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**JAPANESE MARKETING STRATEGIES IN
THE U.S. MARKET**


BY

Chai Lim


B.B.A., University Of Dubuque, 1984

Presented in partial fulfillment of the requirements
for the degree of
Master of Business Administration
University of Montana
1986

Approved by


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TABLE OF CONTENTS

	Page
Purpose and Objectives	v
Introduction	1
Historical Setting	2
What It Took To Take On The West	4
Japanese Marketing Strategies: Postwar - 1980s	
A First Step Toward Competition	8
Product Strategies	
Market Opportunity Identification	9
Market Entry	11
Market Penetration and Expansion	
Product Line Expansion	16
Product Proliferation	18
Product Innovation and Improvement	19
Market Maintenance	22
Pricing Strategies	
Market Entry	
Skimming Pricing	26
Penetration Pricing	28
Market Penetration	30
Market Maintenance	31
Promotion Strategies	33
Advertising Strategies	35
Place: Distribution Strategies	37
Other Factors Considered	41

Japanese Marketing Strategies: Today	
Dollar Bashing: Reducing The Trade Deficit	46
Endaka and Japan	48
Strategic Response and Structural Changes	49
Japanese Marketing Strategies: The Future	57
U.S. Competition: What Went Wrong?	60
Conclusion	62
Endnotes	63
Bibliography	69
Appendix	
A. Trends in Labor Productivity in Manufacturing Sector (1975-1985)	73
B. Japan's Leading Trading Partners	75
C. Sales of Japan's Top Nine Sogo Shosha	77
D. Manufacturing Costs for a Typical Subcompact Car	79
E. Days Lost in Labor Disputes	81
F. Small Car Manufacturing	83
G. The Weakening Dollar	85
H. U.S. Trade Deficit by Region	87
I. Japanese Companies' Major Acquisitions of Foreign Companies	89
J. Japan's Direct Overseas Investment	91
K. Japan's Electronics Firms Expand U.S Investment	93
L. Canon's Network of Overseas Production Bases	95
M. Total Production of Robots by Application in Selected Countries	97
N. U.S. Response: Individual Firm Level	99

Purpose and Objectives

Purpose

The purpose of this paper is to analyze the marketing strategies used by Japanese industries to penetrate the United States market. The discussion will examine Japanese competition based on the four basic elements of marketing:

- . Product
- . Price
- . Promotion
- . Place of distribution

Throughout the course of this discussion, the following strategic framework will serve as a general guideline when examining each of the marketing elements:

- . Market opportunity identification
- . Market entry
- . Market expansion
- . Market share maintenance

Objectives

The objective of this paper is to provide insight into the following areas:

- . The role of the government in assisting Japanese industries for international competition.
- . Japanese success in penetrating the U.S. market between the postwar period and the 1980s.
- . Current Japanese competition in response to the appreciation of the yen in 1986.
- . Marketing strategies that are likely to be adopted by Japanese competition in the future.

Introduction

During the past 40 years, Japan has shown the world successful examples of modern economic growth. From the rubble of defeat in 1945, Japan has built an economy that is an inspiration to the developing world and a formidable competitor for industrialized nations. Between 1948 and 1973, Japan's gross national product (GNP) grew by a factor of about ten in real terms -- a figure 2.5 times higher than the world average.¹

Between 1971 and 1980, while most countries staggered through turbulent periods of economic slowdown, Japan's GNP rose by more than 200%, ranking first among the industrialized nations. By 1980, Japan ranked second as the most economically developed nation in GNP and fourth in per capita national income. Since the postwar rehabilitation period ended, Japan has successfully fought off inflation and kept unemployment low. Japan's major industries, being noted for their efficiency, surpassed all other developed nations in terms of labor productivity after 1975. (See Appendix A)

Among the most profound changes is the fact that Japan has emerged as one of the largest exporting nations in the world. In 1985, Japan's total exports amounted to over \$175.6 billion, 37.2% of which was from her largest trading partner, the United States.² (See Appendix B) Japanese industries have consistently repeated successes in penetrating and dominating many foreign markets, to the point of triggering a widespread outcry among its competitors for home government protection of local industries.

However, the meeting in September 1985 among the Group of Five countries -- the United States, Japan, West Germany, Great Britain, and France -- to intervene in the foreign currency markets, marked the end of a long period of profitable growth for Japanese industries.

This report will attempt to provide insight into the major driving forces behind the Japanese success, particularly Japan's marketing strategies. For a specific treatment on the subject, only the strategies used to penetrate the U.S. market will be discussed. An analysis of current and future marketing strategies will also be presented.

Before embarking on a journey to examine Japanese marketing strategies, it is necessary to discuss the significant historical developments of marketing in Japan and how the Japanese prepared themselves for global competition.

Historical Setting

The beginning of the Tokugawa era in the seventeenth century marked the birth of the Japanese marketing system. The nation was ruled by the Tokugawa dynasty of shoguns, who were the pinnacle of a class society organized by profession.³ In a descending order of social prestige were the samurai, peasants, and artisans, with the lowest being merchants since they were considered to be socially unproductive.

Despite their low social status, these merchants enjoyed considerable freedom in evolving their own commercial system that gradually developed into a complex structure which included collusive actions of price-fixing and other restrictive monopolistic business

practices to prevent competition.⁴ Two major developments in marketing emerged from this system: first, a system dominated by numerous wholesalers occupying the pivotal position in the distribution structure; and, secondly, the existence of highly complex, fragmented, and specialized multi-layer distribution channels consisting of retailers. This form of distribution is still predominant in modern day Japan and has largely been criticized by foreign competitors as being a trade barrier. During this period, the shogun government continued to maintain a strict policy of isolation from the rest of the world, with the exception of trade with China, the Korean peninsula, and Mongolia.⁵

Japan held on to the closed-door policy for over two centuries and this might have continued unchanged if it had not been for the arrival of Commodore Perry on the coasts of Shimoda in 1853. Thereafter, massive changes took place. Large-scale industrialization began and accelerated after the abolishment of status hierarchy and monopolistic practices. Progress initiated the emergence of the Zaibatsu* or business group system and the development of trading companies, predecessors of today's Sogo Shosha, or general trading companies. Industrial sectors began to gain prominence over the commercial sector as a result of government policies leaning toward production orientation.

*** As Rodney Clark describes them:** " Each Zaibatsu has at its center a holding company, controlled by the founder family. This would own a large proportion of each of the dozen or so core companies, including the bank, the trading company, the trust company, and the insurance company. Each of the core companies would own a further percentage of the equity of many of the others. . . . Each core company might have one or two associates , affiliates or subsidiaries, so that the whole zaibatsu appeared as a vast agglomeration of related companies extending over a range of industries. " ⁶

When the Second World War broke out, industries became highly regulated and rationing and price controls were enforced. The labor force was mobilized for the war effort and small retailers and wholesalers were merged as a means of attaining greater efficiency and labor savings.

By the end of the war, almost every economic activity ceased to function. In the initial stages of the postwar period, the economy was in total chaos. Partly with the assistance from the Occupation Forces, the government sought various policies toward economic recovery. Strong support and assistance in a variety of forms was given to a handful of industries deemed essential for economic recovery.⁷ Major assistance was primarily given to large-scale manufacturing. Once the post-war rehabilitation period ended around 1955, rapid economic growth wrought profound changes in industrial Japan.

What It Took To Take On The West

After the postwar rehabilitation period, the process of reshaping the country began with industries entering the consumer sector. Intense competition for domestic market share led toward the demand for sophisticated marketing techniques borrowed from the West. Furthermore, in order for a resource-poor country to catch up with the advanced Western nations in a short period of time, it was necessary to pursue an export-oriented industrial policy set forth by the Ministry of International Trade and Industry (MITI). Policies were also geared toward overcoming four major handicaps in order to compete abroad.

These handicaps arose from the fact that Japan was:

- A country in economic disaster with runaway inflation and a devastated political and social fabric
- A country lacking the major natural resources -- coal, iron, and oil -- which are necessary for running a modern economy.
- A country whose businesspeople spoke only Japanese and had little knowledge of Western markets, culture and history.
- A country whose product label "Made in Japan" by connotation meant cheap, low-quality goods.⁸

In response, central economic policies established by the Economic Planning Agency of the prime minister's office were geared toward long-range planning for economic growth and identifying those areas where government support and action could best advance those plans.⁹ Thus, one key factor in the Japanese arsenal was the strong government-industry relationship. Major support came in the form of industrial policies that allowed the Japanese firms to coordinate and implement sector plans, such as for technological upgrading, including combined research, mergers, or other concerted efforts aimed at rationalizing an industry and adjusting to market changes.¹⁰ This was made possible by the zaibatsu system.

During the war, the zaibatsu of business groups had grown into vast industrial powers. They served war needs with relatively high efficiency but their monopolistic market powers tended to destroy effective competition. Hence, as part of the postwar rehabilitation program, the U.S. government ordered the dismantling of the entire zaibatsu.¹¹ However,

the powerful MITI, who strongly favored mergers and oligopolistic structures, reorganized the outlawed zaibatsu into two legal groups: the Keiretsu or modern Zaibatsu, and the industrially linked groups known as Konzern. The Keiretsu consists of two major groups: the direct descendants of the old Zaibatsu, including Mitsubishi, Mitsui and Sumitomo, and the second group consisting of bank-centered conglomerates, including Fuyo, Sanwa and Dai-ichi groups.¹² This move enabled the Japanese government to concentrate technology and resources in order to attain superior efficiency.

Another form of support was government funding of research and development (R&D). This form of aid gave the Japanese numerous advantages, especially at the initial stages of industrial growth where the need for financial assistance was highly essential. Other types of support were in the form of tax incentives, preferential tax treatment for high-risk ventures, and infant industry protection.

In order to accelerate economic recovery, MITI and the Ministry of Finance implemented policies that concentrated available resources in the areas of fastest growth in demand and productivity. The Ministry of Finance was able to determine potential areas of growth in the economy through close ties with the financial community. The banks also assisted in the development of the selected key areas by offering low interest rates on loans and monitoring the industrial management of the firms through the ownership of voting stocks.¹³ With the banks on their side, the firms were also encouraged to assume a high debt-to-equity ratio since there is no need to finance their growth out of retained earnings.

Hence, Japanese companies obtained their capital from banks without the need to worry about profits, but only their ability to pay interest.¹⁴

The role of the Japan External Trade Organization (JETRO), which functions as a national market intelligence center, was to provide market information to Japanese industries. "Its main function is largely informational and includes such activities as publishing periodicals and monographs on foreign trade, collecting international market intelligence, collecting and disseminating current worldwide market data, sponsoring market research, and organizing trade fairs and seminars."¹⁵ The breadth of information gathered by JETRO ranges from general data and trends on individual countries to custom-tailored studies. JETRO also provides detailed market information on competitors' activities, political and legal conditions of foreign countries, and offers suggestions on product strategy to Japanese businesses.

Furthermore, the role of the sogo shosha (trading companies) has been critical in assisting the Japanese firms that were competing abroad. Among the various roles that the sogo shosha assumed were organizing joint investments and resource development ventures to provide a constant supply of raw materials to manufacturers. Other roles include establishing a stable alliance with the financial and manufacturing sectors in Japan and abroad, and acting as commission merchants for manufactured products of all kinds, always in the vanguard of Japanese exports. Between 1960 - 1973, 49.9% of Japan's exports and imports were handled by the ten largest sogo shosha.¹⁶ (See Appendix C for list of top ten Sogo Shosha and their activities) With all the necessary preparation and support, Japan was ready to compete in the international markets.

Japanese Marketing Strategies: Postwar - 1980s

Probably the best way to view the Japanese success is from the marketing standpoint -- the four P's of marketing: Product, Price, Promotion and Place of Distribution. Based on Japan's past and present actions, a basic four-stage strategic pattern can be observed from each of these marketing elements:

1. Market opportunity identification
2. Market entry
3. Market expansion
4. Market maintenance

Throughout the course of this discussion, these strategic factors will serve as a framework when analyzing the various marketing elements where applicable.

A First Step Toward Competition

As of 1950, Japanese automobile firms produced a total of only 1,600 passenger cars compared to the 1980s when total output exceeded 11 million cars; over 6 million were exported throughout the world. However, Japan's success was not easy.

In the early 1950s, Toyota, being the industry leader, was the first Japanese automobile company to export to U.S. Despite extensive support from the Japanese government and banks, Toyota's corporate planning was inadequate to successfully enter the U.S. market. Initial entry of the passenger cars named Toyopet was a major failure.

Not only was the car badly named, the Toyopet was also badly designed. The block-shape vehicle had engines that "... roared like a truck, the interior was rough and uncomfortable, and the lights were too dim to pass California standards."¹⁷ Toyopet was also overpriced at \$2,300, compared to its competitor, the Volkswagen Beetle, which was priced at \$1,600. As a result, Toyota only sold 288 cars.

Other similar failures were also experienced by the consumer electronics industry. From these lessons of initial market failure, Toyota and other companies adopted major efforts to strengthen their market knowledge and product planning. Their first task was to identify market opportunities in the U.S.

Product Strategies

Market Opportunity Identification

The first major step in marketing was to identify the market opportunities ignored or poorly served by U.S. firms. This included selecting a few target industries that the Japanese government identified as being worthy of committing whatever financial resources and support were necessary in order to assist Japanese industries to compete in the targeted market.

In the automobile industry, Toyota discovered a waning of the traditional love affair of American consumers toward automobiles as status or sex symbols.¹⁸ Attitudes had become more practical and cars were becoming more as a means of transportation. Furthermore, Americans were seeking a small fuel-efficient car that would cost less to

maintain. The small car segment was dominated by Volkswagen (VW), and Toyota's success depended on competing and displacing VW. Toyota was able to profile a consistent demographic and psychographic target, and with this in mind it set out to engineer the ideal product -- the Toyota Corona. This proved to be a great success.

This same success can be seen in the motorcycle industry. When the Japanese entered the U.S. market in the late 1950s, they saw a large potential for small fuel-efficient and inexpensive motorcycles. The Japanese manufacturers also viewed motorcycles more as sports vehicles than for transportation purposes. Honda, Kawasaki, Suzuki, and Yamaha successfully marketed small fuel efficient and less expensive models when none was available from the American and European manufacturers.

Changing trends in the American lifestyles, partly triggered by an increase in discretionary income, led to the need for entertainment and relaxation. This analysis of American consumer profiles enabled the Japanese to identify a huge market potential for consumer electronics products. The success stories of the color television, high-fidelity stereo equipment, calculators and, recently, video equipment, have demonstrated the ability of the Japanese to identify market opportunities in the U.S.

Other success stories regarding market opportunity identification can be seen in the other sectors of the consumer electronics industry, such as the photographic equipment industry. Japanese manufacturers were able to identify major opportunities in the professional photographers' market by offering a wide array of compact, more sophisticated and less expensive single-lens reflex cameras, as compared to the Europeans who

were only producing expensive and bulky cameras with limited features. Japanese companies also saw the growing potential of the amateur photographers' market that was poorly served by their European counterparts.

The growing kitchen appliance market also attracted the attention of the Japanese. As part of their love for durable goods, the Japanese were able to seek market opportunities by introducing innovative and compact designs for kitchen appliances from their homeland to the U.S. market. There were also other factors that the Japanese had to take into consideration when analyzing market opportunities for selected products, such as determining the potential demand, the product's life cycle stage, and so forth. In this section, we have seen the Japanese' abilities at identifying market opportunities in the U.S. and understanding the needs of the different consumer segments.

