

How to Segment the Japan Market

by Davis Huang

Situation

The Company, a U.S. semiconductor supplier, was late to enter the large and growing Japan market for FLASH memory. FLASH is non-volatile memory that can be erased and reprogrammed. The Company's FLASH products are used to store program code that provides electronic functionality to a variety of devices and systems. Japan is considered one of the most difficult markets to penetrate. By its nature Japanese culture is consensus-driven, taking the time to consider all opinions in the group. The best business decisions are those that are comfortable, known, and dependable. This culture produces tight long term business relationships between suppliers and their customers, including a range of business models from outright ownership of suppliers by "captive" customers, to webs of close financial and strategic partnerships called "Keiretsu". The overwhelming preference in the Japan market is to buy Japanese.

Keiretsu are large conglomerates interlinked through share purchases to form integrated alliances across many industries. The major Keiretsu are typically centered by on bank providing major financing to the Keiretsu's member companies. There are two types of Keiretsu: vertical and horizontal. Vertical Keiretsu are organized much like a vertically integrated multi-national enterprise. Business entities include component, sub-system, system, and service suppliers across the value chain, for instance, the Keiretsu of Toshiba, NEC or Matsushita. The larger horizontal Keiretsu include relationships between a group of financial entities centered on the bank, such as those of Mitsubishi or Sumitomo group.

Although the divisions between them have blurred in recent years, there are six major postwar Keiretsu:

Name	Bank	Major group companies
Mitsubishi	Mitsubishi Mitsubishi Bank (until 1996) Bank of Tokyo-Mitsubishi (1996 - 2005) Bank of Tokyo-Mitsubishi UFJ (2006 -)	Mitsubishi Corporation, Kirin Brewery, Mitsubishi Electric, Mitsubishi Fuso, Mitsubishi Motors, Nippon Yusen, Nippon Oil, Tokio Marine and Fire Insurance, Nikon
Mitsui	Mitsui Mitsui Bank (until 1990) Sakura Bank (1990 - 2001) Sumitomo Mitsui Bank (2001 -)	Fuji Photo Film, Mitsui Real Estate, Mitsukoshi, Suntory, Toshiba, Toyota
Sumitomo	Sumitomo Sumitomo Bank (until 2001) Sumitomo Mitsui Bank (2001 -)	Asahi Breweries, Hanshin Railway, Keihan Railway, Mazda, Nankai Railway, NEC, Sumitomo Real Estate
Fuyo	Fuyo Fuji Bank (until 2000) Mizuho Bank (2000 -)	Canon, Hitachi, Marubeni, Matsuya, Nissan, Ricoh, Tobu Railway, Yamaha
Dai-Ichi Kangyo	Dai-Ichi Kangyo Dai-Ichi Kangyo Bank (until 2000) Mizuho Bank (2000 -)	Fujitsu, Hitachi, Isuzu, Itochu, Tokyo Electric Power
Sanwa ("Midorikai")	Sanwa ("Midorikai") Sanwa Bank (until 2002) UFJ Bank (2002 - 2006) Bank of Tokyo Mitsubishi UFJ (2006 -)	Hankyu Railway, Keisei Railway, Kobe Steel, Konica Minolta, Kyocera, Orix, Shin-Maywa, Takashimaya, Toho

How Technology Marketing Course Concepts Apply

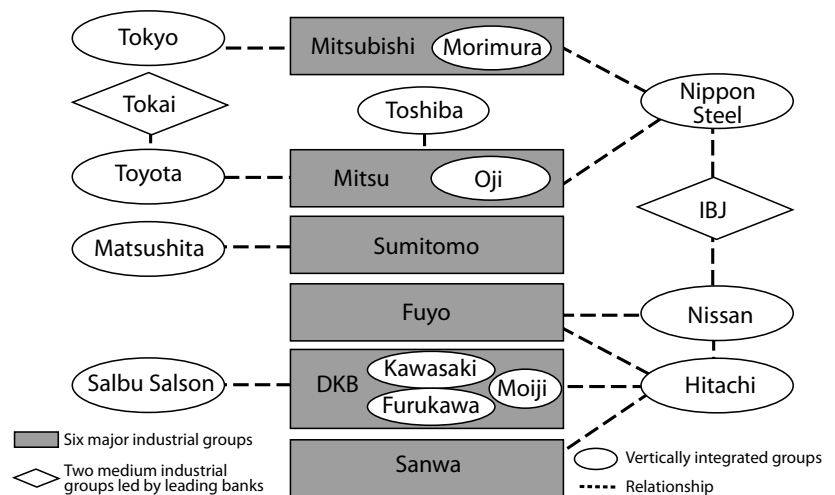
Entering the Japan FLASH market as a late-comer, we faced a number of challenges that strategic marketing concepts helped us address. In the conservative and tightly knit Japanese business culture the first and only basis for even considering a new supplier is Differentiation. The supplier must offer something unavailable from the incumbent, typically a component supplier owned by the Keiretsu.

