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Emerging Market Strategy of Japanese Firms:
Reshaping the Strategies in the Growing Markets

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Emerging Market Strategy of Japanese Firms

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Emerging markets are now growing markets which can become giant markets. However, while Japanese firms are said to have high technology capabilities, there are few cases of their success in these markets. Japanese firms' products are "too high quality", and one cannot say that they always accurately understand the needs of the middle class in local markets. Their business resources are also overly concentrated in Japan, not allocated properly to develop the business in growing markets. This situation is similar to so called "innovator's dilemma". In response to the problem, one must correctly understand the causes of the dilemma, reexamine the basic quality and functions appropriate for emerging markets, and rebuild market strategy based on "reasonable quality". There is also necessity to reorganize their resource allocation and to develop organizational capabilities to penetrate large middle class market. Based on cases and data collected from original field surveys, this paper considers and prospects directions for rebuilding strategies of Japanese firms in emerging markets.

Key words: emerging market, appropriate quality, innovator's dilemma, resource reallocation

1. Issues in Tapping Emerging Markets

(1) Handling the Middle Class in Emerging Markets

Amidst slowdowns in the U.S., Europe and other developed countries since autumn last year, there has been renewed interest in emerging markets in developing countries. Even before the slowdown, the importance of efforts in BRICs and other emerging markets has been stressed. But one might say that the Lehman shock accelerated the shift in focus from developed markets more intensively. In recent literatures, there is also a debate on strategies penetrating the base of pyramid (BOP) in developing countries. For example, based on case studies of 24 European and U.S. firms in BOP markets, London and Hart (2004) point out that it is important to review local partners and develop new relationship with new peripheral partners instead of reusing inherited ones.

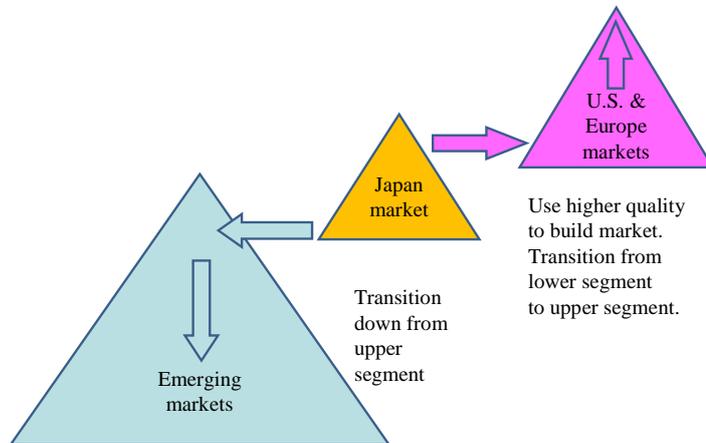
Such research on BOP markets provides interesting ideas and viewpoints to our study (Dawar and Chattopadhyay, 2002; Delios and Henisz, 2000; Hart and Christensen, 2002; Hart and Milstein, 2003; Hokisson et al., 2000; Khanna and Rivkin, 2001). However,

when we consider the main target segments of Japanese firms in developing countries, it is usually one upper class than BOP, which is called as middle of pyramid (MOP) (Amano, 2007; Oki and Shintaku, 2009; Shintaku and Amano, 2009; Shintaku, Amano and Yoshimoto, 2008a; Shintaku, Amano and Yoshimoto, 2008b; Gao et al., 2008; Yokoi, Yoshimoto and Amano, 2008). According to the “2009 Manufacturing White Paper” by Japan’s Ministry of Economy Trade and Industry, middle class markets in BRICs grew from 250 million people in 2002 to 630 million people in 2007 (China 270 million, India 140 million, Russia 100 million, Brazil 120 million). When Japanese firms attempt to enter such rapidly growing middle class markets, what problems are they facing and how are they solving? These are the central issues of this paper.