Market Entry

The Japanese started their export efforts with a "Trade or Die" mentality, their main objective being to hit the market hard and grab a slice of the market share. However, they faced the fact that the reputation of being "Made in Japan" was synonymous with cheap goods of dubious quality.¹⁹ The only hope for competition was to upgrade product quality, while at the same time maintaining a low price given the advantage of low labor costs.

As an underdog, the most likely strategy was to carve the vacant market niche that was either left unattended or badly served by American

companies. While most American industries centered their production on sophisticated products with high costs and high profit margins, the Japanese aimed their entry with lower cost products such as television, consumer electronics, and home appliances.

Efforts to enter the U.S. market began in the home market testing grounds. Products that were introduced to the home market were carefully selected and designed with a view toward achieving rapid growth and large production volume early in the product cycle.²⁰ Building on volume and driving costs down early in the product life cycle enabled the Japanese to achieve economies of scale. Furthermore, riding down the learning curve provided further allowances for price reduction. At a later stage, when the need for market expansion arose, the increased export needs further resulted in a reduction of production costs while enhancing productivity. Consequently, the Japanese companies were able to significantly reduce their product costs in export markets, triggering charges of "dumping" being directed at them. This move is evident in the automobile, home appliance industry, semiconductor, photocopy, and other consumer electronics goods market.

In addition, the Japanese ventured to develop innovative products. By offering an array of products with innovative features, functions and styles, the Japanese were able to penetrate into existing markets dominated by American firms. By concentrating heavily on a continuous offer of innovative product features and styles, the Japanese were able to shorten the product life cycle. An example of this can be found in the Light-Emitting Diodes (LED) calculator market dominated by Casio. It then extended the functions by offering scientific

calculators capable of solving complex calculations. To shorten the life cycle of the LED calculators, CASIO introduced liquid display calculators. In order to prevent competitors from following too closely, CASIO introduced solar-powered calculators and, eventually, credit-card size calculators. Clearly, this kind of planned obsolescence was effective at staying ahead of U.S. competitors like Texas Instruments.

To improve the "Made in Japan" reputation, the Japanese sought to emphasize quality, reliability and service. The story of Japanese color television sets is by far the most clear demonstration of success in Japanese market entry. Since Japan was considerably behind in television technology through the 1940s and early 1950s, it set out to acquire technology from such companies as RCA, EMI and Philips.²¹ Instead of investing in R&D, the Japanese pursued a strategy of improving and building upon acquired technologies. This strategy has proven to be effective since the Japanese were able to adopt an emerging product technology and use it to compete within the U.S. market.

When color television was introduced in the 1960s, the Japanese did not hesitate to pour all their efforts into the development of this new technology. The high reliability of Japanese color television sets helped their products seize a 30%-plus share of the market before the wrath of the U.S. Congress came down upon them through the imposition of restrictions in 1977.²² However, the Japanese got around this problem simply by boosting production at their U.S. factories. It is interesting to note that General Electric was the first U.S. firm to introduce portable color television but it did not take too long for the Japanese to penetrate the U.S. market with low-cost and stylishly designed sets. Instead of

facing the new competition from the imports, U.S. firms such as General Electric, RCA and Zenith began to emphasize the production of large, bulky, and expensive consoles at the upper end of the market where the profit margins were substantially higher. Market share at the lower end was lost to foreign imports without much of a struggle. If U.S. firms assumed that consumers would perceive the "Made in Japan" reputation to be synonymous with cheap goods of dubious quality, they had definitely underestimated the competition. Not only did the Japanese succeed in the low-end segment, they were able to build sales volume high enough to generate sufficient profit to finance production of larger consoles. By improving on the efficiency of their plants and stepping up R&D, the Japanese prepared for their assault on the high-end segment with low-cost and improved color television sets.

The Japanese challenge in the automobile industry also came as the result of a well planned entry strategy. All Japanese cars entering were "Americanized." The automobiles were designed with left-hand steering wheel, sufficient room to accommodate the average size U.S. driver, and the better emission control systems that were required by the state of California.

The Japanese plan to compete in the computer industry will follow a strategy similar to that used for the automobile and the consumer electronics industry. This U.S. market will be the toughest market for the Japanese to penetrate, partly because of the plethora of domestic competitors. In a manner similar to what they did with automobiles, the Japanese will likely Americanize their hardware and software so as to be compatible with the domestic systems. Most Japanese have already

hooked up with U.S. partners (e.g., Fujitsu with Amdahl Corp. and TRW Inc.)²³ Entry strategies have begun at the low end of the product spectrum, aimed at aggressively seeking market recognition and a reputation for excellence, and finally winning over the loyalty of the consumers. At any rate, the Japanese started their entry into the U.S. computer market by mainly manufacturing low-end products such as personal computers, disk drives, printers and peripherals. Strategically, this move may prove to be extremely effective because these products will eventually gain brand recognition after they have stayed long enough in the market.²⁴ Furthermore, by filling their sales offices and R&D facilities with Americans, the Japanese will be able to engineer both software and hardware to adapt to domestic needs.

The ability of the Japanese to enter the U.S. market has been partly due to a strong determination to succeed. For instance, "the success of Japanese automobile companies rests on three important pillars: first, the strong competitiveness, second, a high speed of technological innovations and rationalization, and third, close cooperation between subcontractors and the assembly plants."²⁵ Other reasons behind the success of the Japanese products is the commitment to maintain high quality standards through a dedication to the zero-defect production philosophy. The widely acclaimed loyalty and high dedication of Japan's low-cost workforce in achieving maximum productivity have also been a part of the market entry package. Research by the Boston Consulting Group has shown that productivity in the Japanese automobile industry is 2 1/2 times greater than in the U.S. and is growing at a rate of 8%.²⁶ At the same time, U.S. autoworkers are getting about \$8 an hour more than the

Japanese worker. (See Appendix D for costs comparisons)

During the late 1950s, most American firms did not foresee a threat to their market share. This myopic view that the Japanese could do no harm has proven to be a costly mistake indeed.

Market Penetration and Market Share Expansion

It is a known fact that "although everyone agrees that when they decide to move into a market, the Japanese tend to take it over. . . ."27 The Japanese have been extremely aggressive in expanding their market share in the U.S. once they gained a firm position in the market. The Japanese pursued three product strategies in penetrating and expanding on their market share:

- Product line expansion
- Product line proliferation
- Product line innovation and improvement

Product Line Expansion

When an industry has first been entered, the Japanese will endeavor to expand on the market segment. The reason for expanding is mainly to seek a wider coverage of the market and to serve different consumer segments. For example, Honda expanded on its line of motorcycles, offering motorcycles ranging from 125 cc. to 1000 cc. machines. The introduction of the new chic design scooter was aimed at younger consumers. The lower cubic capacity motorcycles were aimed at the young beginner rider

or those who demand a fuel-efficient transportation vehicle. Hence, different categories of motorcycles were designed to attain wide market coverage.

The product line was also stretched to include other market segments such as the sports categories. The heavy emphasis on off-road motorcycle production illustrates the marketing success of the Japanese. In the history of off-road racing, practically every national and international race has been won with the more powerful and efficient Japanese-manufactured machine. In track races, the Italian Moto Guzzi, German BMW, and the British Norton are no longer the legend of racing machines. The race for the checkered flag is now among the Japanese machines -- Honda, Kawasaki, Suzuki and Yamaha. Furthermore, the Japanese expanded their product line fast enough to deter competition from the American manufacturer, Harley Davidson, which manufactures only higher performance street and touring motorcycles rather than competing for the lower end and the off-road segment.

Vast product line expansion is also evident in the automobile industry. When the Japanese companies realized that not everyone wanted a small car, Mazda stretched its product line to range from the fuel efficient Mazda 323 to the sports model RX-7, having the only production performance car with the legendary rotary engine, which was truly an engineering marvel. Such a move can be considered as a horizontal move in product line expansion. Honda, for instance, created the model *CRX* to reach the sports category. Other similar moves were also initiated by Toyota, who produced the *SR-7* model to compete directly with the

Pontiac *Fiero*. Mitsubishi, with its *Starion* model, and Nissan, with the *280ZX*, are direct competitors with Chevrolet's *Corvette*.

The Japanese also expanded their product line vertically by reaching the lower and upper ends of the market. In the watch industry, Seiko penetrated the lower end of the market with lower-priced watches under the brand name Pulsar.²⁸ Seiko also competed in the higher end by acquiring Jean LaSalle, in order to enter the higher-priced watch market dominated by the Swiss. In the automobile industry, Honda, which recently introduced the *Acura* series, is making an attempt to reach the high-end market by competing with Mercedes-Benz and BMW.

Product Proliferation

While product line expansion varies with the product line width, product proliferation actually expands the types and models at each point of the product line. Product proliferation has allowed the Japanese to appeal to consumers of different income levels, preferences and tastes. It also has allowed a larger volume output, hence the domination of distribution channels. This in turn prevents U.S. manufacturers from having access to scant shelf and floor space.

Product proliferation is common, especially in the consumer electronics industry. Casio has produced a remarkable range of calculators with a series of functions, each differing in style and features. Another example is Sony who pioneered the portable stereo

cassette player, popularly known as the Walkman. The Walkman model has expanded to models with only FM/AM radio, cassette player, or a combination of both. From each of these three versions, there is an average of ten different Walkman models.

Hence, the product proliferation strategy has given the Japanese the advantage of keeping competitors at a very safe distance by flooding the market with hundreds of different models from a single product. Such examples can also be seen in the photography industry. Canon, for instance, introduced the first programmed 35mm single-lens reflex camera known as the AE-1 Program. Later, Canon introduced the T series based on the technology acquired from the AE-1 Program. This proliferation strategy resulted in a wide range of T models such as the T-50, T-70, T-80 and T-90. Each model differs slightly in features and price.

The high-fidelity stereo market is an example of another Japanese success story. This market was so flooded with Japanese stereo equipment and components that U.S. manufacturers were forced to stay on the extreme high-end of the market, by producing highly specialized audio equipment and components for a small segment of the audiophile market. Even there, U.S. manufacturers still have had to contend with a few Japanese manufacturers, namely Nakamichi and Onkyo.

Product Innovation and Improvement

The videotape recorder industry is a clear reflection of Japanese innovation skill. Currently, the Sony Corporation and the Matsushita

Electric Industry have a virtual stranglehold on the U.S. and the European markets.²⁹ Also, the Japanese pioneered the solid-state technology in the television industry, while their U.S. counterparts, still bound to tubes, overlooked the new technology.

The Japanese were also committed to product improvements. When Honda introduced the Honda Civic, the car's body was susceptible to corrosion. However, dramatic improvements were made in this area as well as in fuel efficiency, and this enabled Honda to surpass the dominant Volkswagen Rabbit. In the motorcycle industry, Honda and the rest of the Japanese competitors were extremely aggressive in innovating and improving machine performance. Examples are the development of aerodynamic designs, with the use of spoilers to deflect the wind; higher performance engines with V-shaped cylinders, turbochargers, and water-cooled engines; and comfort and stability in riding with the floating shock absorber system. All these improvements were highly innovative and effective yet consistently overlooked by other manufacturers, namely Harley Davidson, Norton, and BMW.

Other product innovations and improvements were evident in the consumer electronics industry, which is really the driving force behind the semiconductor industry. Examples of such applications include: pocket color television, computerized watches capable of on-line communication with personal computers, "sense-surround" video components, and so forth. Despite the fact that Japan is behind the U.S. in semiconductor competition, the Japanese have the advantage because of their aggressive use of semiconductors in the consumer electronics industry. On the other hand, most U.S. firms like General Electric concluded that there was no

benefit in manufacturing consumer electronics products in the U.S. except for "a parochial sense of control. . . ." ³⁰

The wide application of the semiconductor in consumer electronics has crowned the Japanese as the leader in the world market for a number of products, such as photographic equipment. Japan has been the largest manufacturer in the world for the past few decades and their position as the world leader is still unchallenged. The Japanese produce the largest variety of cameras, lenses, electronic flash units and other photographic accessories. A recent breakthrough in photography was the development of the "auto-focus" lens by Minolta.

Although the Japanese have been branded as "copycats" who lack innovative skills, the strategy to acquire emerging technology has worked to the advantage of the Japanese for certain products such as semiconductors and computer components. "Japanese semiconductor makers don't strike many dry holes," said Lionel Ohlmer, Undersecretary of Commerce for International Trade. "They wait for U.S. companies to find the market." ³¹ However, the Japanese may be on the right track by not exposing their investments to certain high risk R&D ventures where the U.S. has the leading edge. Instead, the Japanese purchase technology, improve on it while selling to the home market, and push for the export markets with low prices when domestic volume builds up. On the other hand, the Japanese could opt for investing in more efficient plant facilities and automation so as to reduce product costs. As a consequence, Japanese firms have been able to compete effectively with low prices in the U.S. market.

Not all Japanese companies have succeeded by purchasing

technology. The development of tape recorders, magnetic tape, transistor radios and televisions, the Trinitron color television tube, and the Betamax videotape recorder all represent Sony's emphasis on devising new products from within, with little purchase of technology from outside sources, also connoting a high-risk profile.³²

Market Share Maintenance

From 1970 to 1979, the major U.S. color television manufacturers witnessed a decline in market share from 72.8% to 55%. This decline can be attributed to an increase in Japanese imports at the expense of the market share of U.S. firms.³³ This loss may also be attributed to the acquisition of Quasar/Motorola by Matsushita and the switching of Sears and Montgomery Ward from U.S. private brands to Japanese brands.

When a significant market share is obtained, the Japanese strive to maintain their market share. However, the Japanese presence in the U.S. market was being threatened by U.S. manufacturers who were constantly pressuring Congress to impose protectionist measures. In response, a number of Japanese manufacturers have gradually shifted their production facilities into the U.S., a safe way to maintain or increase sales without raising import volumes. This can clearly be seen in the automobile and semiconductor industries.

In many cases, the Sogo Shosha have participated actively in direct investments abroad. Japanese foreign direct investments have picked up considerably within the last few years. "Between 1980 and 1983

(the last year for which figures are available), Japanese investments in U.S. manufacturing facilities rose by 63%." ³⁴ Overseas production has been evident, especially in the consumer electronics and automobile industry. It has been predicted that by 1988, Honda, Mazda, Nissan and Toyota will be turning out nearly a million cars and trucks a year in American factories.

The move to set up production facilities in the U.S. was also made possible by the fact that many states, in need of additional income, are wooing large Japanese manufacturers with state tax breaks and other incentives. Kentucky, Ohio, Tennessee, Michigan, Illinois, and Washington are a few of the growing number of states that have sent trade delegations to Japan to solicit business. Tennessee, "... with twenty-nine Japanese companies employing 6,700 state workers, has attracted 12 percent of all Japanese capital investments in America." ³⁵ As a right-to-work state, Tennessee is especially popular among the Japanese firms that are out to dodge burdensome labor contracts and costs, and unions, where the U.S. is considerably higher than Japan in terms of days lost as a result of labor disputes. (See Appendix E) Even though wages paid by the Japanese are less than their American counterparts, they are still able to manage a highly productive and loyal workforce. The Japanese are also able to maintain the low-cost factor by investing heavily in highly automated and efficient plants.

