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Successful Strategies for Small-Sized U.S. Exporters of Consumer Products to Japanese Markets

Nobuaki Namiki

In light of the recent recovery of the Japanese economy and the Japanese government's efforts to reduce or eliminate trade barriers for many manufacturing products, Japanese markets may offer large and potentially profitable opportunities for small-sized U.S. companies. Notwithstanding, many small-sized American firms have not initiated export to Japan or have faced problems in competing in Japanese markets. The reasons for these phenomena are varied. Examples are existence of subtle legal barriers, lack of personnel familiar with Japanese markets, and perceived blockage of those markets (e.g., Enomoto & Chinen, 2001; Czinkota & Kotabe, 2000a).

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One of the major reasons for this inaction, however, is the lack of a clear understanding of how to compete in export markets in general, and Japanese markets in particular, in both academic and business communities. This problem is particularly acute for small-sized exporters. Traditionally, exporting was considered to be conducted mostly by larger-sized firms with considerable resources. Most past studies of exporters focused on finding how larger-sized companies could compete in export markets (e.g., Leonidou, 2004). Although export strategies of small-sized exporters have been found to be distinctly different from those of larger-sized counterparts (e.g., Moen, 1999), recent technological advances in transportation and communications have enabled small-sized firms to expand internationally by exporting (e.g., Rasheed, 2005). Therefore, more studies of small-sized exporters are needed to

understand and capture these exporting opportunities.

For exporting to Japan, several studies have looked into strategies used by U.S. firms to compete in Japanese markets (e.g., Alden, 1987; Lohtia & Subramaniam, 2000; Meyer-Ohle, 2004; Petrisson & Ariga, 1994); however, these studies are typically based upon case studies and anecdotal information, thus, tend to make very general recommendations such as strong commitment to enter Japanese markets, careful studies of market conditions, and high-quality standards for products and services (Czinkota & Kotabe, 2000b). Moreover, these studies usually do not identify which competitive methods are "critical" success factors, nor prescribe which combinations of the competitive methods are "best" for certain types of companies. Unlike larger enterprises with larger resources, small-sized exporters need to effectively allocate resources and

formulate and implement optimal strategies for competition in Japanese markets.

To identify such strategies, a survey of small-sized exporters of consumer products experienced with exporting to Japan was conducted. The findings are presented in this article. The major findings were that basically four types of strategies were employed by small-sized exporters to Japan, and only one of the strategies, innovative differentiation focus, was effective and viable for small-sized exporters.

Strategies to Compete in Japanese Markets

Most observers of Japanese markets suggest that prerequisites to enter and succeed in Japan are strong commitment to enter the markets, careful studies of market conditions before entry, and investment of enough time and money to compete in the markets (e.g., Czinkota & Kotabe, 2000b). As for the strategies to compete in Japan, they tend to stress the importance of every marketing program, e.g., price, product, promotion and distribution channels.

Careful pricing strategies are usually recommended so as not to price products out of the markets. So-called "marginal" pricing, which takes into account direct manufacturing costs, appropriate gross margin plus the

costs of freight and import duties, is suggested as an effective strategy; however, too low prices were not recommended because the Japanese tend to attribute low prices to low product quality. As for products and services, most consultants strongly suggest exportation of high-quality, innovative products, with extensive customer service. They often suggest that a high quality standard is one of the most critical success factors in Japan. In addition to high-quality products, Japanese companies (as well as consumers) are also known for their demands for good service, including catering products to their special needs. Moreover, due to the highly competitive nature of the markets, extensive promotion including advertising and brand identification development is highly recommended to U.S. exporters to Japan (Peterson & Ariga, 1994).

One of the well-known obstacles in entering Japanese markets is the complex distribution system in Japan. Some failures of U.S. companies in Japan have been attributed to inadequate understanding of the distribution system and poor selection of distributors (Meyer-Ohle, 2004; Lohtia & Subramaniam, 2000).

Porter's (1980) framework was applied to identify competitive strategies used by exporters to Japan. One of Porter's strategies, low cost leadership, requires generation

of low cost positions relative to competitors and tends to compete through low prices. A differentiation strategy emphasizes creating something, either products or services, recognized industry-wide as unique. Differentiation can be achieved through many methods, e.g., brand identification development, customer services, innovative products, and dealer network. A focus strategy concentrates on a particular group of customers, geographic markets, or product line segments through either low cost leadership or differentiation.

Extensive review of these past studies led to a selection of thirteen competitive methods to be examined strategies to compete in Japanese markets.

