 (Krishna & Thoppil, 2011)
97 Nikkei Business (2011) Panasonic's setbacks and counterattack in India, *Nikkei Business*, March 21, 90-93
98 (Krishna & Thoppil, 2011)

communicated to the employees, channel partners and most right brand message had to sent to the customers. In the following period Sony took the following efforts to establish a strong corporate culture and instill the Sony management philosophy in the Indian operations as its competitive differentiator.

Sony strengthened its network by running regular training programs, dealer and employees conference to bring management, channel partners and employees on the same page and toward the same direction. It ensured that channel partners concerns were addressed in time and had empowered the employees and channel partners to focus on customer relationship and client satisfaction.

As Sony returned to its premium product space it had to clearly segment its target customers and doing so not only increased its sales but also reduced the after sales requirements and boosted the revenue from services business as the core customers preferred company employed service rather than depending on local random service providers.[99]

The actions taken to combat the price war and the rising competition and its backfire made it clear that Sony's key strength resided in its brand and the promise of quality that customer perceive when they buy a Sony product. Making a intrepid pivot in its price war strategy Sony re-focused on its original strategy of rising above the commoditized competition by leveraging on its repute on brand promise. The key steps taken by Sony were:

- Price consistency and stability – avoiding brand dilution

  Sony avoided the temptation of offering season or month end discounts to boost sales. With time brands offering discounts fell in the trap of gaining sales only via discounts and thereby faced the problem of shrinking margins despite rising volumes.

- Extensive dealer network – first source of advertising and customer feedback

- Smart advertising and media spending

  Sony marketing efforts were an outcome of careful planning and bold initiatives. While one the hand it employed some of the biggest names from the film Industry and sport to endorse its products and on the hand it saved funds by effectively utilizing media coverage and supporting sporting and noble causes as corporate sponsors.

- Using its TV channels

  Over time Sony had built a portfolio of TV channels which ranged from Music and films to lifestyle and sports. Sony bagged the rights to broadcast the Cricket world cup in Indian, twice which eventually went on to pass the goodwill to its electronics business. In addition Sony entertainment television (the TV media company) regularly air's much anticipated events such the Filmfare Awards (biggest film and entertainment awards), Miss India beauty pageant (contest), and a host of other reality TV

[99] Customer discussion forum feedback, stating preference for Sony over others due to better post sales service. http://www.hifivision.com/television/3772-sony-vs-samsung-after-sales-service.html

shows.

### Nurturing and Securing Local Human Resources

Developing People:

As part of its corporate philosophy Sony focused on developing people and instilling them with the right principles and management capabilities. Sony encouraged its employees, dealers and other associates to treat customers with a long term perspective and avoid short term sales temptations. Month end sales pressures were avoided and employees were encouraged to maintain linear yet continuous sales performances[100].

Customer satisfaction and relationships were valued over short term sales spikes and the same was enshrined in the corporate philosophy. In addition to the above employees were given clear career path and training to achieve next career goals and also to perform better at the existing grade level. Employee's conference was hosted to share management direction, employee best practices and to recognize and reward employees. To enhance employee's satisfaction and motivation, initiatives such as employee's newsletter, happy hours (a break from regular work), family day and team building exercises were followed.

The corporate philosophy, focus on building human capital and nurturing people resulted in lower employee turnover over time and better performance.

Supporting Dealers:

While most competitors placed their dealer and franchisees as their first customers, Sony treated its dealers as part of the Sony family and hence not only provided them with its products but also support to execute their respective functions. Stark difference in this context would be the way in which Inventory compensation and dealer margins were established.

For Sony, even after the products were delivered to the respective dealers, it shared the responsibility of ultimate sales and risks involved. This was evident under the philosophy of "Your Stock our Stock".

Sony took great care in establishing dealer margins and any price changes were always done in consideration of the dealer emoluments and as to how would it affect them. This brought consistency of revenue for the dealers and enhanced their loyalty toward Sony as its channel partners. Sony went to the extent of taking cognizance of sub-dealers profits and stock compensation was provided even to them.

### Foment a Strong Corporate Culture

As Sony marches toward the new decade, it became evident that establishing a strong corporate culture was crucial for its future.

