

JETRO Chicago Midwest NEWSLETTER

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Progress in 2004 and a look ahead to 2005 indicate "A Return to Normalcy" for Japan and U.S.



From the Chief Executive Director

*Tomoharu Washio,
Chief Executive Director,
JETRO Chicago*

Tomoharu Washio is finishing his assignment as Chief Executive Director of JETRO Chicago at the end of March. The following are his comments on the state of U.S. and Japan trade.

As I think back on the year that was 2004 and try to put a name to the zeitgeist I encounter as we enter the New Year, I feel this chapter in the history books will one day be called "A Return to Normalcy." In the economic

arena, the irrational exuberance of times past has long since subsided and cautious eyes are overseeing a slow return to prosperity on both sides of the Pacific. In Iraq, we have seen the first free election in decades and the promise of a return to peace for a war-torn land. And in the vast swath of Asia and Africa that was devastated by the recent tsunami, the world united in an unprecedented relief effort to help victims get back on their feet.

As the world returns to normalcy in these many ways, mutual dependence between nations becomes more and more important. I believe it is critical now that we find ways to enhance relations, especially between the US and Japan, to maximize mutual benefit. Japan is increasing its trade ties in North America, as evidenced by recent agreements

with Mexico and Canada. The US currently has 12 bilateral trade agreements around the world. These are clear indications that both the US and Japan are eager to extend and formalize their trade relations around the globe. Given this eagerness, it seems that the time may be ripe for the US and Japan to start examining the possibility of an agreement linking the world's two largest economies. This indeed will have to become the target of our efforts in the coming years.

While on one hand we must look toward deepening our existing relationships on a macro level, JETRO Chicago also remains committed to broadening our horizons and creating new relationships close to home.

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New JETRO Chicago Chief Executive Director named

Mr. Takashi Tsuchiya has been appointed the new Chief Executive Director of JETRO Chicago and will arrive on March 30.

Mr. Tsuchiya joined JETRO in 1975. He has held positions at JETRO Osaka, JETRO New York, and JETRO Bangkok. In Tokyo, Mr. Tsuchiya has also held positions in JETRO's International Communications Department and Overseas Research Department where he was most recently the Director of the Research Planning Division. Watch for more information in the next issue of the JETRO Chicago Midwest newsletter.

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Sell in Japan, but not to "The Japanese"



Guest View

*Ken G. Kabira
Senior Vice President
& Chief Marketing
Officer, National-Louis
University*

Ken G Kabira is a marketing executive with extensive experience in both Japan and the U.S. Most recently he was the Chief Marketing Officer for McDonald's Japan. He has also held marketing management roles at the Kellogg Company in both Japan and the US. Born in Japan to a Japanese father and an American mother, he is completely bilingual and bicultural.

No reader of this newsletter needs convincing that Japan is a country which should not be overlooked as a market. Japan is the second largest economy in the world with 127 million people (10th in the world) with a per capita income of \$34,000, which is more than double any other Asian market of consequence. The greater Tokyo area has a GDP that is equivalent to that of China. Japan's business infrastructure is one of the best in the world, and there is virtually no political risk.

Many American companies have successfully penetrated the Japanese market and are generating a significant amount of revenue and profit from the country. Coca-Cola, GE, IBM, Microsoft, McDonald's, and P&G are some of the bigger names. Even smaller American

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For general information, call the number above, or for a specific inquiry, use the form at www.jetro.go.org/contact/inquiry.html

For Invest-in-Japan information contact Bryan Esenberg, Assistant Director, at bryan_esenberg@jetro.go.jp



For KAMBI (biotech) information, contact David Peterson at David_Peterson@jetro.go.jp

"When is the 2005 JETRO Business Japanese Proficiency Test?"

A popular program for many years is JETRO's Business Japanese Proficiency Test.

In this era of globalization, there has been a growing demand among foreigners studying Japanese, as well as Japanese companies, for a practical test of non-native speakers' skills in using the Japanese language for business. In response, JETRO developed the JETRO Business Japanese Proficiency Test, or simply the JETRO Test, which it has offered in Japan and other countries since 1996.

The JETRO Test is supported by Japan's Ministry of Foreign Affairs, Agency for Cultural Affairs, Ministry of Economy, Trade and Industry, and leading business and academic organizations, as well as The Japan Foundation and the Association of International Education, Japan (AIEJ), and The National Language Research Institute.