Figure 1 summarizes the relationship between markets and the development process of Japanese firms. After World War II, Japanese manufacturing industries first grew based on Japan market. Then they began exporting to the U.S. and other developed country markets. At that time, many Japanese firms faced the problems of low quality, which only enabled them to compete at the low end of the markets. For example, Honda was forced to recall the first large motorcycle it sold in the U.S. Auto makers also entered from the low end of the markets such as targeting used car buyers. Photocopiers also first entered with small, slow machines. Thereafter, it is well known that Japanese firms strove to improve their quality in ways that did not raise costs, steadily transitioning their products toward the upper end of developed country markets.

However, in tapping emerging markets, firms now face the issue that they must target a lower end of markets than currently. This is the first time that Japanese firms have been pressured into a full scale strategy targeting the lower end of markets. The following three problems have been frequently mentioned for these markets. First is the excess quality with too high prices. Second, regardless of their product excellence, the product quality is not understood by customers. Third, product specifications do not match local needs. Overcoming these problems are relatively new hurdles to Japanese firms.

Figure 1
Development Process of Japanese Companies



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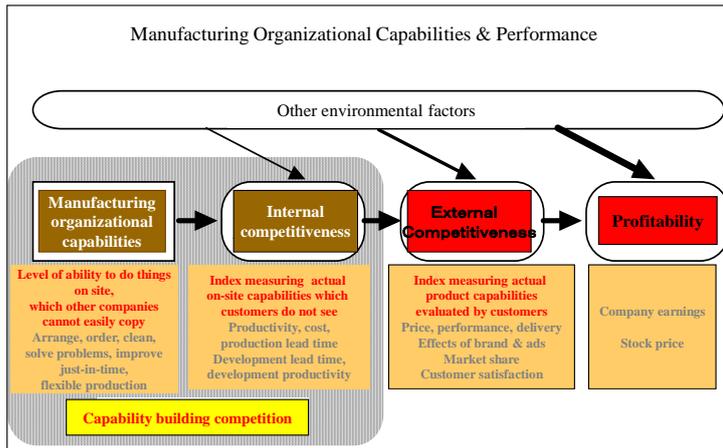
(2) Manufacturing Competitiveness

Looking at Japanese firm products which repeatedly fail in emerging markets, there are many cases where one cannot say that the product itself is bad. Japanese firms still have strong technical and manufacturing competencies. It seems that their poor results lie in the lack of business models which utilize their technical and manufacturing competencies, and their insufficient marketing activities to convert their manufacturing competencies into customer values.

Figure 2 shows a framework which groups into three levels of factors determining the profitability of manufacturing industries: “external competitiveness”, “internal competitiveness” and “manufacturing organizational capabilities” (Fujimoto et al., 2007). High earnings are primarily due to price, performance, brand, etc. which the customer can see. We call these things as sources of “external competitiveness”. However, external competitiveness which customers can see is affected by internal competitiveness in factories or inside the firm, which customers cannot usually see. That is measured by productivity, costs, lead time, etc. When customers evaluate the value of products, measurements of internal competitiveness are not always relevant. However for the firm, internal competitiveness is very essential for boosting its external competitiveness. Low costs enable pricing below competitors, short production lead time results in customer satisfaction, and short development time enables timely delivery of products meeting customer needs. Behind internal competitiveness, there are the sources relating with

“manufacturing organizational capabilities. For example, even in the same industry, why is a specific firm (for example, Toyota) able to maintain higher productivity, reduce more costs, adapt more rapidly to new environments than others? The answer lies in its organizational capabilities.

Fig.2 Understanding Manufacturing Industry Profitability in Levels



Source: Takahiro Fujimoto et al. "Study of Manufacturing Management" Kobunsha Shinsho, Fig. 1-1-2, p.26

In straight way of thinking, strong organizational capabilities create excellent internal competitiveness, which lead to external competitiveness, resulting in the satisfaction of customers and high profitability. Figure 2 shows a path to build and maintain competitiveness in such a way. The auto industry and some other excellent Japanese industries might follow this path.

However, some firms have excellent technical and manufacturing competencies but do not gain their external competitiveness in the market. For them, internal competitiveness is not directly linked to external competitiveness and profitability. Then, it might be better to examine reasons of the mismatch of external and internal competitiveness.