Japanese industries located in the U.S. also went as far as seeking a considerable level of vertical integration by securing their own parts suppliers. Many Japanese parts suppliers have erected production facilities in the U.S. to continue supplying their Japanese clients. Honda

automobiles produced in Ohio will be obtaining their steering wheels manufactured by Nihon Plast Co. U.S., while Nissan will be getting its radiator grilles and dashboards from Kanto Seiki Co.³⁶

Another move by the Japanese to maintain market share is involvement in joint ventures. Mitsubishi-Chrysler and Toyota-GM are an example of the many joint venture programs at work in the automobile industry. An increased interest in high-technology industries led Sankyo Co. Ltd. to seek a joint venture program in pharmaceutical products with E.I. du Pont de Nemours & Co.³⁷ Some Japanese firms have also assisted some ailing high-technology firms in the U.S. by financing R&D. Kirin Brewery Co. Ltd., a giant Japanese beer manufacturer, led a joint venture with Amgen, a California biotechnology firm, by funding the research and production of a hormone for treating anemia.³⁸ Such moves are part of the Japanese program to acquire invaluable technological data where the U.S. has the lead. Some critics argue that joint ventures may also lessen the potential for competition, since U.S. firms will have less incentive to produce competitive products in addition to losing technology to the Japanese. But joint ventures have helped U.S. industries to compete more effectively in domestic and international markets; for example, companies like Inland Steel and John Deere have gained production and technological knowledge from joint ventures with Japanese industries like Nippon Steel Company and Yanmar, respectively.

The Japanese have also continually upgraded their products by closely monitoring changes in consumer tastes and styles, and producing products to meet these requirements by improving on performance, features, styles and quality. Japanese success has also stemmed from the

fact that they are so much proficient than Americans at collecting business intelligence, so much so that some U.S. executives are convinced there must be a CIA-type organization behind it all, probably the MITI.³⁹ In reality, JETRO, a subsidiary of MITI, is the intelligence network that has researchers gathering and transmitting market data from eighty offices around the world, including nine in the U.S.

As the nation excelled in economic growth, labor costs in Japan began to rise. Toward the mid-1970s, the Japanese made a major shift of their production to other countries where labor costs were significantly lower. However, the development and production of advanced and complex components remained at home to avoid the transfer of technology that would benefit the other nation. Incidentally, this was a valuable lesson that the Japanese learned from the U.S.; the color television is a case in point. The conventional wisdom was that these technology exports were on balance beneficial to the U.S. economy and unavoidable in the sense that, unless the U.S. firms moved or sold their technology abroad, they would lose market share and suffer a net decline in earnings.⁴⁰ As we know by now, moving and selling technology abroad will eventually create new competitors. In the meantime, production facilities in Japan were upgraded and automated with computers and robots.

All of these strategies have allowed the Japanese to expand and maintain their market share effectively. Another reason why Japanese product strategies have proved to be effective is their ability to spot niches in markets caused by consumer dissatisfaction and then working to satisfy them. Plainly stated in the basic definition of marketing: to provide and satisfy consumers with goods and services at a profit.

Pricing Strategies

Broadly, pricing is one of the most critical marketing tools available to any company and, in many respects, pricing is more of an art than an exact science. In order to have a general idea of how the Japanese pricing strategies work, the following discussion will examine pricing strategies based on three stages of competition:

- market entry
- market penetration and market share expansion
- market share maintenance

Market Entry

At the initial entry stage, the Japanese pursue two basic pricing strategies, although many different forms of pricing strategies may stem from these two depending on product, lifecycle, nature of competition, and other external factors. The two strategies are:

- Skimming pricing
- Penetration pricing

Skimming Pricing

Skimming pricing is a strategy of establishing a high initial price for a new product at the higher end of the demand curve.⁴¹ Japanese companies sometimes enter the U.S. market by establishing a high price, and this is clearly found in the videotape recorder and the recent laser disc market.

When the Japanese have the leading edge in a particular technology, they will attempt to dominate as much of the market as possible in order to raise entry barriers for U.S. competitors. In the case of the videotape recorder and the laser disc market, the Japanese made sure that the product was launched on a very large scale involving wide market coverage so as to accelerate the growth of the product cycle. The laser disc players were also priced for the higher end. The introduction of the laser disc players was relatively successful since it represented a dramatic improvement in sound quality as compared to cassettes or records. When demand caught up, it accelerated the product cycle into the growth stage. By then, the Japanese had generated enough sales volume to achieve economies of scale, thereby reducing per-unit costs.

As soon as domestic competitors began entering the market, the price of the Japanese products gradually declined. In order to hold on to the existing market share, the Japanese deployed their market penetration strategies. Massive product improvement, innovation and proliferation occurred so as to leave little room for the U.S. manufacturers. This strategy can be very effective in forcing a competitor to make grave sacrifices in profit margin in order to survive even before sales have barely gone up. At the other extreme, it may force the competitor to retreat from the market. A skimming strategy also discourages competitors from trying to enter the market at all.

Price skimming is effective when the nature of the demand is uncertain, when high investments are made in R&D, when few competitors are anticipated, or when the product is so innovative that market maturity is slow. For instance, in 1978 Canon introduced a very advanced single-

lens reflex camera model: Canon A-1. After five years, the Canon A-1 continued to be rated as one of the most advanced camera in the market by a number of leading photographic magazines in the U.S. The initial retail price for the A-1 (with the standard 50mm f1.8 lens) was approximately \$400. No other competitor was offering a similar product, but by the early 1980s, when Pentax and Minolta introduced similar models, the price of the Canon A-1 gradually declined to approximately \$290. The price skimming strategy will cease to function at the point where further price reduction is no longer feasible. At this stage, the Japanese will likely resort to market maintenance strategies which were discussed in the previous section.

Penetration Pricing

Probably the most popular type of pricing mechanism used by the Japanese when entering the U.S. market is penetration pricing, or the so-called market-share pricing strategy. This strategy involves entering the market with a low initial price so that a greater share of the market can be captured.⁴² Once the market has been identified, the Japanese will pursue a strategy of penetration pricing, followed by marginal pricing as volume grows later on. The guiding principle is to move rapidly down the experience curve; real unit cost declines each time production experience doubles.

As mentioned earlier, the Japanese were very careful in selecting products that could achieve rapid growth in a short period of

time. Doing so enabled the manufacturer to enjoy economies of scale thereby reducing per-unit cost of the product. For many products, such as automobiles and consumer electronics, the domestic market demand was sufficiently high for the manufacturer to generate the necessary profit to finance the expansion of production facilities to accommodate for exports.

When the Japanese enter the U.S. market, they price their products slightly lower than competitors' so as to win over the consumers. In some cases, the low prices may mean actual losses, but the Japanese view this short-run loss as part of the investment in a long-run market share. This strategy can readily be seen in the steel industry. When the Japanese entered the U.S. market, they competed in price and quality. They were able to win over a significant market share from the U.S. manufacturers, who decided to manufacture specialty steel instead of confronting the Japanese. This presented an opportunity for the Japanese to modernize their plants and to invest in efficient and specialized equipment. As a result, the Japanese were able to produce low-cost specialty steel that gave them the advantage when competing against U.S. firms in that segment. The Japanese gradually lowered the price of steel to a point where a significant market share was acquired. In retaliation, U.S. domestic steel producers began calling for protection from the U.S. government.

By the mid-1970s, Japanese steel-production costs were the world's standard because Japan's steel industry was acknowledged as the world's most efficient. "Japan was producing steel of unexcelled quality, in the world's most modern plants, with the greatest quantity in the free world." ⁴³

Market Penetration

In the laser disc player market, the Japanese were able to consistently introduce new models with innovative features and designs. Most U.S. manufacturers find it extremely difficult to compete with the Japanese in the low-end market, simply because they cannot afford to profitably manufacture products at the low per-unit cost that the Japanese are able to do. Most matured Japanese industries have shifted the assembly of less complex component parts to countries with low labor costs, such as Taiwan and Korea, while retaining the production of higher-technology components at home facilities.

By pricing lower than their U.S. counterparts, the Japanese were able to win over major high-volume retailers, such as Sears, to their televisions. Another example of pricing strategies when attempting to take over the market can be seen in the automobile industry. Japanese automobile companies priced their products substantially lower than their competitors in order to attract a high number of buyers. For example, the price war in the compact car market was very intense and yet the Japanese were able to maintain a \$100 to \$400 price advantage against the Pinto and the Vega.⁴⁴ Even today, pricing advantages stemming from differences in labor costs are still very significant. For example, in 1985 a \$6,000 automobile would cost U.S. manufacturers approximately \$1,500 in hourly wages, as compared with only \$450 for the Japanese.⁴⁵ (See Appendix F)

Ever since the postwar period, Japanese firms have been particularly successful in their use of pricing strategies, partly because

of the weak yen - dollar relationship, low labor costs, and tax breaks for exports.⁴⁶ With the exception of 1973 and 1978 and between 1980 and 1985, the weak value of the yen in relation to the dollar, which made Japanese goods less expensive in U.S. markets, has been a major pricing advantage for Japanese industries such as the automobile, semiconductor and consumer electronics industries.

While most strategies involve low prices, the Japanese have also penetrated certain markets with extremely high prices. The strategy of high level pricing, also known as a high active strategy, is appropriate under conditions where product quality is not as easily determined. A high price provides a means to establish an exclusive image for the brand where the size of the market is usually small. Nikon is a case in point, where the high price-quality-brand image for its more sophisticated cameras was targeted toward the professional photographers' market.

Market Maintenance

Once the Japanese have secured a comfortable portion in market share, they will begin to stabilize prices. This move may be necessary to prevent the outbreak of a price war where the the U.S. may retaliate with lawsuits against "dumping," and new trade barriers. In maintaining their market share, the Japanese will hold prices constant while competing on other non-price factors such as product quality, features and service.

Unless provoked, the Japanese will maintain a price at a certain level long enough to harvest the necessary profits to compensate for initial losses. When all the costs are recovered and the profits made, the product will then be replaced with a newer substitute. This will normally happen when the product has reached maturity, slow growth as a result of heavy competition, or obsolescence. When the product is replaced with a new, improved model, a whole new strategy will come into play.

More commonly, market share maintenance means more effective means of handling competition. In order to keep pricing competitive, the Japanese have to look to other means of keeping costs down. At certain times, Japanese companies have continually been tested for their ability to maintain market share. On August 14, 1971, President Nixon placed a 10% tax on imported product. This measure, together with the reevaluation of the yen and later the Arab oil embargo in 1973, virtually eliminated the Japanese price advantage. But Japanese manufacturers like Toyota had been able to regain the cost advantage by investing in more efficient production facilities in order to reduce the product manufacturing costs. Today, the Japanese cost advantage has been achieved by more automation through the use of industrial robots and computers, shifting production of low-tech components to cheap labor countries, and taking advantage of the learning curve and economies of scale by building on volume.

Promotion Strategies

The U.S. has a strong consumer-oriented market where brand is as important as any other non-price element that sells the product. When Toyota first entered the U.S. market, it enjoyed the luxury of dominating the media since no other foreign manufacturer advertised on television.⁴⁷ Its initial efforts centered on heavy advertising toward the targeted market. Such a move was necessary to promote the awareness of the product and its brand name, especially when it was foreign in nature. However, for Japanese firms which, from the beginning, wished to have the consumers identify the product with the corporate or brand name, such a move did not come easily without incurring heavy advertising costs. For many companies, the 50:50 advertising cost support, where the manufacturer and regional dealers each incur a 50% share of overall advertising costs, was of critical assistance to Japanese companies entering the U.S. market.

With the help of JETRO and its market intelligence networks, Japanese companies were able to accurately determine different consumer tastes and preferences across the different regions in the U.S. For the Japanese, a great understanding of the U.S. culture was necessary to gain insight into the intrinsic value of a product as it relates to the consumer. Recalling the discussion on market opportunity identification, Toyota discovered what the automobile is to the Great American Dream where there exists a traditional love affair of the American consumers with automobiles as status or sex symbols.

At the market entry and penetration stages, Japanese

companies were very aggressive at promoting their brand names. Names like Nissan, Sanyo, Sony, Casio, Seiko and so forth are gradually becoming household names. It is common to see some consumers getting confused with Japanese brand names and unable to differentiate the different advertisements, nor are they able to identify the advertisement with the product. Therefore, it is common at the initial market entry stage that the Japanese continuously bombard the viewers with advertisements in order to establish brand name recognition, while aggressive promotion at the market penetration is mainly targeted toward the product itself.

Besides promoting through the media, aggressive sponsorship of sporting events has also enabled Japanese companies to gain visibility in brand name recognition. Seiko, for instance, was very successful at promoting itself as being the official timekeeper for the Olympics, while Canon cameras have long been recognized as the official camera for the Olympics, International Grand Prix racing, and other major sporting events. The Japanese motorcycle manufacturers have also been dominant in sponsoring major races which include their machines. Automobile companies like Nissan have promoted themselves as manufacturers of high performance Japanese automobiles by sponsoring major racing events around the U.S.

Japanese companies have also promoted themselves by sponsoring "traditional American sports" such as football, baseball and basketball. Charitable contributions to selected organizations such as the United Way and colleges on behalf of the "Most Valuable Player" of certain games, illustrates the types of goodwill promotion initiated by Japanese companies.

Advertising Strategies

Since advertising is a major tool in promotion, this section specifically examines some advertising strategies used by Japanese companies. Although the Japanese were very aggressive at promoting their brand names, their approach was also subtle many ways.

Advertising strategies were careful to avoid a direct confrontation with U.S. competitors. In 1959, when Honda first established itself in Los Angeles, the slogan "You meet nice people on a Honda" made Honda motorcycles popular.⁴⁸ By not loudly announcing their presence, most Japanese companies were able to erode their competitors' market share without triggering a strong retaliation.

When the initial entry was successful, the strategy of product innovation and improvements required considerable changes. During the market penetration stage, the Japanese were very cautious, given the growing trade pressures between Japan and the U.S. The advertisements downplayed the Japanese origin of the cars. Nissan, for example, built a campaign around "the imported car with the American spirit," and played up the American transmissions produced by Borg-Warner Corporation in some of its models.⁴⁹

In order to expand on market share, many Japanese companies have attempted to "buy" market share by spending heavily in advertising. During the market penetration stage, Japanese advertising expenditures consistently exceeded U.S. competitor levels and have been the leader compared to other imports. In 1971, Toyota accounted for 39% of the total spot television advertising for imported vehicles, followed by Nissan with 19%.⁵⁰

At the maintenance stage, the Japanese still set aside huge advertising budgets to continually promote new products and new models. The basic purpose in advertising has also been augmented toward responding to the U.S. competition. Advertisements at the maintenance stage reinforce growing consumer consciousness, about the quality of Japanese cars, reliability, fuel efficiency and performance. Toyota asked customers to "see how much car their money could buy," emphasizing by 1982 an accumulated 25-year commitment to the North American market, while Honda pointed out in 1979 that their commitment to gas mileage was a "Civic" responsibility.⁵¹

In many respects, Japanese advertisements are no different from those of its U.S. competitors. Even with their extensive market knowledge, the Japanese firms would rather leave most, if not all, of the advertising work in the U.S. to the domestic advertising agencies. This is because advertising concepts practiced in Japan and the U.S. are almost the opposite of one another. Japanese firms operating in the U.S. have to learn that although "mood" commercials work extremely well for their products in Japan, they are meaningless to Americans.

On the other hand, although comparative advertising is not accepted nor permitted by law in Japan, it is an effective advertising tool in the U.S. Even so, the Japanese firm that competes in the U.S. is rarely, if ever, seen downgrading another Japanese competitor's products through comparative advertising. This is probably due to the fact that to look down upon one's competitor is not an acceptable business behavior in Japan. By avoiding comparisons, the Japanese have been able to prevent

consumers from differentiating the weaknesses between brands while establishing the image that Japanese automobiles, for example, are equally superior. This is unlike U.S. automobile manufacturers for which comparative advertising has been a major competitive tool.