The test gives priority to measuring and evaluating one's ability to understand and communicate in Japanese encountered



in business situations, rather than simply measuring one's knowledge of vocabulary, grammar and business.

The 2005 JETRO Test will be hosted twice in 2005: June 19 and November 20. However, due to scheduling concerns, JETRO Chicago will offer the test on June 19, 2005 only. The application period will begin February 23, 2005 with the final application deadline on April 5, 2005.

For more information, or to request a brochure, contact Bryan Esenberg at JETRO Chicago, 312-832-6000, or e-mail bryan_esenberg@jetro.go.jp

M&A in Japan provides another route to business development



Director's Dialogue

Joanne Guwra
Investment Advisor
JETRO Chicago

Meeting the challenges of international business expansion is a time-honored concern for all companies, especially in the Japanese market where cultural factors and the structure of business will humble the most savvy American business mind. Yet, foreign

subsidiaries do invest in Japan and quite successfully at that. And now the move to mergers and acquisitions (M&A) of domestic Japanese companies is considered a practical form of business expansion used by foreign companies to obtain market share, access to distribution and human resource talent in Japan -- unthinkable even ten years ago.

M&A now account for almost 80% of all foreign direct investment in Japan. By expanding JETRO's portfolio of business support programs and services, JETRO is responding to and recognizing M&A as a doable strategy for your company's Japan expansion. JETRO, in cooperation with the Development Bank of Japan, Japan's leading financial institutions and cross-border M&A registered advisors, can help you by identifying and introducing promising companies best fit for your interests in a merger or acquisition.

For Midwest companies, large and small alike, Japan holds exemplary promise in undertaking this route when entering the market.

An effective M&A strategy offers unique opportunities to obtain market access in Japan. In most instances, customer recognition, established distribution channels and an infrastructure already exist. These companies always have local, and perhaps national, identity and brand recognition, immediately eliminating the costly marketing resources spent on educating your customers on just who you are. This local and possible national recognition also comes in the form of existing business relationships, be

it suppliers or buyers. And these buyers represent existing sales, instantly confirming an available market share. Deep cultural and business practice understanding is also second nature to local employees, but a difficult and timely undertaking for someone new to Japan. In an M&A strategy, you don't need to wait until you hire your first employees to do business. Remember, the acquisition target is a domestic Japanese business and the M&A process may test the sharpest American business executive, precisely why JETRO will assist you from initial point of inquiry to actual investment.

Japan and the Midwest share many business characteristics, with a large number of companies being small and medium sized family owned manufacturing operations. This is particularly true for casting, die and plastics companies. In addition to manufacturing, other industries looking for M&A partners include hotels, retail establishments and distribution services. Good M&A opportunities do exist outside the major metropolitan areas of Tokyo and Osaka too. You can find population, major industries and other local information on Japan's 47 prefectures and its larger cities at www.jetro.go.jp/en/invest/region.

With JETRO's assistance, you are in great company when merging with or acquiring a Japanese company. JETRO has prepared a 141-page booklet, *M&A Case Studies for "Invest Japan" - Successful Alliances with Japanese Companies*, that is available in PDF form for download (1.4MB). The case studies include large and smaller companies forming relationships with Japanese companies in electronics, auto and auto parts, machinery, retailers and other industries. Visit www.jetro.go.jp/en/invest/investmentservices.

You are always welcome to take advantage of JETRO's support programs and services, such as the highly-regarded Business Support Centers that offer free temporary office space and business consultation in cities across Japan. Explore these and the many other business services JETRO offers at www.investjapan.org.

For more information or to discuss business options, the Chicago office is just a phone call or e-mail away. We look forward to hearing from you!

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JETRO Chicago's calendar spotlights auto parts, robotics, biotech, more

After a very busy 2004, JETRO Chicago's plans for 2005 are taking shape. From major business programs and missions, to seminars at Universities, JETRO will offer Midwest businesses a wide range of opportunities to discover the benefits of doing business in Japan and with Japanese companies. Some of the programs are pretty well set, and others are still in the preliminary stages, but we wanted you to get a look at some of the things that are planned.