Moreover many Japanese firms making efforts in emerging markets leave most functions of development in Japan. If full action is to be taken for emerging country middle class markets, they might require fundamental restructuring or reallocation of both external and internal competencies in global manufacturing value chains.

(3) Innovator’s Dilemma

One can view the problems faced by Japanese firms in emerging markets currently as similar to “innovator’s dilemma” pointed by Professor C. Christensen. His book strives to answer the questions: Why do excellent leading firms fail in innovation? What are the characteristics of innovation in which leading firms fail? (Christensen, 1997) Previous

innovation research said that technical novelty or difficulty was the cause of leading firm failures. But Christensen explained such failures from a “market” perspective.

His argument is based on the research of the hard disk drive (HDD) industry. Summarizing his conclusion, Christensen asserts that leading firms fail because they efficiently work only to meet the needs of existing large customers, and overlook the emergent needs of new customers. Better adapting to existing customers has been a success factor in the past, but it cannot secure the better adaptability to discontinuous customers in emerging markets.

For example, in the 1970s, HDDs were mainly used in mainframe computers. Mainframe customers wanted HDDs with “large information capacity”, “processing speed” and “reliability”. Thus leading HDD firms vigorously invested in basic technologies, products to increase storage capacity, processing speed and reliability. But then small HDDs appeared with small disk sizes. Small HDDs are firstly introduced in the PC market, which was the low end of the market relative to mainframes. HDD performance demanded by PC manufacturers differed from that for mainframes. Important factors were “small” and “low cost”, and in the case of notebook PCs, “energy efficient”. Small HDD manufacturers which entered the market pushed forward with product development and innovation to satisfy these new demands. But mainframe manufacturers were the main customers of the existing leading firms, which did not allocate resources for those types of innovations. They did not see value in smaller size, nor in reducing price far enough that durability suffered

Issues which Japanese firms face in Asian markets are quite similar to this problem (we will call this “emerging market dilemma”). We hereby introduce the case of a printer firm in Asian markets. In the 1980s, Epson’s printer business in Japan invented excellent technology of dot matrix printers (below, “SIDM printers”: Serial Impact Dot Matrix Printers). However, because of the low speed and the small potentials of color printing, the industry and market slowly moved from SIDMs to inkjet printers in the 1990s and the basic technologies of SIDM printers including head processing technology were transferred to the development of inkjet printers (Fujiwara, 2008). Engineering resource of the firm also shifted from SIDMs to inkjet printers. However in the late 1990s, because the price competition in the inkjet printer market became so severe in oligopolistic competition and product development cycles became so short, it became hard for most of the firms to gain sufficient profit from hardware business. Thus they invented a new business model called “supply business”, which creates profit via supply products like ink cartridges, rather than hardware products.

SIDM printers are the products before the supply business model became popular. Thus the hardware price is relatively high, and their supply products are cheap. After SIDMs had matured in developed countries, replaced by inkjet printers, they have mainly been exported to developing countries like Indonesia and India. In Indonesia the products were sold via sales agents for business use in the country, printing on bankbooks, printing receipts at shop registers, etc. SIDM printers had few head failures, and their ink ribbon prices were cheap, so they became widely popular with heavy business users in the countries like Indonesia, which enabled Epson to expand its brand in these regions. Since business use also required after sales service, Epson levered SIDMs to widen its service network throughout the country. These accumulated sales resources became essential, when Epson brought inkjet printers later.

In 2001, Epson established a sales firm in Indonesia, to introduce inkjet printers in the country, where the first movers like Cannon and HP had already covered this product segment. Since inkjet printers are the ones after the supply business model was introduced, printers themselves were much cheaper than SIDMs. But they had higher priced cartridges, etc. Epson also brought this model to Indonesia in the same way without making any special changes, but higher cartridge price became a bottleneck for business users who care about the running cost of printers. As a result, in Indonesia, many users prefer using Chinese made copy cartridges to using genuine cartridges. Moreover new businesses sprouted anywhere which modify products to enable easy use of such low priced cartridges, which cannot be ignored by printer firms.