Once unique value is demonstrated the supplier then begins a multi-year sales effort to build the required relationship and establish trust. Segmentation principles of divide and conquer are critical when market entry will be based on personal relationship with competing Keiretsu. The business culture forces selection of a primary focus for market penetration – one Keiretsu or Community. Also, a critical element of success in Keiretsu relationship building is to bond with and secure the cooperation of the community's Opinion Leader, in our case, the very incumbent semiconductor supplier that we were trying to displace.

Strategy

Our Company was determined to participate in the Japan market, but now realized that our revenue opportunity would depend initially on our success in serving a single segment of Keiretsu, and that the of penetrating that single community would potentially require sales and support investment without return for a few years. We felt we could not turn away from the market, but we had to find a way to profitably accomplish our objectives. Our first challenge was to select a primary target Keiretsu. We focused on Vertical Keiretsu, narrowed the list by surveying our current relationships in Japan, and looked at the total market potentially available within the boundaries of each Keiretsu community.

Example of a Typical Keiretsu Organization



We selected our target Keiretsu segment, and began discussions with the opinion leading business within the Keiretsu – our competitor, the incumbent semiconductor company.

Tactics

The semiconductor supplier within the target Keiretsu agreed that our FLASH product was unique. As we continued discussions, and began to establishing trust within the semiconductor group, the Japanese executives helped us identify promising applications among the Keiretsu system makers, but we understood the long process ahead of us to build relationships within the Keiretsu.

We considered our options and the sales development investment implications. We decided to offer the Keiretsu semiconductor a different business model, a true partnership, one that was new to us but that might solve our short term sales problem while building long term trust. We proposed to license our FLASH technology and embed our memory on custom system chips that the Keiretsu semiconductor company would design. Our Company's ultimate goal in entering the Japan memory market was to realize significant growth in standard product volume, but our proposal to license our technology had several advantages.

First and foremost, the licensing deal would establish a business relationship between our Company and the Keiretsu, and would result in upfront licensing revenues to help offset ongoing sales development investments. Also, the Keiretsu semiconductor business was willing to expose our Company's technical team to the system businesses within the Keiretsu, setting the stage for direct sales of standard memory products down the road. But perhaps the biggest benefit to this licensing arrangement was that in the cooperating on embedded memory designs our Company gained invaluable systems knowledge, knowledge about the opportunity for FLASH memory technology to add significant value to system functionality.

Results

Following successful completion of the technology evaluation, the Keiretsu semiconductor group licensed our memory technology for several million dollars. This opinion leading semiconductor partner within the Keiretsu was then willing to provide positive reference in the community, which helped our Company establish market share within the Keiretsu for the next 2 to 3 years.

Successful adoption of the technology by the opinion leader eventually became a differentiating element in the Company's standard product offering, and was the foundation for later taking share in the competitive mature market for volume FLASH memory products throughout the Keiretsu companies. Ultimately our Company was able to leverage our track record in our target Keiretsu, through intertwined business partnerships, to customers in the other Keiretsu across Japan.

Lessons Learned

An unexpected benefit of the licensing relationship with the Keiretsu semiconductor group was the experience gained by the cross-functional team our Company assembled to co-design with our Japanese partner. Unlike the case with standard memory products, it was valuable to our Company for our engineering group to participate with our sales team, and interact directly with customers as part of our initiative to win the battle in Japan. This success helped establish engineering commitment buy-in into the process of gaining customer point-of-view as part of envisioning a technical solution. Finally, the goal of meeting the business expectations of a critically important first customer kept everyone focused on execution to schedule.