For many Japanese firms, advertising at the market maintenance stage has also served to enhance the "Made in Japan" image. The emphasis on quality products and service has, in many cases, succeeded in erasing the former poor-quality and cheap-product image. Automobile advertisements have long emphasized durability, quality and service. In short, the Japanese have coordinated their promotion strategies well with their efforts to dominate the U.S. market. The Japanese have proven to their U.S. competitors that their presence should neither be overlooked nor underestimated. As an example of its challenge to the U.S., Toyota once made a stunning advertisement for its pickup trucks with the message: " From the nice people who brought you Pearl Harbor."

Place: Distribution Strategies

Japanese distribution strategies represent a major part of their overall assault on the U.S. market. Most Japanese firms effected market entry by focusing on specific market segments and entry points. By doing so, the Japanese were able to concentrate all their efforts on the targeted area rather than trying to penetrate the U.S. from many different points. The Japanese focused on a particular geographical market, on specific distributors and dealers, and/or on individual customer types, and then "rolled out" market penetration from this base.⁵²

It is a fact that many Japanese firms began their entry efforts in California. Being a major market and the one closest to Japan, California was an extremely popular beachhead among new Japanese firms in the late 1950s and early 60s. Honda, for example, established its American Honda Motors Co. in Los Angeles. Other companies which started out in California included Toyota, Sony, Hitachi and Mitsubishi. The main reason California was chosen by some consumer electronics companies like Sony and Hitachi was the anticipated need of a place in which to locate production facilities in the future. Southern California has an ample supply of labor and the close proximity of Mexico provides the availability of emigrant labor.⁵³ Furthermore, the location of California could minimize transportation costs for products coming from Japan.

The Japanese have learned from experience that managing their own sales offices overseas not only gave them more control over the management of the product and distribution channels, it also helped them to gain insight and first-hand experience in the U.S. market. Hence, the sales subsidiaries served as the center where strategies were carried out. From its initial entry point, the U.S.-based sales office then attempted to secure specific distribution channels and dealers. The recruitment of dealers was done on a highly selective basis. Toyota, for example, targeted well-established and reputable dual-line import car dealers who were experienced with foreign products and whose customers were partial to imports. Japanese firms also sought out those outlets that gave them broad market coverage, especially with large retail chains such as Sears to whom Toshiba initially sold its television sets.⁵⁴ Regional distri-

butors and exclusive distributors were also used depending on the products. Citizen, for example, concentrated its entry and market expansion efforts exclusively on watch dealers and jewelry stores.

The ability of the Japanese to secure established dealers had a cost of its own. Top priority was given to distributors and dealers before anything else. Due to the previously poor image of their products, the Japanese had to offer higher commission and profit margins to dealers and distributors than their competitors in order to have access to established distribution channels. The Japanese firmly believed in giving their distributors and dealers as much incentive as possible to push their products.⁵⁵ This move, in effect, turned out to be a major competitive tool for the Japanese.

The Japanese also made sure that there were sufficient regional warehouses available to provide uninterrupted supplies to the dealers. This is especially important when the companies are expanding or maintaining market share. At this stage, product and service should be readily available. Honda, for example, established training schools in regional areas to ensure an adequate supply of certified mechanics at their dealership outlets. The Japanese learned from Volkswagen's good example by concentrating on distribution systems that could lessen the constant American fear of purchasing an imported car that could not be serviced outside major urban areas.⁵⁶

Domestic production facilities in the U.S. have proved advantageous to the Japanese in many respects. Not only were the products exempted from import taxes and other charges, transportation

costs were significantly reduced. And, in order to be assured of the same high productivity and skill level at the production facilities, companies like Honda sent its American workers from the Marysville manufacturing plant to learn productivity techniques in Japan.⁵⁷

All in all, Japanese marketing strategies have proven to be extremely lethal to their U.S. competitors. Within the past forty years, the Japanese have shown the world an economic miracle and a success story as to how to become world-class marketers. Japanese success not only stemmed from their marketing strategies but also from a number of factors which we will briefly examine in the next section.

Other Factors Considered

The discussion has to this point examined Japanese success in penetrating the U.S. market based on their major marketing strategies. However, the marketing strategies were, in some respects, the result of other efforts that are worth mentioning. Assistance given to the various industries by the Japanese government alone cannot account for the success of the Japanese. Most of the effort toward success was due to the efforts of those industries themselves. In this section, we will briefly examine a few important elements that were important to the Japanese success.

Product Adaptation: One major factor that is crucial to exporting and entering a foreign country is the ability to adapt the product to foreign market needs. The Japanese dislike U.S. requirements on imported products as much as the Americans dislike the Japanese government's requirements. But the Japanese have learned that the best way around these problems is to quietly adapt the product to the market needs, rather than simply complaining about unfair nontariff barriers. Japanese automobiles, for example, do not have safety-glass windows, but every car shipped to the U.S. must be fitted with them.⁵⁸

While it is not uncommon to hear many U.S. firms complain about the Japanese safety and testing standards, often criticized as being nontariff obstacles, it may be interesting to note that the U.S. is one of the few countries in the world that refuses to classify goods according to the Consultative Committee on Customs Nomenclature (CCCN). By not adopting the CCCN standards, imported goods have to be designed and

constructed to meet certain U.S. import standards that are unique from the rest of the world. Thus, if the U.S. can have its own special requirements for imported goods, there is absolutely no reason to criticize Japan's special requirements for imported goods as a nontariff barrier. In other words, it is equally as difficult for a Japanese firm to enter the U.S. and vice versa. As Hisashi Shinto, president of Nippon Telephone & Telegraph (NTT) once said, "For 20 years I went to U.S to sell my company's products. We devoted our major effort to knowing your government regulations, our customers' practices, and requirements. . . ."59 Hence, for U.S. firms intending to penetrate the 'tough' Japanese market, the key to success ought to be **adaptation**.

Industrial Collaboration: Another reason for Japanese success has been the collaborative efforts among the different companies within an industry. A case in point is the success story of the Japanese computer industry. For many decades, IBM has been the leader in the computer industry. In the 1960s, IBM was about twelve to fifteen years ahead of Japan in terms of technological lead. Fearing foreign domination of foreign computer firms in Japan, the government sought collaborative actions among Japanese computer firms to devote R&D in order to protect the domestic market. The Japanese government also saw the growth potential of the computer industry and perceived that Japan's future economic position was at stake.

Japanese firms such as Mitsubishi Electric, Toshiba, NEC, Hitachi, Fujitsu, and Oki were sponsored by certain government groups to get involved in collaborative research work. These government groups

consisted of MITI, the Japan Electronic Industry Development Association (JEIDA), the Electronics Industries Association of Japan (EIAJ), the Keidanren (Federation of Economic Organizations), and other organizations affiliated with the government. By centering the few hundred researchers from the different companies on a single project, the results were stupendous. Within the past two decades, Japan has completely evolved past the first, second, third and fourth generation computers. Although IBM has continued to remain as the largest and most successful computer company in the world, the Japanese computer industry which was almost destroyed by the IBM System 360, has reduced the technological gap to perhaps a matter of months, not years.⁶⁰ As a result of collaborative efforts, today the Japanese have been able to establish themselves as major competitors for U.S. firms.

Long Range Planning: The long range view of the Japanese regarding their presence in the U.S. and in global markets is also another factor worth mentioning. A willingness to accept short-term losses for long-range profits is a key to success for many industries. Strong commitment to long-range management and technological research has been among the main reasons why the Japanese have been successful in staying ahead of the competition. When the Japanese successfully gained a large U.S. market share in consumer electronics with low-cost components assembled or manufactured in cheap labor countries in Asia, U.S. competitors followed suit by doing the same.

By the time U.S. firms had decided on doing so, the Japanese had taken another step ahead by investing heavily in expensive automated

production equipment in Japan. This enabled the Japanese to manufacture complex components at low cost in Japan while maintaining employment for the workforce, since the shift of production abroad usually result in layoffs at the home factories. By the early 1980s, U.S. competitors began to realize that despite the use of cheap labor in foreign countries, they were still unable to compete with the Japanese in pricing. This was especially true for the semiconductor industry where Japanese competitiveness had led to charges of illegal price-fixing, "dumping" and predatory marketing practices.

Yen-Dollar Relationship: Another major factor that contributed to Japanese success was the weak value of the yen in relation to the dollar. As part of the postwar recovery program, the value of the yen was fixed at ¥360 to US\$1. This fixed rate was established to control the runaway inflation and to rebuild Japan's domestic industries. With an undervalued yen, Japan was able to maintain high-export growth since Japanese products were less expensive in the U.S. A low yen value, together with the low labor costs, provided major pricing advantages for Japanese firms entering into the U.S. markets. The automobile and steel industries are examples of Japanese success at market entry, partly as a result of the low fixed yen value. With increased exports, Japanese industries were able grow fast enough and reached the levels of the advanced nations, in terms of production and technology.

The fixed rate persisted for many years until two major international events occurred in the early 1970s. The "Nixon Shock" in 1971 took place when President Nixon announced a defense plan for the

dollar while terminating the fixed yen rate.⁶¹ By 1973, Japan adopted a floating exchange rate. Also during this time, the first oil crisis took place. For the first time in many years, Japanese yen appreciated against the dollar - from ¥360:US\$1 to ¥200:US\$1 in 1973. Consequently, Japanese firms were losing their cost competitiveness in the U.S. market as a result of a stronger yen. One solution for Japanese firms to regain their competitiveness was to invest directly in factories and companies in less-developed countries to exploit the local cheap labor and raw materials used in production.⁶² Production facilities in Japan were modernized to maintain domestic employment and to achieve low manufacturing costs. With a strong yen, imported raw materials also became less expensive and certain businesses, such as the automobile and steel companies, were able to maintain profits lost through currency exchange.

The value of the yen appreciated significantly from ¥240:US\$1 in 1977 to ¥180:US\$1 in 1978 when the second oil crisis occurred. The sudden increase adversely affected the automobile industry but Japanese firms took on this timely moment to aggressively market their fuel-efficient compact cars and to gain a further market share in the U.S. Between 1981 and 1985, the dollar appreciated against the yen, thereby giving a major boost to the competitiveness of Japanese industries in the U.S.

All in all, what the Japanese have thus far shown their competitors are only the results of their efforts. The strong motivation of the Japanese toward competition goes beyond the marketing strategies we have discussed so far. Other factors such as cultural, social, and a unique government-industry-labor relationship should also be credited for Japan's success.

JAPANESE MARKETING STRATEGIES: TODAY

Throughout the last forty years, the Japanese have enjoyed a windfall in international trade. However, the year 1986 marked a new era for the Japanese where massive structural changes occurred in the competitive arena. Signs of trouble were everywhere. The Yen soared from around ¥250 to ¥155 to a dollar within a year. (See Appendix G).

Japan's domestic economy weakened with unemployment seasonally adjusted to 2.9% in August, matching the postwar unemployment rate in 1953.⁶³ With staggering profits, the Japanese companies are singing the blues. However, these hard times may result in making the Japanese becoming even more competitive than ever. Before arriving at this inference, it may be necessary to examine a series of related events occurring during this time period. The objective of this segment of the discussion is to analyze how Japanese industries have learned to cope with the currently adverse situation, which may prove to be an invaluable lesson for the U.S. industries.

Dollar Bashing: Reducing The Trade Deficit?

In September 1985, the Group of Five countries - the United States, Japan, West Germany, France and Great Britain - met at New York's Plaza Hotel to fulfill a major objective -- to intervene in the foreign currency markets and to drive the dollar down. The historic event was not only successful,

it marked a turning point in the direction of international trade. Apparently, it also made Treasury Secretary James Baker a happy man -- he was applauded for finally doing something about the U.S. trade deficit.

Among the Group of Five, Japan was more involved than anyone else since it had more need to ease the protectionist pressures in the U.S. which were threatening Japanese imports. The Bank of Japan intervened by selling over \$3 billion in return for an equivalent amount of yen in the Tokyo and New York exchange markets.⁶⁴ Consequently, the shortage of Yen drove up short-term interest rates which sustained a stronger yen. Instead of arriving at around ¥200 to a dollar, as anticipated by the government and the industries, the yen strengthened even further.

On the other hand, the decline of the dollar would provide breathing room for many beleaguered U.S. industries and a boost to their competitiveness in terms of pricing. Theoretically, a lower dollar would make U.S. goods cheaper domestically and, more importantly, abroad. That should stimulate overseas sales which should translate into increased exports and an upswing in domestic economic activity meaning more jobs. Consequently, the trade deficit should be reduced.

The truth is that trade imbalance registered an all-time record high of \$230 billion in deficit. In fact, the trade deficit with Japan alone grew to \$4.52 billion in July 1986 from \$3.69 billion a year earlier.⁶⁵ (See Appendix H) In the next section, we will examine the effects of the high yen and its implications on the trade deficit.

Endaka and Japan

With the new reality of *endaka* (the high yen), many Japanese firms are beginning to see profits and sales declining to their lowest level for the first time in eleven years, when Japan plunged into a recession as a result of the oil shock between 1973-1974.⁶⁶ Among the hardest hit industries are the automobile, semiconductor, consumer electronics, ship-building and other heavy industries which are already facing serious threats from the fast-growing competition from countries like South Korea, Taiwan, and other emerging newly industrialized countries (NIC). Toyota, the largest automobile manufacturer in Japan, saw pre tax recurring profits plunge by 25% for the first time since 1982. For the semiconductor industry, the prolonged "industry recession" has made times even harder for some firms such as Hitachi which experienced a 40% decline in profits. Even the powerful *sogo shosha* are feeling the pinch of the high yen as a result of lower sales abroad, particularly in the U.S. Japan's domestic GNP also dropped for the first time since 1975, unemployment reached an all-time high since the postwar period as a result of declining exports, domestic capital investments have been reduced, and after a long string of successes -- Japanese competitiveness is threatened.

Although the strong yen seems to be stymieing Japan's growth, certain industries' performance may have in fact improved. In the automobile industry, for example, overall export sales surprisingly increased by 5% with a record output of 6.24 million cars in the first half of 1986.⁶⁷ For the semiconductor industry, the sales will be expected to surpass the previous year by 18.7 percent.⁶⁸ Statistically speaking, Japan

is performing fairly well. But all these indicators are mostly window dressing caused by the short-term effects of the J-curve and low oil prices. The J-Curve effect occurs when exporters raise the dollar-denominated prices of their goods in order to cope with the yen appreciation, thus leading to a temporary increase in the nominal value of exports. Leaving all this aside, we will now proceed to examine the steps that have been taken by the Japanese in order to maintain their competitiveness in the U.S.

Strategic Response and Structural Changes

A high yen is not all bad for the Japanese industries. The appreciation of the yen against the dollar in 1978 and the oil crisis 1979 taught Japanese industries many invaluable lessons. Despite the short period of hard times, Japanese industries have shown to be even more competitive than before. Among the lessons gained from these turbulent periods was the emphasis on being less reliant on exports. The high yen also has its advantages as we will see in the next discussion.