Leading firms in developed countries always challenge cutting-edge innovations in order to differentiate themselves from other competitors in their home markets. But these creations do not necessarily match the functions and uses in emerging country markets. In many cases, old products may match well instead. There is sometimes a “twisted structure” between developed markets and lagging ones. But as the lagging market’s size expands, the structure cannot become negligible even by the leading firms.

Japanese firms which have succeeded mainly in developed country markets have built their paths through their competences of technology and innovation. They have built up organizational capabilities and leading business models. As a result, they have succeeded in upgrading their brand values in these markets. These are extremely important assets for them. However in emerging markets, they are under pressure to make a different type of strategic change to conquer the discontinuity of market conditions and customer needs.

2. Analytical Perspectives of Emerging Market Strategy

When developed country firms approach the middle class markets in emerging countries, the more the firms have strengths in technology, the easier they have mismatch with local market conditions. How can this be resolved? Here, we will introduce two analytical perspectives: (1) Analysis of market conditions and reasonable quality, and (2) Reallocation of resources and local capability development.

(1) Analysis of Market Conditions and Reasonable Quality

Products of Chinese firms are low priced but they still have many problems with quality. On the contrary, Japanese products in China market may be high quality but their prices are too high. This is a common problem for Japanese products in emerging markets, with the problem of “excess quality”. Japanese products provide quality too much higher than the level of quality sought in local markets, which causes high prices.

A typical example is the CD-R market for recording optical discs. The CD-R market was created in the early 1990s. Sony advocated this disc standard, and Taiyo Yuden developed the fundamental materials (dye) and established a manufacturing method. Japanese firms held almost a 100% market share when the market was being created, but this was limited to the niche markets such as creating masters for music CDs. That market scale was limited, but they were able to maintain high prices. At that time, Japanese firms alone dominated, with 20 firms having entered the market.

Then in 1997, CD-R drives began to be installed in PCs, and as the market grew, global production volume increased rapidly, and now over 10 billion CD-R discs are made and sold each year. CD-R formed an overwhelmingly large market compared to the old recording media of magnetic tape and floppy discs. However, in that growth period, production by Japanese firms grew very little, with that growth led by Taiwanese firms instead. Production also grew in India, starting in 2001. Looking at price trends, since Taiwanese firms entered the CD-R market in 1997, prices plummeted by 2/3 in one year. With such a drastic price drop, many Japanese firms became unprofitable. Forced to drastically review their operations, many Japanese firms halted production and some Japanese firms with strong brands (TDK, Hitachi Maxell, Mitsubishi Chemical Verbatim) switched from production to OEM purchasing from Taiwan firms.

Taiwanese firms with growing production did not have very strong brands, and many supplied OEM to developing country firms. Taiwanese firms supplied discs as OEM to Japanese firms, but they did not have their own capabilities to develop basic materials for

disc production (dye, polycarbonate, etc.), manufacturing equipment (molding machines, etc.), nor manufacturing recipes. Thus Japanese firms sold dye and recipes to the contracted Taiwanese firms, and supervised production including thorough quality control. Taiwanese firms are making CD-Rs while receiving guidance from Japanese firms.

Those Taiwanese firms supplied CD-Rs to Japanese firms, and also supplied to IMATION and other U.S. and European firms. However, few U.S. and European firms invested in R&D on optical discs, so they did ODM purchasing from Taiwanese firms. In short, instead of specifying materials and recipes like Japanese firms, they only evaluated prototypes proposed by Taiwanese firms, negotiated prices and purchased. Thus there are three business models for Taiwanese firms: supply to Japanese firms based on their strict quality control, produce and sell under their own brand, and ODM supply to U.S. and European firms.

According to an interview survey of engineers at Taiwan's major disc firms, in OEM for Japanese firms, they complied 100% with the materials, recipes and quality control items specified by the Japanese firm, but the level of quality control fell in ODM for U.S. and European firms. It is a rough feeling, but rating quality control items for Japan at 100, the level is about 20 to 30 in their own brands and ODM products for the U.S. and Europe. Specifically, it seems they restrict the volume of dye used, and increase the number of times stampers are used. They thereby reduce prices by sacrificing the level of quality.