Following up on our successful biotech missions to Osaka and Tokyo, a Biosciences Mission to Chiba took place February 20-24.

Also planned is an Auto Parts Mission to Mexico for Japan-affiliated companies in the U.S., as the first free-trade agreement between Japan and Mexico offers new opportunities for business development. This is a fact finding mission to Mexico in late April, organized by the Embassy of Japan in Mexico, JETRO Mexico, and JETRO Chicago on behalf of U.S. subsidiaries of Japanese automotive parts and related automotive companies. The objectives of the mission are to obtain a current and future assessment of the Mexican business environment and investment infrastructure after the Japan - Mexico Free Trade Agreement becomes active on April 1, 2005.

From May 17-20, a major North American Business Mission to Tokyo

(and Nagoya and Chiba), is being organized by JETRO New York. JETRO Chicago will assist Midwest companies in all industries who would like to participate in this effort to bring U.S. and Japanese businesses together.

JETRO Chicago and the City of Osaka Chicago Office will be assembling a program for Advanced Manufacturing Systems in Osaka from July 11-16. North American companies involved in factory automation, robotics and related fields should find this program to be very important.

A second small BioMission to Japan, this time to Yokohama is slotted for September 6 -10.

And on September 14, following the Midwest U.S. Japan Conference in Cincinnati, OH, JETRO Chicago is planning "Japan's High Technology Market Seminar".

JETRO Chicago's Japan Lecture Series will continue with tentative plans for stops throughout the Midwest, including Indiana University, DePaul University, University of Kansas, The University of Nebraska, and a number of other schools.

For information on any of these programs, contact the JETRO Chicago office at 312-832-6000, check the JETRO website at www.jetro.org, and upcoming issues of the JETRO Chicago Midwest Newsletter.

New JETRO Business Advisor begins work with State of Wisconsin



JETRO Chicago welcomes a new Business Advisor for the State of Wisconsin. Takahiro Hagisako will assist companies in developing plans to work with Japanese companies, and to explore opportunities for expansion in Japan.

Hagisako has a BS and MS in Food Science and Technology from Kyushu University, with additional studies at New York University. He has worked for Procter & Gamble Japan as a process engineer and project manager, and most recently as Sales & Marketing Manager for Family Inada Inc.

Hagisako's office will be at the Wisconsin Department of Commerce, 201 W. Washington Avenue, 5th Floor, Madison, WI 53703. He can be reached by phone at 608-266-9487, or by e-mail at THagisako@commerce.state.wi.us.

New JETRO websites in US and Japan ... Tokyo headquarters changes location

JETRO's U.S. offices have consolidated their websites to provide comprehensive information on all events and activities to companies throughout the nation.

The new website is easy to remember: www.jetro.org.

Over the next few months, the new site will be developed to include information on events organized by JETRO Chicago, along with projects developed by the other offices.

JETRO headquarters in Tokyo has also updated the design and organization of their website at www.jetro.go.jp.

Various topics are now easier to find and view, using the menu bar at the top of the pages. All the popular features are still available, including market reports, the J-Messe online trade show database, TPP business matching, Invest-in-Japan cost simulation, and much more.

Also, look for the new JETRO online bookstore, where you can purchase JETRO publications and directories using a credit card.

The JETRO Tokyo headquarters office has



moved to the Ark Mori Building in Tokyo's Akasaka business district. The move allows the headquarters office to bring together under one roof several JETRO-related facilities, including the Tokyo Invest Japan Business Support Center (IBSC), in addition to administrative offices and the JETRO library. The new address is:

Ark Mori Building, 6F
12-32, Akasaka 1-chome
Minato-ku, Tokyo,
107-6006 Japan
Phone: 03-3582-5511 (all phone numbers remain the same).

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From the Chief Executive Director

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We have found one new frontier, in a very literal sense, this year as we welcome the State of Nebraska into our coverage area. We have already developed many strong ties in Nebraska through our biotechnology initiative, and I am sure they will only multiply as we come to recognize all that state has to offer in the many industrial, agricultural and academic fields in which it excels.

