



Japan Market White Paper
Presented by iSearch Worldwide LLC
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iSearch team members gathered recent insights from Silicon Valley industry leaders with experience in building successful Japan operations for multiple firms. We have distilled these insights into the following points below.

Basic market facts

- Japan is the #2 national IT market worldwide, with stable IT infrastructure and sophisticated enterprise customers and partners
- Japanese firms are now investing heavily in enterprise SW: like SFDC, Japan can be your #2 market worldwide and contribute 10% of global revenues at scale
- Tokyo itself is the #1 metropolitan market worldwide – much larger than NY or London
- Osaka market is equivalent to greater LA or Chicago
- Easy to reach majority of national market - very centered in Tokyo and a few other metros
- Profit contributions from Japan tend to be much higher than equivalent revenues in US and other markets
- Japan is the world-leading SaaS market outside of the US and the world leader in Mobile ARPU

General discussion

After the Great Recession of 2008 (known as the ‘Lehman Shock’ in Japan) “Japan Passing” became the common refrain as overseas companies rushed past Japan to establish bases in China, India, and Korea. Japan’s prospects seemed to dim from 2008 through 2012. Now we are experiencing a resurgence in interest in Japan among advanced US firms across multiple sectors, including automotive, medtech, electronics, advanced manufacturing, digital media, and telecoms.

This renewed interest in the Japan market represents a recognition of the stability and trustworthiness of relationships there, and the large cohort of highly sophisticated customers with a demonstrated willingness to buy, license, and outsource development from foreign solution providers. As the above facts indicate, the market is highly concentrated in greater Tokyo and a small number of next tier metropolitan markets.

There is also the growing cultural accessibility of Japan from overseas, with buzzwords like ‘Cool Japan’ gaining popularity, and the general increase of soft power accompanying a huge growth in inbound tourism.

Japanese corporations themselves have become much more aggressive in engaging with the global tech eco-system with the growth of Corporate Venture Capital (CVCs) and Open Innovation initiatives, overseas technology centers, and startup incubation facilities. These efforts have enabled unprecedented access for local US companies to potential investors, partners, and customers.

Key drivers in the Japanese economy include the decline and aging of the population, the energy crisis around Fukushima, corporate scandals, regional security cooperation, and major short-term showcase tech initiatives associated with the Rugby World Cup and the Olympics. These trends are driving demand for 'deep tech' and solutions for operational efficiency, process automation, new customer acquisition, and QOS.

Market entry intelligence

These are the typical patterns of market entry: each have records of success and failure.

- Use a local distributor
- Establish a wholly owned subsidiary
- Form a joint venture with a local partner

Among these, there is no one-size-fits-all choice of structure. Each firm should adapt based on their own requirements.

The patterns of long-term success vary. For example, several of the leading US database vendors with major operations in Japan began by handing over source code to local distribution partners who handled their product with great passion and commitment, leading to significant long-term success as freestanding Japanese subsidiaries.

Typical challenges in early stage business development

Decision-making at Japanese firms is typically still done the 'Japanese way': relatively opaque, consensus-driven, risk-averse, and slow. Overseas firms seeking to build relationships often experience frustration in gaining access to real decision-makers, find it hard to build and maintain deal momentum, with a lack of transparency in communications.

There are frequent misses in aligning deal timing, objectives and expectations, with lots of drop-offs after positive early conversations. Consequently, firms need to be prepared to qualify opportunities by confirming relationships with Japanese counterparts who can execute on decisions.

Key factors for market entry success

Japan is an extremely valuable target, and once you have met the requirements and standards of market success in Japan you will be prepared to succeed in any other international market. It is a worthwhile long-term investment.

Adopt a long-term mindset, allocating at least 12 months before expecting to see substantial returns on investment. It is strongly recommended that companies not ‘dabble’ in Japan. Japanese employees, partners, and customers are extremely sensitive and well-attuned to the level and quality of commitment that an overseas firm is willing to make to the Japanese market. Note that many of the outstanding successes in the market, like Salesforce, represent years of patient investment, stewardship, and the close personal commitment of the CEO to the success of the operation.

Initial stages of market approach

Japanese companies will typically do lots of research before entering a new market, and so should you. You should arrive at a clear understanding of against whom you will compete, and how well you stack up.

Begin with a thorough market assessment exercise. Approach your market assessment as a year-long undertaking, which may start with around twenty meetings with potential partners, customers, and service providers. Spend time in the market to survey all the major competitors and potential customers to gain a thorough understanding of your actual positioning in the market, which may differ substantially from your positioning in the US and other markets.

Focus on finding your real strengths in the market. Pay close attention to actual feedback and find your sweet spot. It is extremely important that you understand how your product or solution will be adopted in the Japanese market, and what kinds of modifications that will require. This will become clear as you route the market signals and feedback through your own product, engineering, and business development teams.

Three key points from an industry veteran

1. Make a sustainable commitment at the senior executive level

- Your Japan operation needs visibility at the senior levels in corporate HQ, with direct engagement by the CEO.
- Ensure that your senior Japan leadership has direct access to executive leadership at similar title level in HQ. Do not shunt management of international operations to junior officers in HQ.
- Put together a comprehensive 10+ year vision for the market.
- Do not take on Japan as your first overseas operation – it is very challenging to meet what are typically very high expectations for overseas market entry working in a culture with very significant differences from your own. Japan is a great market to take on after Canada, the UK, and Australia, for instance.

2. Run it like a startup

Recruit an entrepreneurial leader with startup experience to launch your operations – hiring your GM at startup is the single most important thing to get right. This person must bring the ability to focus on the one part of the market that can gain your company the most

advantage/leverage in the shortest period, with the limited resources available. It requires someone with the stamina and self-confidence to say no to the HQ while they pursue their vision for the Japanese market. Significantly, this leader need not be a native Japanese person.

This leader should be entrusted to hire an 'A' team at launch with 5-6 members. Reverse engineer market scale and revenues to justify this team size. Get the team to be highly focused on a small number of big, game-changing, leverageable wins.

Expect to engage with the market in an agile mode, with flexible support from HQ along the way, and develop a comfort level with sometimes unusual, innovative approaches. Commit funding of the operation as a staged investment: make it known to local teams that they must reach certain targets in order to release the next round of funding from HQ.

When approaching distribution partners, make deals with them to ensure that they are adequately funded - give partners a good enough percentage of revenues to make a good long-term business out of handling your product.

3. Empower your local teams

Hire strong people and entrust them with the operations, free of micro-management from HQ; allow them to make mistakes, give them scope to build the business you want the best way they see fit with the autonomy and authority to do local innovations and modifications.

Many US firms with advanced technology products and services have found extremely rewarding long-term success in Japan. Now may very well be the right time for your company to launch or expand as well.

Enjoy these views of Tokyo as you consider your next move:

<https://youtu.be/6k7a8bw451M>

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