According to them, products for Japan are too high quality. Quality and price are generally in an upward sloping relationship, and products for Japan are good quality but also high priced. According to them, the world's customers generally do not seek such high quality, and even if quality is sacrificed a little, they are happy with the lower prices. On the other hand, small and medium Taiwanese firms and Chinese firms lacking technical strength produce inferior products which are too low quality. Japanese products with excess quality and Chinese products with too low quality both can only gain small niche markets, while medium level quality and price products are "reasonable quality" achieving the largest sales. This is the way Taiwanese firms think of quality.

This way of thinking seems a rational view of quality and price. However, there is not only one level of reasonable quality. The level of quality and price supported depends on the market. Even for CD-R, Japanese brand products (so-called excess quality products) are still sold in Japan market. This means that high quality/ high price products are reasonable quality in Japan market. Samsung Electronics boasts a large market share overseas, but one reason that its products are not sold in Japan at all seems to be the effect of this characteristic of Japan market.

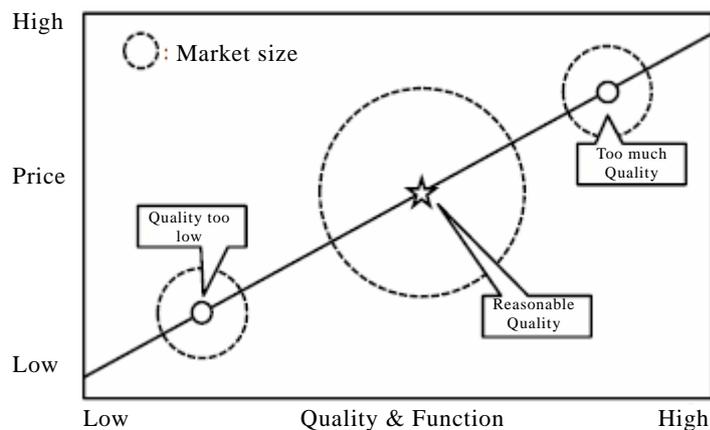


Figure 3 Reasonable quality and Price

Even for the same product, strong sellers differ by market because of different distributions of preferences in each market. Even for the same product, some consumers emphasize price in their preference, and other consumers emphasize quality and function. Consumers who emphasize price focus less on quality and function, so they choose the kinds of products by Taiwanese firms. In contrast, consumers who emphasize quality and function choose products by Japanese firms. The latter comprise a higher percentage of Japan market, so Japanese products sell well. Such consumers comprise a small percent of the China market, so Taiwanese products sell well. In the same way, even for the same LCD panels, Japanese products sell well in the large TV market which emphasizes functions, while Taiwanese products sell well in the PC market which emphasizes price. In this way, even for the same type of product, the way products sell well differs depending on the country and region or market segment. Here, we refer to the quality-price combination of best selling products as “reasonable quality”. Figure 3 shows this way of thinking. Emerging market strategy first requires the perspective of how to choose the combination of quality/function and price appropriate for the market, then adapting product strategy accordingly.

(2) Reallocation of Resources and Local Capability Development

Another viewpoint is that a low market share of Japanese firms in emerging markets is closely related to the distribution of firms’ business resources. Japanese firms tend to create products with excess quality, because the central activities of product planning and development design are overly focused in the home country of Japan. Market unsuitability

comes from the characteristics of resource allocation, so the problem will not be solved unless this is drastically revised.

Let's look at this point in the same HDD industry as Christensen. In this industry, along with growth of small HDDs, U.S. specialized manufacturers which led in that field grew, and manufacturers which developed drives for mainframes etc. declined. In this process, especially with small HDDs used in PCs, the market's base broadened towards the lower and mid-markets, and the HDD market size grew exponentially. As a result, firms in the market were forced to produce huge volumes of drives, and their production rapidly shifted to Asia to handle that mass production.