Over the past three years, JETRO Chicago has successfully endeavored to be a "bridge to Japan" for the Midwest life science industry, and while we will continue to have a focus there, we are seeking to break new ground in creating connections in another area of industrial strength for both the Midwest and Japan: advanced manufacturing and

robotics. We will support a mission in July that will visit RoboCup 2005 and the World Manufacturing Summit in Osaka, and JETRO Chicago will create business-matching opportunities in this field this September in Cincinnati and Detroit. We are excited about the opportunities for collaboration this sector presents, and we look forward to helping these Midwest technology companies find success in Japan.

We at JETRO Chicago are continually thankful for your attention and support, and we look forward to taking advantage of the "return to normalcy" to create a new age of prosperity for the Midwest and Japan.

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brands, such as Haagen-Dazs and Kellogg's Frosted Flakes, have been extremely successful in the Japanese market and still maintain their category leadership status despite their premium price statuses in that brutally competitive market. Very few American brands have had to lower their prices to sell in Japan; in fact, most likely you can sell at a higher price and margin in Japan.

However, once you decide to sell in Japan, stop thinking about selling to "the Japanese" because there is no such thing as an average or a stereotypical Japanese consumer. Even if you are already selling in Japan, stop thinking about and talking about "the Japanese consumer." Overgeneralization is one of the biggest mistakes US companies make in targeting the Japanese market. Many will tell you that Japan is a small, homogeneous country. It is not. You will find meaningful and compellingly different values and lifestyles among today's Japanese. This cannot be overstated. The Japanese are not homogeneous; we are a very diverse group of people.

A college-educated housewife with no kids living in downtown Tokyo has a very different preference on how she wants to spend her time and money than a working mother with three kids in Aomori. Some households are diehard rice eaters for breakfast, but some families have not seen rice on their breakfast table in a decade.

In penetrating or growing your business in Japan, it is critical that one takes a market segmentation approach that is as disciplined as the approach taken here in the US. There are many market research companies in Japan which can help you with the process.

First, have a crystal clear positioning for your brand, whether it is a product or service. Dimensionalize both the physical and emotional attributes of the brand and strip away everything that is not essential to the positioning. As the French author Antoine de St. Exupery said, perfection is achieved, not when there is nothing left to add, but when there is nothing left to take away.

Second, understand your customer. Segment the Japanese market based on attributes that are relevant to your category and brand positioning. Go beyond demographic characteristics. A market can be segmented by attitude, lifestyle and psychographic characteristics, occasion of use, day part, etc. You can start by using the segmentation criteria used in the US market and see if it can work in Japan. Segmentation approaches developed in the US, such as SRI's VALS methodology have been successfully localized in Japan. This model uses sophisticated data collection and statistical models to segment a market according to values and lifestyle orientation. Not surprisingly, the segments that emerged in Japan were different than the ones found in the US.

Third, determine your target. Figure out which segment or segments can be well served by your brand and also will be attractive from revenue and profit growth standpoints. Sometimes this process can be an iterative one in which you go back to the first step to reexamine your brand's positioning, product and service design, pricing, etc. Certain brand and product attributes may need to be altered due to idiosyncrasies of your target segment in Japan. In this process, never lose sight of the objective to figure out where you want to position your brand in the minds of specific target consumers.

At McDonald's, we found that targeting families by marketing Happy Meals has been enormously relevant in the Japanese market. At the same time we made sure we understood the mother-child dynamics from a Japanese perspective so that we communicated in culturally appropriate ways.

At Kellogg we learned that the global positioning of Frosted Flakes and Tony the Tiger were very relevant to the target segment of children of households with busy mornings, so we only localized executional elements of the brand such as packaging size. On the other hand, in launching All-Bran, we learned that the American target profile of older adults seeking to increase dietary fiber intake was not the growth opportunity in Japan. Instead, we found that women in their 20's were the most lucrative market for us. The top health complaint among these women was constipation, and we were able to credibly position All-Bran as a natural and healthy way to have regularity.

Lastly, it is vital that one does not confuse strategy with tactics. The Japanese operation and the US headquarters should work jointly on strategy. Headquarters should set the strategic corporate objectives and guide the strategic planning process, and the local managers in Japan should be responsible for generating strategic options based on consumer and customer insights generated through the segmentation process in Japan. A vigorous dialogue should be encouraged about which segment within this large and diverse market should be targeted for growth and why. Once the strategic direction is set, tactics and execution should be left to the local management team.