> "*My job is to create a strong corporate culture. Management philosophy and discipline will be our differentiator*" (Masura Tamagawa, Sony India managing director)

The following principles were established as the pillars of Sony India's corporate culture and both

[100] Sony India Internal presentation.

employees and associates were encouraged to abide by it[101].

1. **Always walk the King's road = Adhere rigidly to the basic**
   ⇒ **will never pursue quick sales and profits by using cheap tricks.**
2. **Do it yourself. Never throw all things to someone else.**
3. **Establish organization where people can feel the contribution to the company with mind of ownership**
   **=> Combination of Top Down + Bottom Up**
4. **Provide equality of opportunity which does not depend on native community, education background.**
5. **Transparency**

**Sony India Today**

> In fiscal year 2010, ended March 31, 2011, with efforts to bolster day-to-day store sales and tighten inventory control, together with effective advertising and promotional activities, we succeeded in increasing our market share in several growing product categories and, as a result, in expanding the scale of our business.[102] (Masaru Tamagawa, Managing Director, Sony India Pvt.)

After establishing a clear marketing strategy and regrouping its sales and distribution efforts Sony India's performance saw a catapulted effect. From 2009 to 2010 Sony India saw a resounding jump of 47% in its sales volumes and while competitors were still playing by lower price strategy Sony maintained its stable price, good quality policy even during the festive season.

As a company, Sony not only provided one of the best dealer margins in the Industry but also nurtured them to grow further which in turn resulted in its own growth. Efficient pricing strategy enabled Sony to enhance its advertising and marketing efforts and bolster its brand image. A testimony of Sony's brand power was the fact that despite increase, Sony total advertisement spends were lower than its competitors but its brand recall was far ahead than the competition.

Sony today boasts of some of the biggest name as its brand Ambassadors in India. This includes actors, crickets and musicians and other notable celebrities.

Sony India in 2012 contributed to about 5% of the overall Sony revenues and the same was expected to double in 3-5 years. [103] Today, Sony has established itself as a leader across several consumer electronics product categories, including LED and large screen LCD TVs, digital cameras, and camcorders. The consumer laptop business has been a focus since the Stringer era, and Sony appears to have taken the top spot from December 2011 through the first half of 2012.[104]

Sony's commitment to quality earned it a reputation as a benchmark for superior quality, the latest technology, and the best after-sales service. DisplaySearch, a market research firm, contends that Sony has the strongest consumer electronics brand in India and that its market-leading number of branded

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101 *Source: Sony India, Internal Presentation*
102 Sony Corporation Annual Report, 2011 (p 33)
103 (Hindustan times, 2012)
104 (Mukherjee, 2012)

stores reinforces this perception among Indian consumers.[105] Over the years, the company has concentrated on its distribution network and has over 5,000 dealers and distributors in addition to 240 exclusive company outlets and 19 direct branch locations. [106] In FY2012, Sony India plans to add some 1,800 retail outlets, bringing the total to 12,200.[107]

Sony India has spent heavily on advertising and promotions to build and maintain its brand, while its strong relationships with dealers have helped the company to avoid price competition with its South Korean competitors.[108]

Today, Sony's consumer electronics product portfolio in India largely mirrors its global offerings.

Sony's television business in India is something of an outlier in its global portfolio. While the television business globally lost nearly $10 billion in 2011, in India its Bravia line of televisions is the company's top revenue generator contributing more than 35% of sales. In 2011, Sony sold more than 950,000 televisions.[109]

Apart from electronics, Sony has started a portfolio of TV channels via a subsidiary called Sony Entertainment Television Ltd. and has been successful in becoming a name common to the extent that it had almost highest brand recall in the Industry.

**Conclusion**

Sony Corporation's India subsidiary has had a remarkable run during the five years to 2012, growing sales more than 25% annually, from some 22 billion Indian rupees in 2005 to 54.5 billion rupees in 2010. In contrast to the global loss of some $10 billion in FY2011, India operations were profitable. And in contrast to planned headcount reductions of some 10,000 worldwide in FY2012, Sony India would hire 500 employees to bring the total to 3,800.[110] India had become the fifth largest geographical unit by revenue, following Japan, the US, China and Brazil. And reflecting the subsidiary's success and importance firm-wide, Sony India's Managing Director reported directly to the CEO, bypassing the Asia-Pacific head.