Mass production in Asia soon became a precondition for the industry's existence. Many firms which could not handle investments for mass production withdrew from the market. Seagate and other U.S. specialized manufacturers reigned at the top of the industry over a long period. These firms established mass production bases in Singapore even in the early 1980s, positioned them as their Asian hubs, and began strengthening them. They cooperated with the local government and universities, working to cultivate engineers, managers and suppliers. They developed the Singapore factories as the centre of process technology development and technology transfer to other Asian countries. They accept the product designs from the U.S.A. and develop the prototyping and the production processes in Singapore. Then they transfer the knowledge and recipes of the production processes from Singapore to the other production sites including Thailand, Malaysia and China.

With these development efforts in Asia, since the year 2000, the U.S., on the other hand, put much effort into basic research, product development, development and manufacturing of core parts, etc. This international division arrangement built their overwhelming competitive dominance in product development performance, manufacturing cost, mass production market share, etc. (McKendrick et al., 2000; Amano, 2005; Shintaku, Amano, Ogawa, Nakagawa, Oki, Fukuzawa, 2007).

On the other hand, Japanese firms are selling disk drives to existing customers in the upper end market of mainframes and the captive market of internal sales. Also, they did not commit to the development of technology capabilities in Asia. Rather, most of their development activities including process development remained in Japan. Their foreign production ratios were still low even in the latter 1990s. Viewed from the perspective of formation of full scale industrial concentration in Asia, with human resource development and formation of development resources and their utilization in production strategy, it seems Japanese firms were behind the U.S. firms, even though Japanese firms had superior technologies including head and media technologies (Amano, 2005; Shintaku, Amano, Ogawa, Nakagawa, Oki, Fukuzawa, 2007).

In “The Innovator’s Dilemma”, Christensen states that when “disruptive technology” exists, the higher its level, the more important it is to form a project team separate from the mainstream in the organization (Christensen, 1997). Also in the “emerging market dilemma”, the greater the gap in market and resource characteristics between existing markets and emerging country and lower end markets, the more necessary it is to have knowledge development sites near local markets and local mass production sites separate from the existing mainstream, do work there to solve problems required for market response and handling mass production, build up knowledge gained with experience, and enhance the technical level of local human resources.

The “emerging market dilemma” arises from the gap between resource allocation which developed country firms had previously adopted, and ideal resource allocation when assuming future growth markets. To overcome this dilemma, firms must review methods of multinational management strategy and organizational structure, working to reallocate business resources towards the frontiers of sales activities in growing emerging markets and production activities in low end and middle markets, to enable easier local organizational learning and buildup of resources.

Also, among emerging markets, there may be regions where it is easy to make progress in such organizational capability building, and other regions where it is not easy. One must ascertain the potential abilities of the region’s human resources, and decide where to invest resources. A firm should have abilities in planning location selection and the method of international division of work between locations in the network, from the perspective of “comparative advantage of organizational capabilities” (Fujimoto, Amano, Shintaku, 2007). This is also suggested by the above example of the HDD industry.

3. Product Strategies with Reasonable Quality

We discussed the two perspectives of emerging market strategy: (1) Analysis of market conditions and reasonable quality, (2) Reallocation of business resources and development of local capabilities. Below, we explain specific points of strategy based on these two perspectives. We first explain the former perspective: How should a firm analyze market conditions and reasonable quality, and take decisions accordingly?

(1) Low Price Products with Reducing Excess Quality

[1] A Top-Down Decision about the Quality – ASEAN Market Strategy of Honda Motorcycles

Let us first look at the example of Vietnam's motorcycle market. In Vietnam, motorcycles have become the popular transport for common people. If one goes to Hanoi or Ho Chi Minh, the roads are full of motorcycles. The market was about 500,000 motorcycles in the late 1990s, but in the year 2000 the market's size leapt to the 2 million level, and in 2003 it fell again to the 1 million level (See Fig. 4). The cause of these market's sudden changes lies in Chinese made motorcycles.