Mergers and Acquisitions : During the second oil crisis in 1978, the Japanese saw a gain in purchasing power of the yen abroad. Throughout the 1980s, Japanese firms were gradually seeking mergers and acquisitions (M&A) abroad. The rate of M&A has since picked up considerably. In a recent survey by Nihon Keizai Shimbun, about 70% of Japanese M&A abroad in the past years were in the U.S.⁶⁹ Major acquisitions included

the purchase of Dunlop Ltd. by Sumitomo Rubber Industries, and the takeover of Isotech, a robot-grade motor manufacturer, by Nippon Seiko K.K. (See Appendix I for list of recent M&A)

The move to merge or acquire U.S. firms is also the pursuit of a strategy of related or unrelated diversification. Being ahead in many areas of technology, U.S. firms are attractive investments for the Japanese. In an age of high technology competition, the Japanese are spreading their efforts in high-tech R&D into different fields in order to stay close in the race to reach the new frontiers. For the Japanese today, the buzzword is "Diversify or Die."

Diversifying through M&A has come in the form of many different packages. The transfer of technology is the most important factor behind many M&A. Other reasons include the need to step up domestic production in the U.S. so as to reduce trade frictions or to gain entry into new markets. M&A usually involves financially-ailing high-tech U.S. firms that have growth potential in their R&D. U.S. Industries that are likely targets of M&A include steel, chemical, drug, electronics, biotechnology and the like, the exotic high-risk firms. Although M&A permit instant access of technology from the U.S. firms, not all investments made by the Japanese have been successful. Kawasaki Steel Corp.'s acquisition of NKB Corp., a Santa Barbara producer of silicon wafers, resulted in heavy losses caused by the prolonged semiconductor recession.⁷⁰

Joint Ventures : This option is growing in popularity among Japanese firms intending to acquire technology. Prominent joint ventures include Canon with Kodak, and Fujitsu with Amdahl. With a strong yen, many U.S.

firms are seeing the benefits of joint ventures since they are able to gain access to huge financial assistance from their Japanese partners to pursue R&D. Despite the risk of the transfer of technology to a foreign firm, many U.S. firms feel that it may be necessary in order to survive and compete against larger U.S. companies. Joint ventures also allow the Japanese to gain valuable experience in engineering, fabrication, and complex manufacturing. But, as a result, some U.S. firms are strongly opposed to such ventures.

Direct Investments and Offshore Production : Within the last few years, Japan's direct foreign investments have picked up considerably with the U.S. (See Appendix J) An increasing number of Japanese firms are stepping up investments in research facilities in the U.S., partly to counter growing moves in this country to clamp down on the outflow of technology. With the help of a strong yen, funding the construction of research facilities is made easier. Companies like Sumitomo Electric Industries Ltd. have set up fiber optics R&D facilities in North Carolina's Research Triangle Park, also known as the "Silicon Valley of the East."⁷¹

In addition, Japanese companies are pouring research funds into universities such as Stanford University, the University of North Carolina, MIT, Princeton and other schools involved in major high-tech research. MIT, for example, has 49 Japanese companies involved in its industrial liaison program. For \$30,000 a year, companies like Canon, Mitsui, Hitachi and NEC can have first-hand access to MIT research projects.⁷²

Direct investments are gaining momentum among Japanese electronics manufacturers. (See Appendix K) This is based on the strategy of absorbing large currency-exchange losses rather than raising prices. Since the yen is expected to remain strong for a few years, direct investments provide an excellent opportunity to establish manufacturing facilities in the U.S. Already some companies like NEC are ready for the domestic production of fiber optics and digital microwave equipment in Portland, Oregon, a move to offset the yen's strength.⁷³ Direct investments in domestic facilities in the U.S. will also reduce the reliance of the Japanese on exports, a move necessary to reduce protectionist pressures. Canon, for instance, has launched a new strategy involving an international division of labor, scattering manufacturing activities worldwide that will make Canon a corporation with no national identity and free from trade friction.⁷⁴ (See Appendix L)

Offshore production seems to be the answer for most large firms. Over 60% have already moved to the U.S., while the rest are scattered over Asia where the Japanese started their investments in the 1970s. At this time, the Japanese are getting return on their investments based on a long-range strategy. Countries in this region include South Korea, Taiwan, Thailand, Malaysia and Singapore. Nissan and Toyota, for example, have stepped up production activities for certain automobile parts in Thailand, Malaysia and Indonesia, where labor costs remain among the lowest among the NICs. Parts will in turn be exported to Japan for further processing or final assembly. For some Japanese parts suppliers, domestic production in the U.S. may prove to be less expensive than in Japan. As a consequence, many parts suppliers have moved along with

their Japanese clients who have already established production facilities in the U.S.

Automation : Aside from the emphasis on offshore production to reduce domestic capital spending at home, many companies are retrenching by reducing the workforce at home and replacing it with robots and other more automated production processes. By 1984, Japan was the world's largest user of industrial robots in the manufacturing process and the number of robots can be expected to increase significantly in the next few years. (See Appendix M) For the first time, many companies are sacrificing the "sacred cow," the lifetime employment system. However, lifetime employment is already a thing of the past for some industries such as shipbuilding. On the brighter side, some companies are maintaining domestic employment by producing a wide variety of sophisticated and complex component parts that require high labor involvement in the design and production stage. ⁷⁵

Japanese firms are also placing heavy emphasis on automation. The new value-added network (VAN) has dramatically gained wide popularity among many large manufacturers. The VAN electronically links manufacturers , suppliers and customers together to provide even more efficient delivery of goods at reduced costs than the former just-in-time system. With the current tough times, the VAN is likely to be a major competitive tool for the industries hard at streamlining production and reducing costs.

Other Competitive Responses : Many Japanese companies are also beginning to trim themselves by a number of measures, including reducing unprofitable exports. Other moves include importing component parts from low-cost suppliers from the NICs (Newly Industrialized Countries) and China. For some of the companies, the *endaka* could not have occurred at a better time. With greater buying power, the Japanese are able to import raw materials just as prices have plunged for many dollar-priced commodities, especially oil.

Among all strategic responses mentioned above, the issue of pricing remains the current central point of attention among all Japanese firms competing in the U.S. Despite the high yen, many Japanese products in the U.S. are experiencing little or no price increases at all. Considering the struggle of the Japanese to penetrate the U.S. market over a decade ago, many firms are not about to give up the hard-earned market share to U.S. competitors. Many are absorbing the currency swings in reduced profits or even losses from their sales in the U.S. rather than surrendering to U.S. competition.⁷⁶ Many firms have absorbed currency exchange losses by reducing their profit margins, while other companies have been able to stabilize prices by raising profit margins early in 1986 so as to remain competitive despite further appreciation of the yen.

There are also other manufacturers who have introduced new products to disguise price increases. Manufacturers have removed certain product features to hold down the price, or have added a few extra features and charge a disproportionately higher price.⁷⁷ Even so, certain markets can allow manufacturers to disguise prices to a certain extent. This is especially true when a wide variety of similar products is

available from the U.S. competitors. For the photographic equipment industry where the Japanese have been dominant, prices have increased for the higher end products to offset losses in the lower end spectrum since consumers are less likely to be price sensitive for the more sophisticated and exotic equipment. Furthermore, the lifecycle for certain cameras is relatively short and the constant introduction of newer models permits many manufacturers to make price adjustments.

On the other hand, manufacturers of certain products are able to maintain profitability even with a high yen. Lower costs as a result of economies of scale achieved in production are able to offset the rising value of the yen. This is especially true for products that are still in the growth stage, such as the video tape industry where the demand is on the rise even with slight price increases. Furthermore, with the absence of U.S. manufacturers in the video cassette recorder industry, the Japanese can afford the luxury of increasing prices.

The change in marketing strategies for the automobile firms is to move to a higher market where price competition is less important. For example, Honda introduced the new \$20,000 Acura that is targeted at buyers who are not price sensitive. For other firms, television commercials are no longer emphasizing the low price value but rather the quality and newly-improved features and performance, or the stylish designs. Toyota, for instance, has emphasized the performance of their cars as being "Number One."

Since the lower dollar is supposed to be a relief for U.S. firms, this represents a rare opportunity for many firms to regain their competitiveness and to recover past losses in market share. Before looking ahead to the future of Japanese marketing strategies, let us spend a few moments examining the U.S. response to the current situation.

The U.S. Competition : Recalling the 1978 *endaka*, most U.S. firms were able to gain slight increases in exports but these firms could have gained even more if they had seized the opportunity to do so. Most U.S. managers, however, have a "quick return" mentality in which they feel too uncomfortable riding on low profit margins while watching the Japanese competition raise prices. As a result, many U.S. manufacturers have traded long-term market share gains for tempting short-term profits by also raising prices. As for the recent *endaka*, history is once again repeating itself.

For some U.S. firms that are in bad financial health, the high yen represents a rare opportunity to reclaim lost profits caused by the previously strong dollar. With higher prices for certain Japanese goods, U.S. firms are beginning to realize the competitiveness of their products in the domestic market. Meanwhile, there are other firms that see that the opportunity to make a fast buck is too difficult to overlook. For some of these firms, short-term profits are necessary for survival rather than an increased market share, while others see it as a "now-or-never" chance to harvest as much as they can.

A weak dollar also helps promote U.S. goods in foreign markets, thereby increasing exports while reducing the trade deficit. How far the trade deficit will be reduced is yet to be seen. So far, U.S. exports are barely up.⁷⁸ Although a number of U.S. firms have not raised prices, the low prices for U.S. goods has yet to reach foreign consumers. Most foreign middlemen seized the opportunity to stretch their margins rather than following up on the price cuts made for the U.S. goods. The major problem is that the middlemen are sitting back waiting for someone else

to make the first move to pass the savings to the consumers. This is especially true in Japan where everyone is trying hard to survive the recession. Although many U.S. firms view it as a deliberate attempt by the Japanese distribution channels to obstruct the sale of U.S. goods, it is still too early to determine if this is true.

Japanese Marketing Strategies - The Future

The race to reach the new frontiers of high technology is on. With Prime Minister Yasuhiro Nakasone strongly believing that scientific and economic progress holds the key to the future economic and social well-being of Japan, the Japanese challenge will be even more aggressive. Although the U.S. will continue to maintain its lead in many areas of advanced technology, Japan has been able to surpass the superiority of the U.S. in areas such as optoelectronics while ranking second in many other areas, including development of new materials, biotechnology and computers.⁷⁹ With the Japanese government heavily funding advanced technology R&D, the race to build the fifth and sixth generation computer ranks among the top priorities on national goals.

In trade, the sogo shosha will likely lead the way to future ventures by assisting industries in penetrating other foreign markets. Diversification into related and unrelated areas will also be a major agenda among Japanese heavy industries. A number of firms have already started to seek joint ventures with governments of a few South American countries to acquire raw materials. For the automobile industry,

the domestic production of automobiles in the U.S. will increase along with the continuing wave of direct investments. Investments in expensive and highly-automated production facilities in the U.S. and NICs will enhance the price competitiveness of Japanese products.

For the high-tech industries, technology transfer from the U.S. will be a major objective. This will include supporting U.S. universities in advanced technology R&D, acquisitions, joint ventures and direct investments in research facilities. Japan's competitiveness in advanced technology will also gain momentum with the increased output of engineers and research scientists from local universities. With Japan's rising capability in mathematics and science in elementary and high schools, there will be an adequate future reserve of skilled and productive work force. Domestic spending for R&D from both the government and private sectors will also increase to accelerate technology growth.

With wide applications of high-technology in consumer products, Japan will be able to fortify its dominant position in consumer electronics. The Japanese will continue to seek market niches where the U.S. currently has a stronghold. Such industries may include aviation,, communications, or banking and other financial services. With a continuous inflow of direct investments, Japanese banks are likely to increase their presence in the U.S. to aid Japanese import and export needs.

In the future, the Japanese will also need to contend with emerging competitors such as South Korea, which has already penetrated the U.S. automobile market with a bargain car. Other NICs are also beginning to tap the U.S. market using strategic patterns similar to that of the Japanese. Low-cost production and low prices will be the NICs

major advantage and Japanese industries may need to reexamine their objectives and strategies in order to protect their market share, in the U.S. and in other foreign nations. While the NICs are attempting to capture the low end market of many products, they are likely to move up the market spectrum to compete directly with the Japanese in the future. However, they will need to win over loyal consumers of Japanese goods that have been dominant in certain markets for a long time.

The most likely strategies that the Japanese will pursue include an emphasis on product quality, service and a wider distribution network for their products. U.S. consumers who have been accustomed to Japanese goods will likely take to future introduction of new Japanese products without much persuasion. Within the next decade, it is highly likely that the Japanese will be seeking more joint ventures, especially in the service industry. With the growing trade between the U.S. and the Pacific-basin region, some U.S. firms in need of diversification abroad may begin to find joint ventures with the Japanese to be an attractive option. Not only do the Japanese have access to foreign market information and experience, they are also financially strong. Joint ventures between the U.S. and Japan will likely include management services, insurance, financial services, and other services with strong potential growth in international markets, hence emergence of the "U.S.-Japan Inc."

In the future, Japan will likely to be more competitive than ever. With the currently strong yen, a nationwide industry shakeout will improve the competitiveness of many firms. The firms that could survive the domestic recession and the strong yen will then be more prepared to

compete effectively. The 1978 rise of the yen toughened the Japanese and, if history is to repeat itself, the U.S. can certainly look forward to more competition from the Japanese.

U.S. Competition: What Went Wrong?

Despite a considerable loss of market share to Japanese competition, the challenge is far from over. There comes a time when U.S. industries will respond to Japanese competition. Often, it takes a crisis. So far, the response of the U.S. to the Japanese challenge has received more criticism than praise.

Critics have long argued that the failure to maintain product quality, the short-term market payoff mentality, and the reluctance to invest in long-term R&D and technological innovations were the major errors made by many U.S. firms. Other mistakes were most likely the result of poor judgement on management's part. In many industries, market share was surrendered to the Japanese without putting up a struggle. The television industry is a case in point. Instead of competing with the Japanese in the low end segment, U.S. manufacturers shifted their production emphasis to the larger and more costly models.

The position of the U.S. was also weakened by a lack of product innovation and product line proliferation efforts. Although the U.S. has the technological lead in areas like the semiconductor, the lead has not been accompanied by wide application on consumer products, thereby losing their market share in consumer electronics to the Japanese.

The quick-return mentality has hurt many industries, which were more concerned about financial ratios than accepting high risks by pursuing product innovation and R&D, or seeking investments in more efficient and modern production facilities. There was also a general lack of awareness of the competition. When the Japanese first entered the U.S. market, some U.S. industries never foresaw the potential threat to their market share. Many took their dominant market position for granted and did not respond aggressively to the new competition.

In contrast, many industries blame their inability to compete on the government, labor unions, or foreign trade barriers. There may be some degree of truth to their charges; after all, a firm does not operate alone in the environment. The economic policies of the U.S. government have been blamed for the deterioration of the U.S. lead in advanced technology. Other industries attribute their inability to compete as a result of high U.S. labor costs. Management has blamed labor unions for demanding excessive wages, resulting in higher manufacturing costs and higher-priced products. In return, labor unions blamed management for being more concerned about profits than in its workforce.

The problems U.S. industries are facing are far more complex. Other influencing factors include political, legal, ethical, social, and an endless list of other issues. A full discussion of these issues is, however, beyond the scope of our discussion. Although U.S. competition has suffered some heavy casualties during the past decade or so, it is never too late to make a comeback. (See Appendix N for a response model proposed by Kotler, Fahey and Jatusripitak.⁸⁰)

Conclusion

Japan has shown the world an economic miracle. During the past three decades, Japanese companies have changed the dynamics of competition in the U.S. and international markets. They have also molded the world we live in by offering goods and services that would not have otherwise existed.

Japan's success was not by chance. It was the result of a well-coordinated national program involving a unique government-industry relationship aimed toward a common goal -- to be the best in global competition. In the course of reaching this goal, the Japanese have proven themselves as formidable competitors to their U.S. counterparts.