As Sony India Managing Director Masaru Tamagawa sat contemplating his upcoming presentation to CEO Kazuo Hirai and the Board of Directors in Tokyo, he wondered what lessons Sony might learn from its striking success in India over the past five years, and what if any implications the company's experience in India might have for Sony's global turnaround efforts. The future was murky, and there was much to ponder.

## Analysis: Hypotheses Developed from the Case Analyses

This is a research of hypothesis developing rather than one of hypothesis testing. Following hypotheses for doing business in Asia could be developed.

105 (Mukherjee, 2012)
106 (Overview, 2012)
107 (Correspondent, 2012)
108 (Shimamura, 2011)
109 (Mukherjee, 2012)
110 (Correspondent, 2012)

1. **Successful companies have clear strategies, supported by appropriate activities**

Shiseido, Komatsu, and Daikin in China, and Panasonic and Sony in India have very clear strategies for the China or Indian market. They have made very clear decisions on how to position their products, and have developed a set of complementary activities to support their strategies. These strategies, however, were very much the result of discovery and learning over time. Komatsu's and Shiseido's history in China is extremely long—from the earliest days of China's opening to international trade. Daikin's entered China in the mid-1990's, but the first few years were marked by slow and steady moves, experimentation and learning. On the other hand, Nissan could develop unique differentiation strategy due to their relatively late entry in the Chinese market. As a late comer, Nissan could not do the same thing as their competitors like Toyota and Honda. Nissan is a good case of turning competitive disadvantages into competitive advantages by means of strategic thinking.

Despite their success, Shiseido, Nissan, Sony, Komatsu and Daikin's strategies are quite different. In the case of Komatsu, the strategy is to sell high-quality, cutting edge technology heavy equipment (specifically, hydraulic excavators). This is supported through excellent service, the Komtrax system, a strong network of distributors in each province, and strong local staff. The "mother factory" system and the Komatsu Way are critical pillars of this system. Daikin's strategy is one of localization, with products consistent with Chinese lifestyles and tastes. Daikin's strategy is supported through excellent service, a huge network of dealers across different channels and by an alliance with China's largest air conditioner manufacturer, Gree.

On the other hand, Shiseido's strategy is two-fold. On one hand, Shiseido could gain the number one market share by launching local brand Aupres. This is the first local brand that Shiseido has ever released in foreign markets. On the other hand. Shiseido used their familiar business model, i.e., Shiseido chain stores. This is Shiseido's key differentiator against western competitors such as L'Oreal and Procter and Gamble. Nissan's success came from the differentiation against their competitors in terms of markets/regions and product categories (small-size cars). It is now launching new adaptation strategy by releasing VENUCIA, a new brand, developed and made by Chinese only for Chinese customers. Sony's and Panasonic's strategy in India is very orthodox. Panasonic used inorganic strategy for faster growth in India. Sony used their strong brand to get out of the price competition with Samsung and LG and utilized careful marketing and channel strategy to increase sales.

In accordance with Ghemawat's (2007) AAA framework for global expansion, we can see Komatsu's strategy as one of aggregation—where Komatsu develops the technology in Japan, manufactures core parts in Japan, and seeks uniformity in Komatsu units around the world through the Komatsu Way. Daikin, on the other hand, has adopted a partial adaptation strategy, where the basic technology comes from Japan, but has been adapted to the China market, and

Daikin China has developed its own distinctive culture and identity. Shiseido uses the Adaptation strategy for Aupres and the aggregation strategy for the chain store. Nissan is now shifting toward the adaptation strategy by launching Chinese local brand VENUCIA. Sony uses the aggregation strategy while Panasonic uses the adaptation strategy by acquiring Ancor.

2. **Successful companies leverage "Japanese" strengths**

   While Shiseido, Nissan, Sony, Panasonic, Daikin, and Komatsu have very different strategies, they are very similar in that they have leveraged their own strengths which were developed through the tough competition in the Japanese domestic market. Shiseido, Nissan, Daikin, and Komatsu sell products in China that are known for being high quality enabled by excellent technologies. They have devoted considerable attention to their after sales service, and are committed to delivering Japanese-levels of service in China.