Research Design

Top executives of consumer products manufacturers currently exporting to Japan were asked to rate the importance of each method. Analysis of their responses revealed four types of strategies employed by small-sized exporters to Japanese markets. Characteristics of each strategy, as well as its effectiveness, are described herein.

First, a questionnaire was sent to the top executives of international marketing, exporting, or marketing

departments of 265 small-sized exporters of consumer products to Japan listed in the *Journal of Commerce's* (2005) *Directory of U.S. Exporters*. Sixty-nine useable responses were received (about 26 percent response rate). Of the companies responding, four were larger firms (employed more than 500 employees) and were excluded from this study. The remaining 65 responses were used for analysis.

Export strategy was measured based upon thirteen questions. In order to identify exporters' emphasis on low cost leadership, respondents were asked to rate their degree of emphasis on (1) economies of scale in manufacturing; (2) lower prices relative to competition; and (3) continuing, overriding concern for lowest price/cost per unit. Previous studies (Miller, 1986; White, 1986) found several means to differentiate from competitors, e.g., marketing, innovation, and service. Therefore, respondents were asked to rate their emphasis on (1) marketing, i.e., brand image development, and high level of advertising/promotion; (2) technology/innovation, i.e., new product development, and technologically superior products, (3) service, i.e., quick response to service requests, or after-sale services;

and (4) others, i.e., capability to manufacture speciality products, control over distribution channels, flexibility in manufacturing process, and high quality products. The ratings were based upon a seven-point Likert scale with 1 being no emphasis at all and with 7 being extreme emphasis. To enhance the construct reliability of the measures, most items were taken from previously validated instruments (Cavusgil & Zou, 1994; Cavusgil, Zou, & Naidu, 1993; Dess & Davis, 1984; Kotha & Vadlamani, 1995; Lassar & Kerr, 1996).

Three measures of export performance, i.e., export growth, export profitability, and overall performance, were assessed in this study. Cooper and Kleinschmidt (1985) used export growth as a "dynamic" measure of export performance. Also, export growth measure is similar to that of sales growth, which reflects how well an organization relates to its environment by successfully expanding its "product-market scope."

Export growth, export profitability, and overall performance were measured by a self-report subjective instrument. Each respondent was asked to rate his/her firm's export performance, compared to selling in the U.S., based upon a five-point

scale, with 5 being highest performance and 1 being lowest performance. Usefulness of subjective performance measures has been supported by Dess and Robinson's (1984) study. Also, similar subjective export performance measures have been used in past studies (Shoham, 1998; Zou & Stan, 1998). These tend to confirm that the perceived performance measure is a reasonably accurate yardstick of export profitability. The question-naire was tested prior to mailing to the sample firms.

Using a statistical technique called "cluster analysis," 65 small business exporters to Japan were classified into four distinct groups (see Table 1). Sample firms were switched from one group to another until each group consisted of companies with similar strategy orientation and differed substantially from other groups. Cluster analysis is a common statistical technique used in marketing and strategic management research to analyze interdependent relationships among strategy variables and to identify strategy types. Then, a one way analysis of variance test was used to determine whether the different strategy types were associated with different levels of performance.

Table 1
Cluster Analysis Results

| Questionnaire Items | Cluster 1 (N= 16) | Cluster 2 (N= 15) | Cluster 3 (N= 15) | Cluster4 (N= 19) |
|---|------------------------------|------------------------------|------------------------------|-----------------------------|
| Technologically superior products | M | L | H | H |
| Lower prices relative to competition | H | L | M | L |
| High quality products | M | L | M | H |
| Introduction of new products | M | L | M | H |
| Continuing, overriding concern for lowest price/cost per unit | H | L | M | L |
| Economies of scale in manufacturing | H | L | L | M |
| Flexibility in manufacturing process | H | M | L | H |
| Capability to manufacture speciality products | M | M | L | H |
| Brand image development | M | L | M | M |
| Quick response to service request | M | L | H | H |
| High level of Advertising/Promotion | M | L | M | M |
| After-sale services | M | L | H | M |
| Control over distribution channels | L | L | L | L |

NOTE: H, M, and L signify the degree of importance of each competitive strategy. H = high; M = medium; L = low.

Survey Findings: Strategies for Competition in Japan

Cluster analysis on the sample firms revealed four clusters of companies (see Table 1). The appropriate cluster solution (four clusters) was selected by applying the two criteria, drop in mean squared error, and approximately equivalent cluster size (Schlaifer, 1978). A discriminant analysis of the four clusters using the thirteen strategy variables as independent variables correctly classified more than 94 percent of the observations, suggesting that the clusters formed distinct groups. Characteristics of each cluster are described next.

