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# BIG IN JAPAN

Finding a niche for market entry and expansion

JETRO

Invest Japan Business Support Center

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## Market entry and expansion: which regions and sectors need you and how to get expert help

By Julian Ryall

An entire wall of the lobby at the IBSC JETRO Invest Japan Business Support Center is taken up by colourful pamphlets declaring “Fascinating Kanagawa: Best place for your business”, and “Saitama City: Business hub in the new era”, plus the more prosaic “Industry of Ehime”. Clearly, Japanese prefectures want foreign business.

“We’re seeing the start of a new trend since the Japanese government announced a new policy in June to develop the domestic economy by doubling the amount of inward investment and the flow of people into the country”, said Tadayuki Nagashima, director general of the Invest Japan Department at the Japan External Trade Organization (JETRO).

“We need this new flow of human resources, merchandise and investment because Japan is part of the globalised society and we cannot manage our domestic industry alone”.

As one of the world’s largest economies and populated by consumers with impressive

purchasing power, Japan is focusing its investment efforts on the areas of information communication technology, the environment, healthcare, tourism and the auto industry, he said.

But the market here does have some hurdles that need to be overcome for a firm to be successful. A JETRO study suggests that costs are the major impediment, followed by high demands on quality, problems finding suitable staff, regulations, and a conservative market.

These factors can be overcome, however, by differentiating a product, making a clear commitment to the market, hiring appropriately experienced local staff, as well as building up trust and understanding with Japanese partners, according to Nagashima.

Britain ranked sixth in terms of FDI in Japan at the end of 2009, with firms such as Bodycote Heat Treatments Ltd, Genetix Group plc and Horizon International Cargo Ltd. taking advantage of JETRO’s help to set up offices here.

A number of areas stand out for their efforts to attract foreign firms—both the city of Yokohama and Kanagawa Prefecture have excellent track records in helping firms set up, as do the city of Kobe and Hyogo Prefecture in the Kansai region—although Japan’s second city, Osaka, also has a well-oiled machine to bring in new business.

“Osaka has many positive points that we would like to emphasise, such as a huge market, excellent access, reasonable business costs and a concentration of manufacturing firms, to name but a few”, said Masahiro Arita, of the International Business Promotion Center’s (IBPC’s) Osaka Investment Promotion Center.

Through its Osaka Investment Support programme, the city helps firms draw up plans to start a business. The assistance includes rent-free temporary offices during the initial stages and a wide range of financial incentives ranging from help with rent costs, assistance in buying city-owned

land and funds for establishing manufacturing facilities.

Osaka is actively courting technology firms and has become recognised as a centre for the new energy business, producing items such as lithium ion batteries and solar panels.

To keep up with demand for space, the city is reclaiming part of Osaka Bay, while Yumeshima island has been set aside for industrial use.

The year 2007 was a good one for new firms in Osaka, with 46 new arrivals. That number dropped to 22 in 2009, but officials hope that, now the worst of the global economic downturn seems to be behind us, it will start to rise again.

“Firms can get a lot of information on the investment environment and from market research, so they can set up their operations here smoothly”, said Arita. “We believe that our tailored support provides a sense of relief to firms when they enter the Japanese market for the first time, and that’s the best reason for them to choose Osaka as their destination”.



Naomi Takegoshi



UKTI

Others agree that it is not always as tricky to operate here as one might imagine.

“There is an image outside Japan that it’s very complicated to do business here”, said Andy Mankiewicz, CEO of global investment firm Tozai Group and a former BCCJ president. “I believe that puts off firms, but they need to know that it’s not as hard as it might seem, and there are many experienced entities to help first-comers to the market”.

“It may take time to build a company in Japan, but once it has become stable you can make a healthy profit”, he said. “Costs are another issue and they’re relatively high, but they have also gone down quite a lot in recent years—particularly in terms of labour and property costs—and I would say that now is a very good time for British firms to be looking at Japan. The British Embassy is always a good place to start”.

UK Trade & Investment (UKTI) says Japan is Britain’s largest export market after Europe and the US. Total exports in 2009 stood at £3.68 billion, dominated by healthcare, machinery and transport equipment. UKTI advises: “A long-term commitment and market strategy are required to become established in Japan. It takes time and patience, but as many British firms have found, it repays the effort many times over”.

Naomi Takegoshi, UKTI commercial and inward investment officer at the British Embassy

Tokyo, said both the embassy and the consulate-general in Osaka are ready to help firms wishing to enter the Japanese market. “We can give analysis of the market prospects, suggest contacts and potential business partners, approach the Japanese contacts on behalf of UK



Andy Mankiewicz

## CASE STUDIES

There is no magic formula for bringing a foreign firm to Japan, said Andy Mankiewicz, CEO of Tozai Group. The only guarantees are long hours, hard work, useful contacts, solid partners and good fortune.

“It’s great that so many British firms are looking to get into the Japanese market, because there are some marvelous opportunities here. But they do have to be realistic”, said Mankiewicz, pointing to the brief and ill-fated investments made here by Boots the high street chemist and the sandwich retail chain Pret A Manger.

With local partners and high hopes, both failed because “they hadn’t created a niche for their products and somebody was already here doing what they wanted to do, only cheaper”.

Mankiewicz has been involved in a number of market entries since 1996, with one of the most challenging being the PizzaExpress franchise.

“The cards were stacked against them coming into Japan”, he said. “But I was interested and, although we couldn’t find a local partner, I was convinced it would work—so I went in as an investor and it became a joint venture”.

The PizzaExpress directors came to Japan and chose a prime spot on Omotesando crossing. Unversed in the catering industry, Mankiewicz admits the following months were challenging and the restaurant’s opening was the most exhausting day of his life.

“Anything could have gone wrong and, as this is Japan, it had to be 110% perfect. If it had gone badly wrong, it would have been an utter disaster.

“We had a couple of celebrities making pizzas and they said their favourite topping was spinach so, of course, everyone who came in wanted spinach on their pizzas and we had run out of the stuff in two hours”.

It became the most profitable restaurant in the group, but closed when the 10-year lease on the building expired. Today, it is a successful franchise with one of Mankiewicz’s former employees holding the rights to the firm here and operating at Makuhari Messe.