   Shiseido's strength in Japan is the effective management of the wide network of Shiseido chains and its high-touch hospitality services to customers offered by in-house beauty consults. All these unique strengths were transferred to China and enabled Shiseido to gain and sustain competitive advantages in China. Sony's recovery in India did start when Sony stopped the price competition with Samsung and LG and came back to their original unique strength: Using brand equity to differentiate their products. Nissan's engineering competence were transferred to China to develop local suppliers which played an important role in developing Chinese local brand VENUNCIA.

   Shiseido, Daikin, and Komatsu have also leveraged Japanese strengths in developing long-term relationships, with both employees and business partners. Both firms are known for relatively low turnover of employees, and their top local executives were developed from within, rather than recruited from outside. Both firms have developed very close and cooperative relationships with their distributors and dealers.

3. **Successful companies localize their human resources, but maintain close ties to Japan**

   Both Komatsu and Daikin have taken great steps to localize their human resources, despite different strategies. Both companies have made great efforts to place local Chinese in top positions. This has two benefits. One is that it means that local leadership of each company truly understands the market. The second is that it symbolizes to Chinese employees that they, too, can get to the top of the company, and that the possibilities for their advancement, at least within China, are limitless. This is a very important motivator.

   Komatsu and Daikin have different strategies regarding expatriates, with Komatsu sending Japanese expatriates on relatively short assignments as part of a larger HR policy of global rotation and assignment. Daikin's Japanese expatriate staff has tended to be longer-term, and much more committed to China. However, both companies are conscious about making sure that Chinese employees feel that they can make important decisions—that they are empowered to run their business. The role of Japanese expats in both firms is largely communication with Japan, and technological transfer.

The system of life-time employment in these firms, and high reliance on tacit communication, unspoken understandings regarding firm culture and strategy, and long term human networks, means that it is difficult for people who have not grown up in the Japanese headquarters, and are not there full-time, to gather information, and to communicate effectively. This can be seen as a strength of the Japanese firm, or as a weakness, but either way, it is the way that many Japanese firms operate. The existence of Japanese expatriates, familiar with the human networks and ways of headquarters, facilitates communication within the firm and local subsidiary. The challenge for companies doing business in China or anywhere abroad is to make sure that this system of communication and use of Japanese expatriates does not disempower and demotivate local employees. Daikin and Komatsu, so far, seem to have maintained this balance well.

One of the reasons that Daikin and Komatsu have managed this balance very successfully is that top management has a strong understanding of and appreciation for the China market, and allows each local subsidiary to have considerable flexibility in terms of strategy. The CEOs visit China regularly, and constantly demonstrate the importance of these markets to company business.

Both Komatsu and Daikin motivate their employees through a culture that makes them feel like they are part of something very successful and at the very top rank of global business. They also motivate their employees by making it clear that they have unlimited possibilities to develop themselves and use their abilities. Komatsu tries to create a worldwide culture through the Komatsu Way. In learning to behave and act according to the Komatsu Way, employees are joining an elite, global workforce. While Komatsu makes it clear that they are a Japanese company, it is also clear that Komatsu is a global leader, of which Chinese employees can be proud to be part of. Daikin China has developed a much more China-specific culture, and employees feel strong ties to Daikin China. However, employees also feel that they are part of a top global company, and work to make Daikin number one in the world.

**4. Successful companies develop local employees to grow business in Asia.**

The success of Shiseido and Nissan in China came from developing local leaders. Shiseido's success would not be realized if they failed in developing beauty consultants in China. Shiseido is very strong in skin care products, which requires the counseling at the cosmetic counter. If they could not offer personalized and professional counseling service at the cosmetic counter, Shiseido skin care products would not sell well. Therefore, Shiseido opened the training facility in Shanghai and succeeded in develop excellent beauty consultants. Nissan's success also came from the development of local talents in engineering and sales functions and also among suppliers.

Management training to local employees also helped Sony retain excellent sales forces in India. Panasonic trained Anchor employees and this training was so effective that Anchor employees the bronze medals in the quality skill competition at the Panasonic. The commitment of these companies to developing local people was appreciated by local employees and gave them stronger motivation to the success of their companies in India.

5. **Successful companies use challenges of global business growth to drive new business models.**

   One thing common among Shiseido, Nissan, and Komatsu is that they developed new business model while overcoming challenges facing them in China. Komatsu developed Komtrax. Shiseido and Nissan tried to launch new business model, that is, growing their business using unique local brands. Furthermore, this business model might have the global application beyond Chinese boundary. This is already the case for Komatsu. Though initially developed in Japan, Komtrax was improved and enhanced in China to deal with the delay in payment. Shiseido and Nissan might grow their Chinese local brand, Aupres and Venucia as global brands.