Cluster 1: Low cost Leadership Strategy

This group of firms (16 companies) emphasized lower product prices and lower production costs relative to competition (see Table 1). These companies de-emphasized new product development and catering products to customer needs. They can, thus, be interpreted to follow a low cost leadership strategy that stresses low prices/costs, to compete in Japanese markets.

Cluster 2: Stuck in the Middle

This group of firms (15 companies) stressed no particular competitive

advantages. They did not consider marketing, customer service, high-quality products, lower pricing, and segmentation focus important. These companies, therefore, could be considered to be a "stuck in the middle," without a clear strategic orientation.

Cluster 3: Superior Technology/Service Gendarme

Companies in this group (15 firms) emphasized only technologically superior products and customer service to sell in Japanese markets. Other competitive methods such as economies of scale in manufacturing and segmentation focus were considered unimportant.

Cluster 4: Innovative Differentiation Focus Strategy

This group of companies (19 firms) attempted to differentiate from competitors by strongly emphasizing customer service and new product development. These firms also focused on serving customers who demand products catered to their special needs. They emphasized, to some extent, high-quality products, while they considered not so important lower prices and lower production costs. Therefore, Cluster 4 companies served customers who were willing to pay high prices for high levels of service, customization of

products to their needs, and new products.

Average small business firms considered exporting to Japan only "somewhat successful." Notice that for all the performance measures, i.e., export growth, export profitability, and overall performance, average executives scored only around 3 (based upon a five-point scale). Of the four groups identified, only one group had above average performance (see Table 2). Companies in Cluster 4 following innovative differentiation focus strategy tended to outperform others, especially those in Cluster 2, in terms of export growth and overall performance.

Implications for Small Business Exporters to Japan

Four distinct types of strategies were identified to be employed by small-sized firms of consumer products for exporting to Japanese markets. Of the four strategy types, only one, innovative differentiation focus, was identified as successful. Therefore, based upon the data, small-sized exporters of consumer products should emphasize high quality products, high levels of customer service, new product development, and catering products to customers' special needs. In other words, small-sized

Table 2
Four Clusters of Exporters and Export Performance

| Cluster | Export Growth | Export Profitability | Overall Performance |
|---------|---------------|----------------------|---------------------|
| 1(N=16) | 2.75 | 3.00 | 3.00 |
| 2(N=15) | 2.20 | 2.93 | 2.20 |
| 3(N=15) | 3.07 | 3.33 | 3.07 |
| 4(N=19) | 3.79 | 3.63 | 3.84 |
| F-Value | 4.34 | .99 | 4.46 |

NOTES: Export growth, export profitability and overall performance were measure by self-report subjective instruments. Each respondent was asked to rate his/her firm's performance in exporting to Japan, compared to similar-sized exporters in the same industry, based upon a five-point scale.

F-Value Level of significance, $p < .01$. A probability of .01 signifies that there is a less than 1 percent chance that there is no difference between the means of the populations being compared.

exporters of consumer products tended to be more successful if they are exporting high priced, high-quality, new products, and serving customers who demand good service and customization of products to their needs. Other strategies, i.e., low cost leadership and technology/service oriented differentiation, tended to be unsuccessful.

It was surprising to find that technology-oriented exporters (Cluster 3) were less successful. Many studies of exporters found that firms with technological advantages had higher export performance (Zou & Stan, 1998). The finding was only partially confirmed by this study of small-sized exporters to Japan. Note that successful exporters (Cluster 4) were somewhat similar to exporters in Cluster 3. Both groups tended to emphasize technological advantages, but they differed in their emphasis on new product introduction and capability to manufacture specialty products. Therefore, this study indicates that, for small-sized companies, holding a technological advantage was not enough to gain a competitive advantage in Japanese markets, and their technological competence needs to be supplemented with such competitive methods as new product introduction and catering to customers needs.

Moreover, this study found that control over

Japanese distribution channels was neither important in competing in Japan nor useful in clustering exporters into distinct groups. Almost all groups of exporters considered it unimportant. Therefore, prior studies' recommendations for strong control over distribution channels might not be so applicable to small-sized exporters of consumer products to Japan. This finding might not be surprising because most small-sized firms could not exert much control over foreign distribution channels, primarily due to firm size.

The Japanese market was found to be a tough one for small-sized companies to enter and succeed in. Only about a third of these exporters were successful. Small-sized companies with product innovation skills, high-quality products, and capabilities to produce specialty products tended to outperform others. In other words, Japan offers opportunities mostly to small-sized companies following a certain strategy—innovative differentiation focus. The results of this research may be helpful for small-sized exporters to create competitive advantage for competition in Japanese markets.

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