In response, U.S. industries have learned that the arena of competition is no longer limited by the boundaries of the domestic market but now includes many other markets abroad. In facing the Japanese challenge, many U.S. industries will need to take on a global market view, not only to remain competitive but also to survive.

By and large, the U.S. has been more competitive than before. With its long history of management excellence in terms of creativity and innovativeness, the U.S. can rest assured that the flow of talented and skilled human resources will continue to make its industries competitive. Despite the loss of some market share to the Japanese challenge, the U.S. should be proud that it was the one who taught the Japanese the basics of marketing. In turn, the Japanese wrote the success story on the making of world-class marketers.

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⁵ Rodney Clark. The Japanese Company. New Haven: Yale University Press, 1979. pp.42-43.

⁶ George Fields. From Bonsai To Levi's. New York: New American Library, 1985, p.13.

⁷ Miyoei Shinohara. Industrial Growth, Trade, and Dynamic Patterns in the Japanese Economy. Tokyo: University of Tokyo Press, 1982, p. 137.

⁸ Philip Kotler, Liam Fahey, Somkid Jatusripitak. The New Competition. New Jersey: Prentice-Hall, inc., 1985, p.4.

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¹⁰ Ibid., p.15.

¹¹ J. Hirschmeier, T. Yui. The Development of Japanese Business. London: George Allen & Unwin, 1981. p. 289.

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- 13 Baranson, p.11
- 14 Business Week, "Japan's Strategy For The '80s" December 14, 1981. Special Report, p. 41.
- 15 Kotler, Fahey, Jatusripitak. p.81.
- 16 Shinohara, p.44.
- 17 Kotler, Fahey, Jatusripitak. p.43.
- 18 Kotler, Fahey, Jatusripitak. p. 45.
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- 21 Ibid., p. 38
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- 23 Business Week, December 14, 1981. p.68.
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- 32 Baranson, p. 43.
- 33 Ibid., p. 75.
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- 36 Ibid., p. 26.
- 37 Naisbitt, p. 27.
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- 46 Business Week. "Subcompacts: Detroit Is Giving Japan The
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67 "Auto output hits record 6.24 million in first half." The Japan Economic Journal, August 2, 1986, p. 21.

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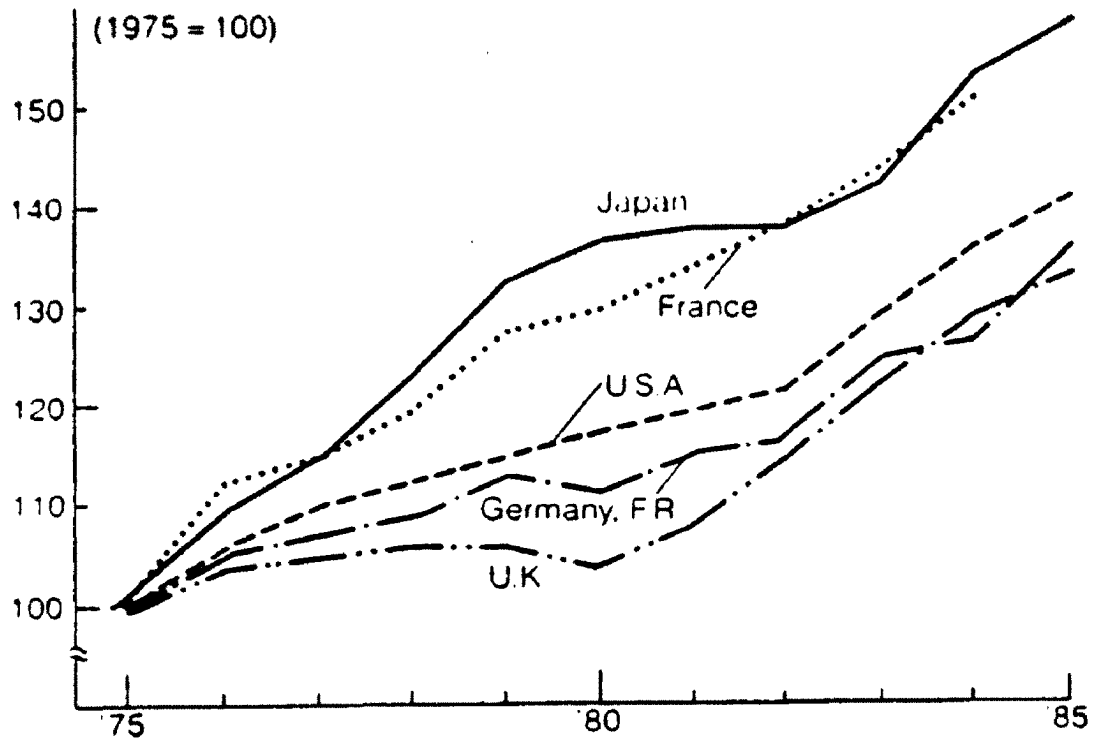
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APPENDIX A

Trends in Labor Productivity in Manufacturing Sector (1975—1985)



Source: Bank of Japan, *Comparative International Statistics*, 1986.

(Abstracted from Japan 1986, Keizai Koho Center, p.71.)

APPENDIX B

Japan's Leading Trading Partners (1983—1985)^{a)}

(US\$ million, except %)	Japan's Exports to—						Japan's Imports from—					
	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985
U.S.A.	42,829	59,937	65,278	29.1%	35.2%	37.2%	24,647	26,862	25,793	19.5%	19.7%	19.9%
EC	18,523	19,405	20,016	12.6	11.4	11.4	8,120	9,334	8,893	6.4	6.8	6.9
China	4,912	7,217	12,477	3.3	4.2	7.1	5,087	5,958	6,483	4.0	4.4	5.0
Saudi Arabia	6,687	5,634	3,890	4.6	3.3	2.2	15,530	14,734	10,245	12.3	10.8	7.9
Australia	4,280	5,184	5,379	2.9	3.0	3.1	6,642	7,296	7,452	5.3	5.3	5.8
Indonesia	3,552	3,073	2,172	2.4	1.8	1.2	10,432	11,175	10,119	8.3	8.2	7.8
Korea, Rep. of	6,004	7,227	7,097	4.1	4.2	4.0	3,365	4,213	4,092	2.7	3.1	3.2
United Arab Emirates	1,357	1,126	1,164	0.9	0.7	0.7	7,793	7,720	8,916	6.2	5.7	6.9
Germany, F.R.	5,877	6,622	6,938	4.0	3.9	4.0	2,414	2,684	2,928	1.9	2.0	2.3
Canada	3,625	4,297	4,520	2.5	2.5	2.6	4,430	4,945	4,773	3.5	3.6	3.7
Taiwan	5,086	5,986	5,025	3.5	3.5	2.9	2,622	3,204	3,386	2.1	2.3	2.6
Hong Kong	5,289	6,559	6,509	3.6	3.9	3.7	670	842	767	0.5	0.6	0.6
U.K.	4,983	4,675	4,723	3.4	2.7	2.7	1,940	2,267	1,817	1.5	1.7	1.4
Malaysia	2,771	2,875	2,168	1.9	1.7	1.2	3,131	4,412	4,330	2.5	3.2	3.3
Singapore	4,448	4,610	3,860	3.0	2.7	2.2	1,468	1,775	1,594	1.2	1.3	1.2

(US\$ million, except %)	Japan's Exports to—						Japan's Imports from—					
	1983	1984	1985	1983	1984	1985	1983	1984	1985	1983	1984	1985
U.S.S.R.	2,821	2,518	2,751	1.9%	1.5%	1.6%	1,456	1,394	1,429	1.2%	1.0%	1.1%
Iran	2,820	1,692	1,348	1.9	1.0	0.8	4,231	2,869	2,506	3.3	2.1	1.9
Oman	468	508	554	0.3	0.3	0.3	2,012	2,420	3,066	1.6	1.8	2.4
Panama	2,169	3,444	3,326	1.5	2.0	1.9	68	168	81	0.1	0.1	0.1
France	2,010	1,935	2,083	1.4	1.1	1.2	1,302	1,236	1,324	1.0	0.9	1.0
Thailand	2,506	2,425	2,030	1.7	1.4	1.2	1,019	1,040	1,027	0.8	0.8	0.8
Switzerland	1,144	1,089	1,181	0.8	0.6	0.7	1,412	1,965	1,758	1.1	1.4	1.4
Mexico	579	888	994	0.4	0.5	0.6	1,889	2,260	1,870	1.5	1.7	1.4
South Africa	1,738	1,840	1,020	1.2	1.1	0.6	1,587	1,611	1,844	1.3	1.2	1.4
India	1,431	1,168	1,596	1.0	0.7	0.9	1,131	1,132	1,189	0.9	0.8	0.9
Kuwait	1,763	1,432	1,536	1.2	0.8	0.9	1,387	1,588	1,162	1.1	1.2	0.9
Netherlands	1,726	1,816	2,071	1.2	1.1	1.2	443	434	439	0.4	0.3	0.3
Brazil	738	640	615	0.5	0.4	0.4	1,669	1,991	1,840	1.3	1.5	1.4
Qatar	233	175	164	0.2	0.1	0.1	1,701	2,594	2,185	1.3	1.9	1.7
World, total	146,927	170,114	175,638	100.0	100.0	100.0	126,393	136,503	129,539	100.0	100.0	100.0

a) In order of total value of exports plus imports in 1985.
Source: Japan Tariff Association, *The Summary Report: Trade of Japan*.

(Abstracted from Japan 1986, Keizai Koho Center, p.40-41.)

APPENDIX C

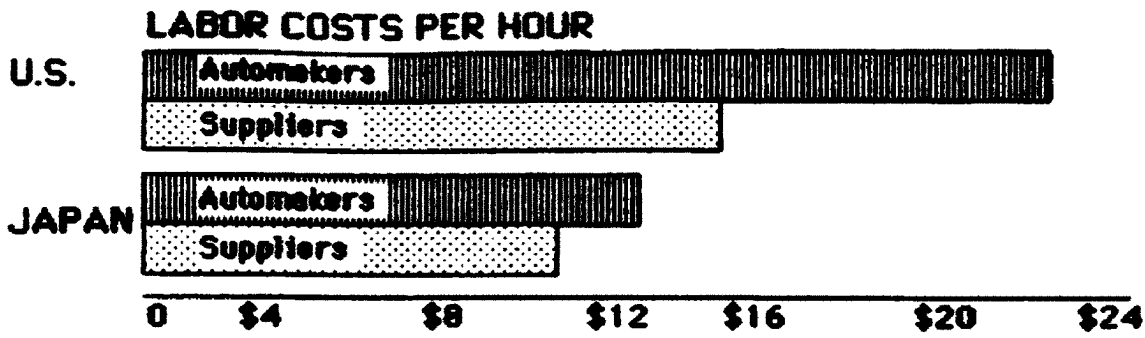
Sales of Japan's Top Nine Sogo Shosha (FY1985)
(¥ billion)

	Total	In Japan	Exports from Japan	Imports into Japan	Offshore Trade
Mitsubishi	16,332	6,413	2,579	4,697	2,625
Mitsui	16,020	6,063	2,738	3,869	3,350
C. Itoh	15,324	6,914	2,953	2,636	2,821
Sumitomo	14,226	6,637	3,030	2,983	1,576
Marubeni	13,916	4,695	3,523	2,841	2,857
Nissho Iwai	8,821	2,838	1,326	2,506	2,151
Toyo Menka	4,771	1,828	1,090	984	869
Nichimen	4,515	1,072	727	625	2,091
Kanematsu-Gosho	4,247	1,802	445	1,229	771
Total(A)	98,172	38,280	18,411	22,370	19,111
Share(%)	100.00	39.0	18.7	22.8	19.5
Japan's Trade, total(B)	-	-	41,956	31,085	-
Sogo Shosha' s Share (A/B)	-	-	43.9%	72.0%	-

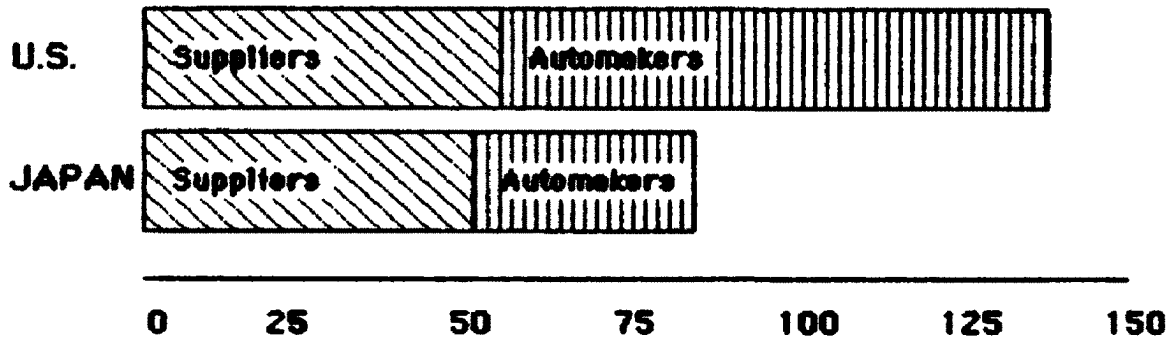
Source: Abstracted from Keizai Koho Center. Japan 1986. from Japan Foreign Trade Council, Inc.

APPENDIX D

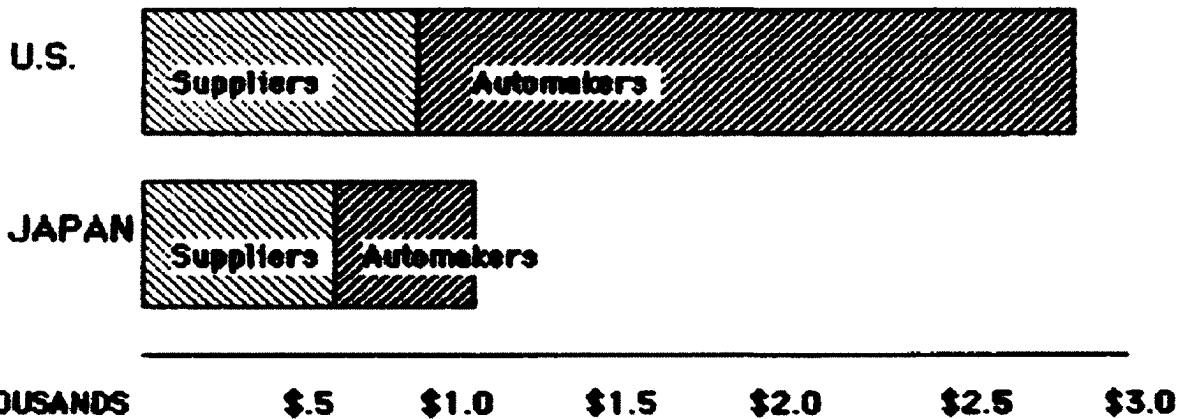
MANUFACTURING COSTS FOR A TYPICAL SUBCOMPACT CAR



LABOR HOURS PER CAR



TOTAL LABOR COSTS PER CAR



Source: Fortune. June 25, 1984. p.23.