From these hypotheses, the following framework for growing business in Asia could be developed.

- Leveraging Local innovation
- Leveraging Local talent
- Leveraging Local brand

The framework, called 3 LL framework suggests how Japanese companies grow their business in emerging economies, especially in Asia. The key for success in emerging economies is reverse innovation[111]. Customer demands for a product/service in emerging economies might be different from the one in developed economies. Unique specification and appropriate pricing is critically important to gain business opportunities in emerging markets. Innovation in emerging economies might occur not from R&D function but from sales/marketing functions. This is to identify unique specifications and appropriate pricing by listing to the voice of local customers.

People who know local markets very well are local people. Therefore, local innovation should be led by local talent. Hiring, developing, and retaining local excellent talent is strategically important for companies to drive reverse innovation. Human resource management in local companies is so designed that excellent local talents can take the lead in reverse innovation.

In Asian countries, especially in China, Japanese companies should pay stronger and more careful attention to local sentiments against Japan/Japanese companies. Japanese companies should grow their business while helping Chinese companies grow. For that purpose, the collaboration with local companies which has been done successfully by Shiseido and Daikin should be seen as the best practice. In addition, it might be strategically wise for Japanese companies to use local brand to grow business in China. The use of local brand by Nissan and Daikin is a good example for this initiative. If Japanese companies can help Chinese local brand as a global brand, they might be more acceptable by the Chinese society.

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[111] Govindarajan and Trimble (2012)

The five hypotheses along with the 3LL model remain as hypotheses. In order to identify the reliability and the validity of these hypotheses and the framework, quantitative research is required.

## Remaining Research Questions

While Shiseido, Nissan, Komatsu, Daikin, Sony and Panasonic have been very successful in China, they face some challenges, and Japanese companies can learn not only from their successes, but also from these challenges

1. **Challenges for Komatsu and Daikin**

   One of the biggest issues for both companies is whether, and how, to penetrate what Daikin refers to as the "volume zone." Both companies began their businesses in China with very top-line products, priced similarly to Japan, and targeted to deep-pocketed customers. But, this is only a very small part of the China market.

   Both companies have sought volume in terms of regional penetration, not limiting their sales to a small geographical area, but making their strategy and ultimate goal to penetrate all parts of China.

   Daikin has begun to move from high-end industrial and residential customers towards the volume zone. Its alliance with Gree has been an important part of this strategy, as joint production has enabled Daikin to push down prices. Its new factory in Suzhou is also an attempt to move into the volume zone. However, in this zone, there is substantial competition from Chinese companies, and it is not yet clear if Daikin can maintain its distinctive image for quality and style.

   In the case of Komatsu, it has focused on high end hydraulic excavators, and shows now interest in moving down to more mass-produced equipment, such as wheel loaders. Its latest technological innovation introduced into China is the hybrid hydraulic excavator, which delivers significant value due to the high price of gasoline in China. Komatsu is facing competition from mid-priced manufacturers, such as Sany of China and the Korean Doosan, but appears to be committed to its current strategy regarding quality and price.

   Another challenge to the two companies is how to make business truly global, and to promote technological development and learning that spreads horizontally around the firm, and is not only originating from Japan. Both companies show examples of this: Daikin, for example, has introduced technology developed in Europe into China. Much of the development of the Komtrax system originated in China, and has spread from China to Japan. Yet, these are still relatively rare exceptions.

   It is also clear that while Komatsu and Daikin have given their China business considerable autonomy in strategy, global strategy is still made by Japanese, from headquarters in Japan. Daikin has made some steps to globalize its board—the chairman of their European board is on the company's board, as is the head of the China business (who is Japanese). However, in both companies, it still seems implicit that while local employees can move to the top of a national subsidiary, they are after all, "national staff," and that headquarters, and the top level of global decision-making, is still limited to Japanese, long-term company employees.

As long as the business model is to develop technology in Japan and to localize and adapt it to a certain degree to local markets, this strategy may make sense. As technological and market innovations are increasingly found outside of Japan, and the spread of knowledge from overseas to Japan, or horizontally among overseas subsidiaries becomes important, this model may be no longer sustainable.