APPENDIX E

Days Lost in Labor Disputes (1975-1985)^{a)}
 (1,000 man-days)

	U.S.A.	Italy	U.K.	France	Japan ^{b)}	Germany F.R.
1975	31,237	27,189	6,012	3,869	7,974	69
1976	37,859	25,378	3,284	5,011	3,224	534
1977	21,258	16,566	10,142	3,666	1,498	24
1978	23,774	10,177	9,405	2,200	1,353	4,281
1979	20,409	27,530	29,474	3,172	919	483
1980	20,844	16,457	11,964	1,511	998	128
1981	16,908	10,527	4,266	1,442	543	58
1982	9,061	18,563	5,313	2,257	535	15
1983	17,461	14,003	3,754	1,321	504	41
1984	8,499	8,703	27,135	1,318	354	56
1985	5,917	-	6,363	727	257	-

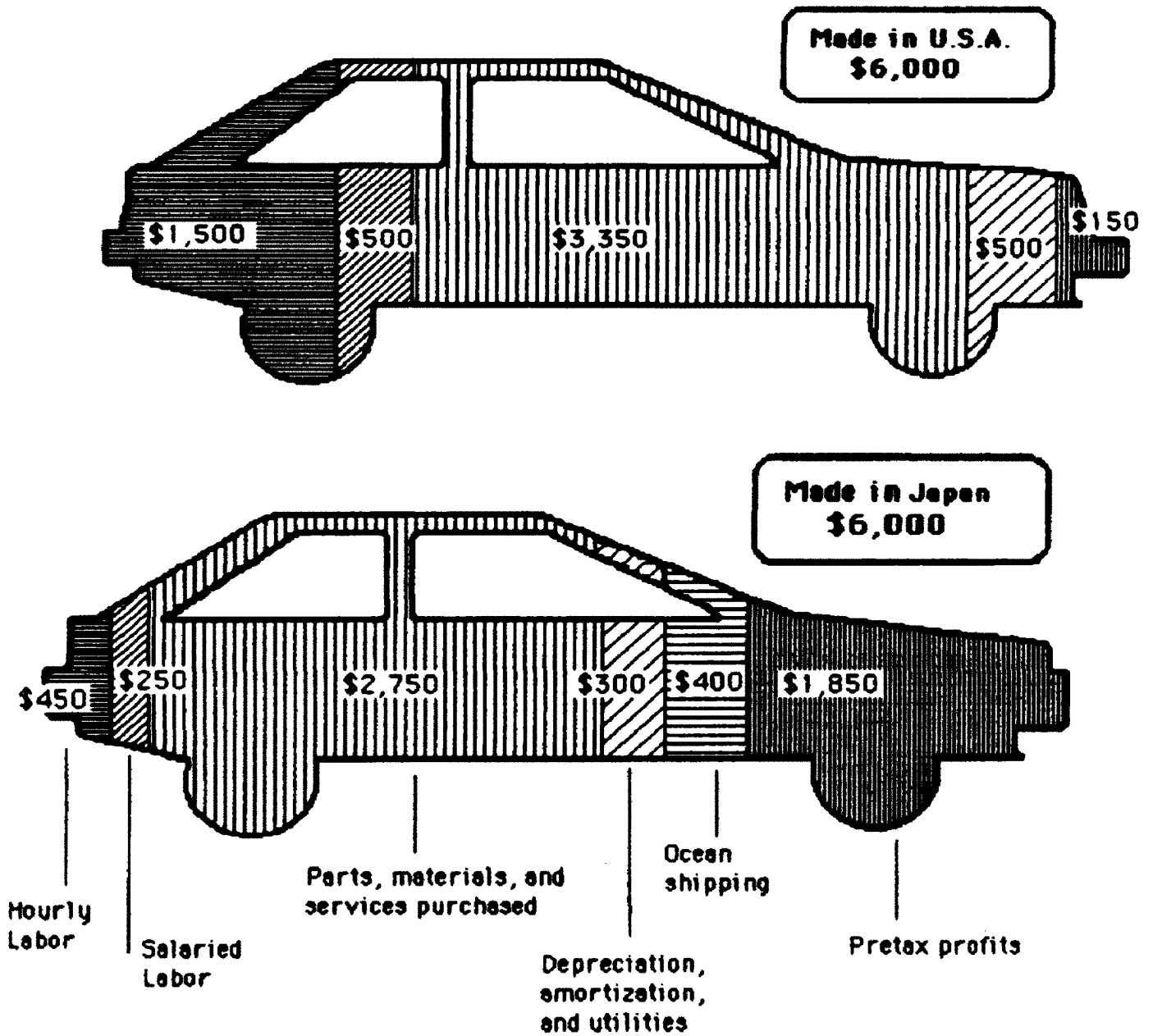
a) Based on data from each country. Labor disputes, as a rule, involve protest action.

b) Japanese figures include days of disputes involving protest action and factory closure.

Source: Abstracted from Keizai Koho Center. Japan 1986.
 from Bank of Japan. Comparative International
 Statistics, 1986.

APPENDIX F

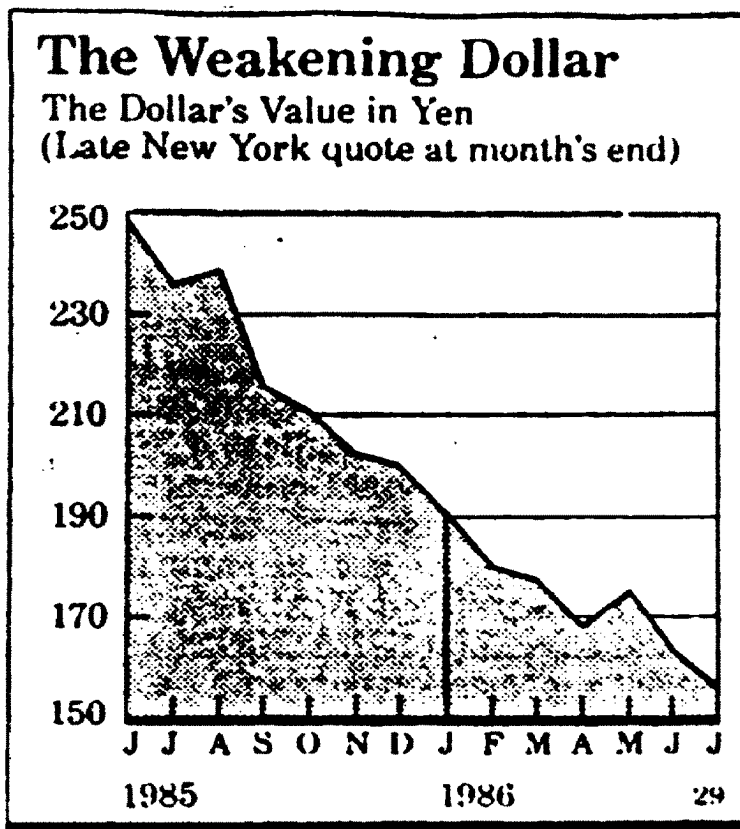
SMALL CAR MANUFACTURING COSTS



Source: Fortune, November 11, 1985. p.36.

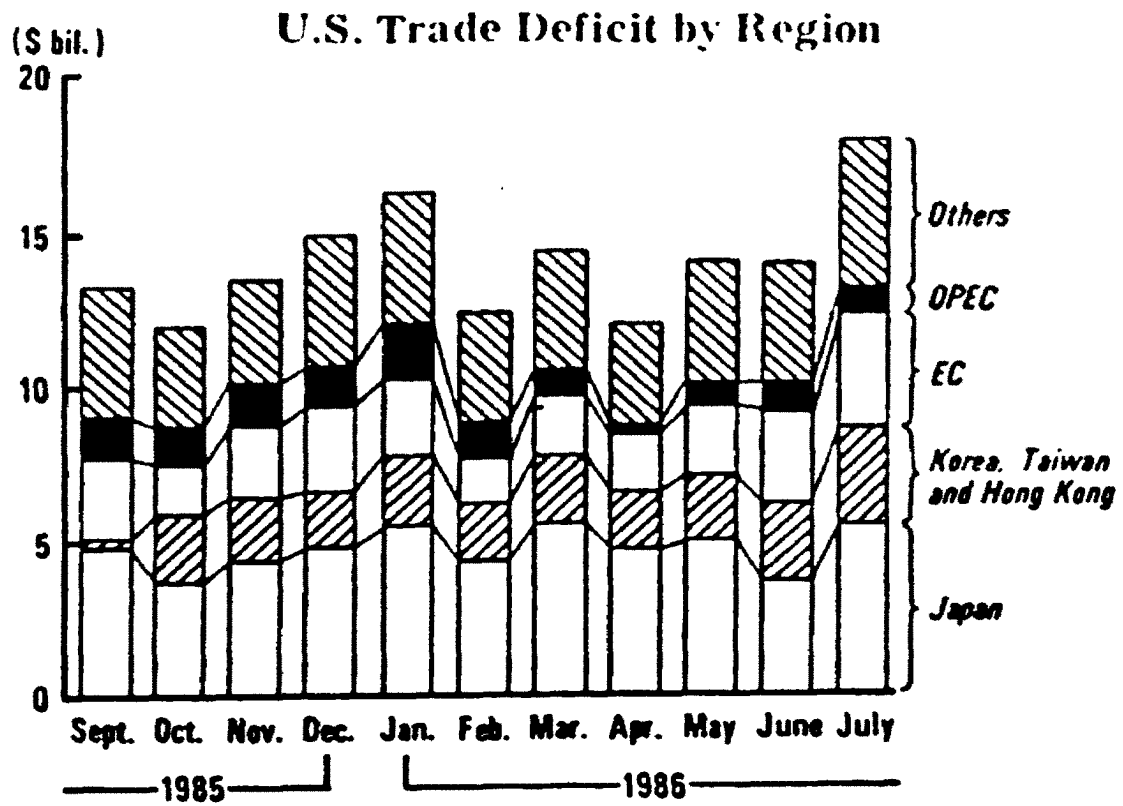
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APPENDIX C



Source: The Wall Street Journal, July 30, 1986, p.21.

APPENDIX H



Source: U.S. Department of Commerce, "Highlights of U.S. Export and Import trade."

(Abstracted from The Japan Economic Journal, October 11, 1986.p5)

APPENDIX I

Japanese Companies' Major Acquisitions of Foreign Companies

(Acquisition value in ¥ billion in parentheses)

Jan. '85	Sanwa Bank (12.75) *Morgan Stanley and others Continental Illinois Leasing (U.S.)	"	O and K Co. (0.95) Wiresales Co. (U.S.)
"	Nippon Steel Corp. (-) Electro Plasma Inc. (U.S.)	Jan. '86	Konishiroku Photo Industry Co. (15.00) Royal Business Machines Inc. (U.S.)
"	Sumitomo Rubber Industries Ltd. (27.00, two firms' total) Dunlop Ltd.'s tire plants (UK) Dunlop AG's tire plants (W. Germany)	"	Fujikura Ltd. (3.50) PEP Industries Inc. (U.S.)
"	Clarion Co. (1.70) National Subscription Television's sales rights (U.S.)	"	Nakano Vinegar Co. (0.40) Lyndonville Vinegar Inc. (U.S.)
Feb. '85	Aderans (0.25) *Bank of Tokyo Charles Alfieri Inc. (U.S.)	Feb. '86	Takara Shuzo Co. (0.50) Tomatin Distillery Co. (UK)
"	Hosokawa Micron Corp. (6.50) U.S. Filter Systems Inc. (U.S.)	"	Shiseido Co. (0.90) *Lazard Freres & Co. Carita SA (France)
"	Marubeni Corp. (0.65) Bleim Steel Co. (U.S.)	"	Rohm Co. (1.00) Exel Microelectronics Inc. (U.S.)
"	Digital Computer Ltd. (0.5) Forward Technology Inc. (U.S.)	"	Nippon Sanso K.K. (-) Isotrich Inc. (U.S.)
Mar. '85	Komatsu Ltd. (0.88) Some plants of Koehring Co. (U.S.)	"	Fuji Vending Ltd. (0.54) CSI Systems Inc. (U.S.)
"	Minebea Co. (25.82) New Hampshire Ball Bearings Inc. (U.S.)	Mar. '86	Sanyo Electric Co. (2.00) Design & Mfg. Corp. (U.S.)
Apr. '85	Nissho Iwai Corp. (1.25) Berwick Steel Co. (U.S.)	"	Nippon Seiko K.K. (0.54) Motornetics Corp. (U.S.)
May '85	Koike Sanso Kogyo Co. } (-) Nippon Sanso K.K. } (-) BOC Inc.'s cutting machine and positioner business (U.S.)	Apr. '86	Takara Shuzo Co. (0.45) Honolulu Sake Brewery Co. (U.S.)
"	Nisshin Steel Co. (5.05) Thinsheet Metals Co. (U.S.)	"	Fujitsu Ltd. (3.35) One division of Burroughs Corp. (U.S.)
"	Toray Industries Inc. (2.00) Trea Industry Inc. (U.S.)	"	Toyo Soda Mfg. Co. (0.25) Eurogenetics NV (Belgium)
July '85	Minebea Co. (3.00) Miami Lakes Operation (U.S.)	"	Computer Software Organization (-) Foothill Research Inc. (U.S.)
"	Kawasaki Steel Corp. (1.40) General Electric Co.'s Tacoma plant (U.S.)	"	Setsu Paperboard Mfg. Co. (2.52) *Sumitomo Bank Medasonics (U.S.)
Aug. '85	Alps Electric Co. (2.35) Some plants of Apple Computer Inc. (U.S.)	May '86	Minolta Camera Co. (-) Develop Dr. Eisbein GmbH & Co. (W. Germany)
Oct. '85	Kawasho Corp. (1.82) Alerco & Hayward Steel Inc. (U.S.)	July '86	Industrial Bank of Japan (-) *Morgan Stanley and others
"	Suntory Ltd. (10.00) *Lehman Brothers and others	Payment	Daikyo Kanko Co. (6.00) Sheraton Hotel (Australia)
"	Kyofaru Co. (1.10) Murray Western Foods Inc. (U.S.)	incomp.	Japan Air Lines Co. (2.00) International Airline Pilot Supply Co.'s training facilities (U.S.)
"	Copal Co. (1.00) Poko Corp.'s Minitab operation (U.S.)	"	Sanwa Bank (42.00) Lloyds Bank California (U.S.)
Nov. '85	Mitsubishi Corp. (2.50) Kux Manufacturing Co. (U.S.)	"	Dainippon Ink & Chemicals Inc. (-) 10 companies of Hartman Group (Eight European nations)
Dec. '85	Nippon Kokan K.K. (3.20) General Electric Co.'s silicon products division (U.S.)	"	Mitsui & Co. (-) Standard Thomson Corp. (U.S.)

Notes: * denotes intermediaries.
Some figures are estimates.

Source: The Japan Economic Journal, August 2, 1986, p. 3.