2. **Challenges for Shiseido**
For the success of Shiseido in China, the hybrid of the old business model (Shiseido chain store) and the new business model (Aupres) is working very well for the moment. The growth rate in China is still high. In addition, they have an ambition of growing Aupres as a global brand beyond the regional boundary. But the western big giants such as L'Oreal and Procter and Gamble would not allow Shiseido enjoy an early mover's advantage for so long time. They are stronger than Shiseido in the premium market which Aupres is located. Then the key issue for Shiseido is how to protect Aupres. If Shiseido is beaten in this market, their source of the future success should come from the chain store business. It is already a dead business model in Japan. Then the key challenge is how to avoid the obsolescence of the chain store business in China?

3. **Challenges for Nissan**
Venuncia has been just launched and we cannot see yet whether it would be successful or not. The Chinese automotive market is the biggest market in the world and it will be more and more competitive. So far Nissan could grow inland Chinese. Then how to sustain their competitive advanatages once their competitors are becoming more aggressive in penetrating into this market? Nissan has been selling smaller cars but the luxury market is growing. How can they seize this opportunity for further growth in China?

4. **Challenges for Sony**
For Sony, the India is the market where they can enjoy competitive positions in the LCD TV market. Korean companies, especially Samsung is leading the global TV market. Samsung could be attacking Sony by utilizing their economy of scale and offering new TV technologies such as organic EL. How can Sony's competitive advantage be sustainable in the market where they are weak overall. Only India is exception for Sony. Given this situation, the sustainability of their success might be doubted.

5. **Challenges for Panasonic**
How to leverage Anchor to grow the other businesses of Panasonic in India is really challenging. Higher return investment should be aimed by leveraging Ancjor to sell more white goods products in India, one the core products at Panasonic.

## Policy recommendations

To conclude this discussion paper, the following policy recommendations could be made from the research findings in this research.

1. Provide education for Japanese middle managers that focuses on international business and

strategic thinking.

Successful Japanese companies in Asia have good strategies. But, these strategies are very different, depending on the firm, on the industry, the timing of entry, and the country. Managers need training in formulating strategy—not in simply imitating other firms. Managers also need training in international business strategy. There is a large literature on international business that offers guidelines to managers on how to make important decisions such as market entry, localization versus centralization, and assigning of decision-making rights. However, this literature does not seem to be well known among Japanese executives.

2. Provide education for top Asian students and managers, to help them understand the Japanese business system.

   Successful Japanese companies tend to promote from within. Their preference is to hire young, and to provide in-house training, not only in business but in corporate culture. It is important for Japan to provide opportunities for foreign students to not only study, but to do internships in Japan, to learn Japanese business culture, as well as language and other aspects of Japanese culture and society. It is critical for these programs to be attractive to top students.

   It is very important for both types of programs—for Japanese managers and for Asian students—to promote thinking skills, and not simply promote "best practices" and imitation. There are no "best practices" since good strategy and excellent organization are very much dependent on the situation.

3. Encourage diversity among top management for faster decision making

   For the success of global business growth accomplished by both Shiseido and Nissan, the contributions from foreign top management, i.e., Mr. Carsten Fischer and Mr. Carlos Ghosn were significant. They stimulated Japanese employees and let them go out of their comfort zone. They could allow Shiseido and Nissan to utilize the network with strategic partners and key industry figures developed by themselves. In order to booth global business growth by Japanese companies, having foreign top management should be encouraged and accepted.

4. Support the network building among Asian business leaders

   The growth engine for the world economy exists now in Asia. In order to drive global economy, collaboration among business leaders while competing is crucially important. Various initiatives such as Asian summits and forum where Asian business leaders discuss key issues in Asian economy should be encouraged and supported. It should be done with long-term perspectives since networking building takes time.

5. Give incentives for developing local talents

   Global business growth will be led by local leaders in each local market. The education of local talents are key for success. Their management and specific professional skills will be developed, which enable Japanese companies grow their business in each local market. The educational opportunities also give increase loyalty for the companies and motivation to business growth. Therefore, the development of local talents by Japanese companies should be intensified by offering incentives such as the subsidy aid to them.

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