APPENDIX J

**Japan's Direct Overseas Investment
(FY 1951-1985)**

	No. of Cases	Amount ^{a)} (US\$ million)
1951- 1972	6,411	6,773
1973	3,093	3,494
1974	1,912	2,396
1975	1,591	3,280
1976	1,652	3,462
1977	1,761	2,806
1978	2,393	4,598
1979	2,694	4,995
1980	2,442	4,693
1981	2,563	8,932
1982	2,549	7,703
1983	2,754	8,145
1984	2,499	10,155
1985	2,613	12,217
Total	36,927	83,649

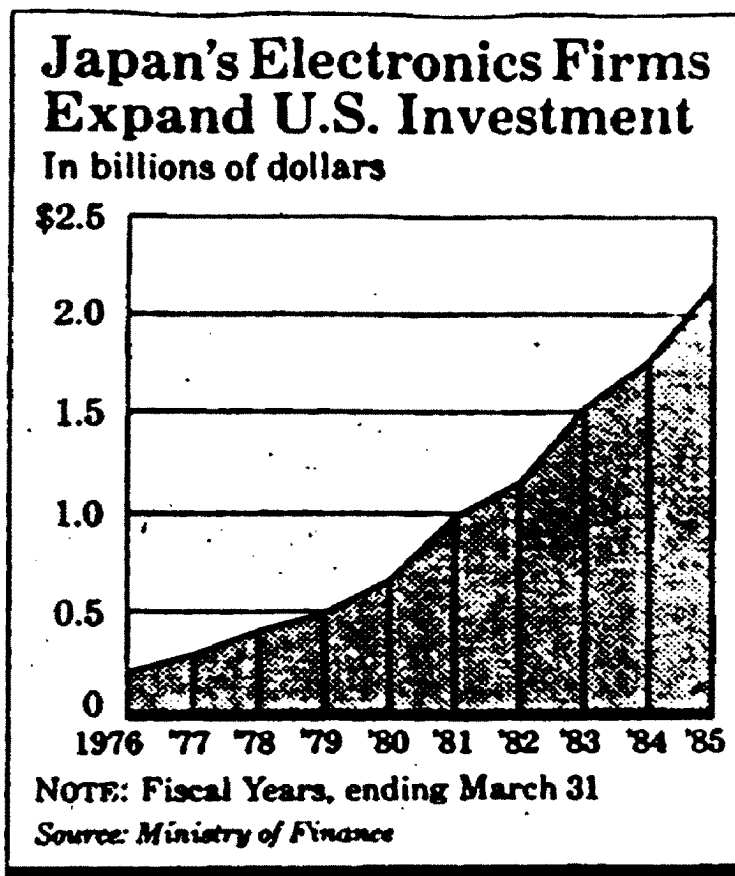
**Japan's Direct Overseas Investment
by Country**

(As of March 31, 1986)	No of Cases	Amount ^{a)} (US\$ million)
U.S.A.	12,525	25,290
Indonesia	1,381	8,423
Penama	2,374	6,440
Brazil	1,296	4,587
Australia	1,209	3,621
Hong Kong	2,405	2,931
U.K.	1,048	3,141
Liberia	637	2,455
Singapore	1,775	2,269
Canada	714	1,675
Korea, Rep. of	1,282	1,683
Saudi Arabia/Kuwait	4	1,268
Mexico	238	1,330
Netherlands	294	1,687
Total	36,927	83,649

a) Figures are the accumulated value of approvals and notification.

Source: Abstracted from Keizai Koho Center. Japan 1986.
from Ministry of Finance, Japan.

APPENDIX K

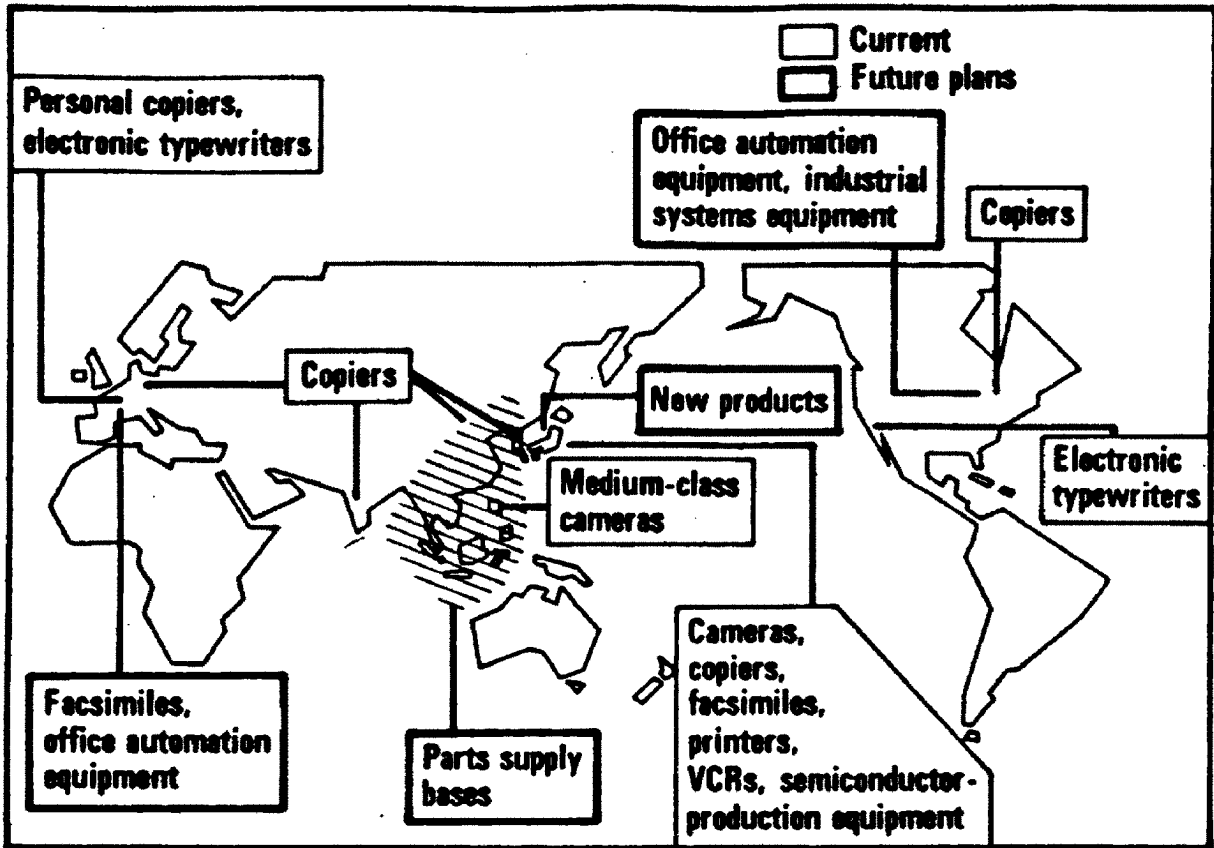


Source: Abstracted from The Wall Street Journal,
September 16, 1986. p.19.

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APPENDIX L

Canon's Network of Overseas Production Bases



Source: The Japan Economic Journal. May 31, 1986. p.10

APPENDIX M

Total Population of Robots by Application in Selected Countries (End of 1983)

	Total	Welding (Spot and Arc)	Assembly	Loading/ Unloading, Material Handling ^{a)}
Japan	67300^{b)}	11842	10737	14946
U.S.A.	14500 ^{b)}	3271	1525	3249
Germany, F.R.	6600 ^{b)}	2416	248	646
France	2750 ^{b)}	811	140	694

U.K.	2623 ^{b)}	583	103	629
Italy	2585 ^{b)}	700	200	900
Sweden	2400 ^{b)}	-	-	-
Czechoslovakia	1845	47	38	1283

Canada	1753	392	20	145
Belgium	859 ^{b)}	285	4	75
Australia	528	175	-	287 ^{c)}

a) Includes casting application. b) 1984. c) Includes finishing, loading and unloading, and casting applications.

Source: Abstracted from Keizai Koho Center. Japan 1986.
from Robot Institute of America; Japan Industrial
Robot Association.

APPENDIX N

U.S. Response: Individual Firm Level

1. Identify and Assess the Competitive Advantage: Since the Japanese have altered the structure and competitive dynamics of almost all industries they have entered, it is critical that U.S. firms continually monitor and analyze such changes. U.S. firms should determine the extent of their competitive advantage and develop methods they can use to overcome the disadvantages they currently face. By using the Advantage-Time plane, a forecast can be made to analyze current and future advantages of the product in question. (See Figure 1.0)

2. Know All the Factors Affecting the Slope of the Firm's Advantage Line:

By using the Advantage-Time Plane, it is essential to understand both the internal variables (eg., the company's strategic response) and the external variables.

For Japanese firms, the external variables may include:

- National portfolio management and targeting
- Industry characteristics
- Industrial groups

For U.S. firms, the external variables may include:

- Government policies
- The behavior of competitors
- The behavior of other industries

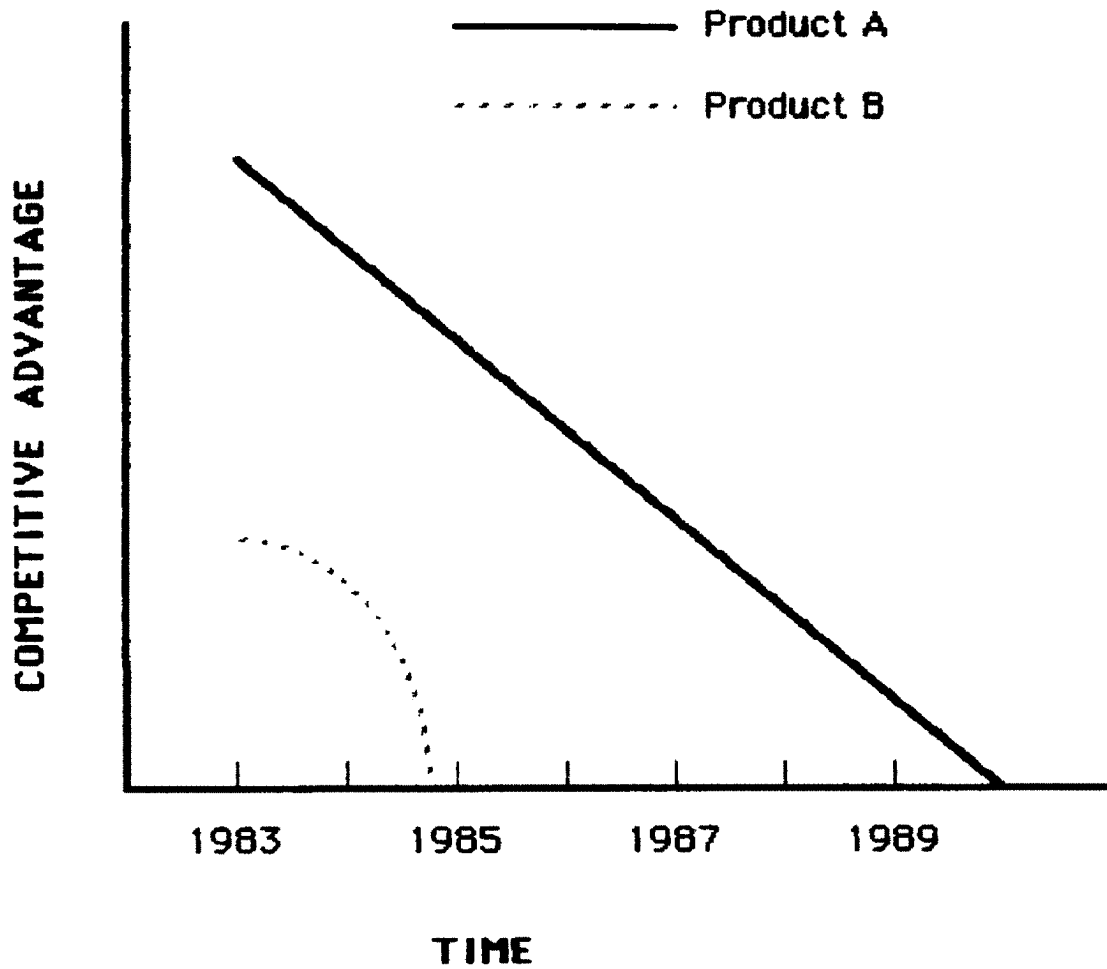
By targeting "other industries," Japan's national portfolio management ensures that mature industries will assist targeted industries to grow rapidly. These mature industries generate cash for investments and maintain high employment so that high-technology firms can automate their facilities. The high-technology firms contribute to mature industries in areas of process technology where robotics and office automation, for example, help the mature industries reduce operating costs.

3. Understand Japanese Success Strategies

It is important that the U.S. firms understand how Japanese success came about. U.S. firms must also realize that Japanese success depended on a combination of the various factors related to socioeconomic environment, government/business environment, competitive environment, and organizational environment. Here, U.S. management must analyze and define Japanese competitive capabilities and weaknesses.

Figure 1.0

THE ADVANTAGE -TIME PLANE



Source: Kotler, Farney, Jatusripitak
The New Competition.

4. Realize the breadth of Options Available to U.S. Firms

Response to Japanese competition can be classified along two dimensions. The first dimension determines if the public or private sectors are undertaking the response. The second dimension determines if their response is *competitive* or *cooperative* in nature. By crossing these dimensions, the four broad responses make up the Strategic Response Matrix (SRM). SRM can be used to identify opportunities existing in each cell. (See Figure 1.1) U.S. managers must also investigate ways of operating in different combinations of cells and moving through the cells overtime.

However, U.S. firms can also try to influence Japan's choice of target industries by using market signaling to indicate their intention to maintain leadership in certain industries. By raising entry barriers through heavy R&D, U.S. firms may force Japanese competition to reconsider their choice of that target industry.

5. Engage in Longer-Run Planning

The responsibility of satisfying stockholders' short-term needs has acted as a major constraint on the competitive capability of many U.S. firms. Three factors that could enhance the ability of U.S. firms to accept more risk and compete better are:

Stockholders could change performance measures from Earnings per Share (EPS), Return on Investment (ROI), accrual-based net income, or stock prices to other more appropriate indicators.

Lengthen the time horizon for evaluating management's performance.

Be willing to accept lower short run profits in hope of gaining higher profits in the long run.

6. Planning and Executing Competitive Strategies

U.S. industrial management has long been regarded as a standard of excellence but the new competition poses new challenges which may require that past practices be reexamined. The following discussion will separate out the strategic options available to smaller versus larger firms.

Strategic Options for Small and Medium-Sized Firms

Flank-Position Defense: The objective here is to create a strong marketing mix that can withstand any possible assault by the Japanese.

Figure 1.1

A Classification of Potential Strategic Response to the Japanese Challenge

	Public	Private
Competitive	<p>1</p> <ul style="list-style-type: none">. Providing direct financial aid to industry. Enforcing antitrust laws. Imposing higher tariffs, quotas, bans	<p>4</p> <ul style="list-style-type: none">. Improving quality and service. Lowering costs. Increasing aggressive stance
Cooperative	<p>2</p> <ul style="list-style-type: none">. Reducing mutual trade barriers. Arranging joint foreign aid to developing countries	<p>3</p> <ul style="list-style-type: none">. Licensing companies in other countries. Entering joint ventures with other companies. Using other nations' trading companies and banks. Pursuing mergers and acquisitions

Source: Kotler, Fahey, Jatusripitak. The New Competition

Flanking Attack: Identify competitor's weaknesses in product markets. Avoid direct challenges to their strengths. Improve more on product features, quality, services, and distribution than on initiating price cuts. Seek market segments. Segments must be:

- of sufficient size with potential growth.
- of negligible interest to stronger competitors.
- where the firm must have adequate skill and resources to compete in the segment.
- where the firm is able to defend itself against future challenges.

Guerrilla Strategy: Launch intermittent, short-burst, surprise assaults on markets where the Japanese challenge is strong.

Strategic Options for Large Firms

Bypass Strategy: Diversify into unrelated areas and/or new geographical markets; domestic and international. Pursue global competitive strategies -- shift production to NICs to reduce production costs.

Innovation: Seek to establish product leadership with aggressive product innovation efforts.

Buying Market Share: This is similar to the Japanese strategy of absorbing losses through low price, high quality products. It must also be accompanied by strong R&D to reduce production costs.

Head-on Counterattack: This is accomplished through competing price for price, product for product and so forth. Here strong financial resources and heavy investments in R&D will be necessary.

Conduct joint ventures with other U.S. firms or with NICs, or the Japanese themselves.