In China's motorcycle market, Chinese firms started from models which were copies of Hondas, then developed to conquer the market, leaving Honda resigned to less than a 5% market share. However, Chinese firms also suffered from domestic price competition, and looked towards the ASEAN market as an exit. The first target of Chinese firms was the Vietnam market. Low price (low quality) Chinese made motorcycles entered Vietnam in the year 2000, with Vietnam made Chinese models also flooding the Vietnam market. For Honda which had lost the vast China market, the entry of Chinese made motorcycles into Vietnam was a huge threat that it may lose even their ASEAN market shares.

Before then, Honda had a dominant position in the ASEAN market, and in the Vietnam market it boasted a 20% to 30% market share. Honda's main product in the ASEAN market was the Super Cub. Soichiro Honda designed it about 50 years ago. This long lived product was priced at about 200,000 yen in Japan, and it was also sold in Vietnam at the high price of about \$2,000. It was a very high priced product for Vietnamese people.

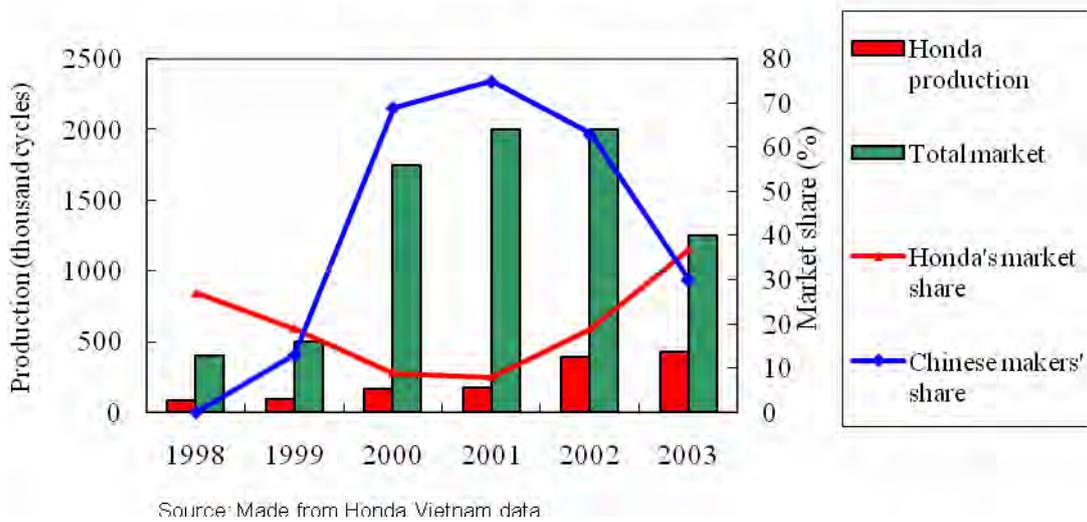
Into this Vietnam market came Chinese motorcycles priced at \$500 to \$700. At 1/3 to 1/4 the price, families which could only buy one motorcycle previously were now able to buy 3 to 4 motorcycles. Even though Vietnamese incomes did not grow so quickly, the market size leapt, by 200% to 300%, to 2 million motorcycles.

In response, Honda made a plan to cut prices in half. To do so, they worked on large cost reductions. It planned a \$1,000 motorcycle. To achieve this, they investigated using low cost parts made in China and ASEAN, and dramatically revised its design. However, there were many troubles in using local parts, and at first there were many parts they could not use. Similar to other manufacturing industries, design-standards are determined by Honda headquarter in Japan, and it cannot use parts which do not meet those standards. They were far from reaching \$1,000 by only using parts which meet Honda standards. It would be good if the quality level of Chinese made parts improved, but they could not be improved easily, and waiting for that would make market entry too late. If so, Chinese products would conquer the market.

Then Honda took an action viewed as taboo, revising its design standards. Even though design standards could usually be raised, they were very rarely lowered. Lower standards reduce safety and durability, with the risk of damaging the firm's brand value. On site

engineers want to design things which are better in some way, and do not usually lower design standards in ways which run a risk of reducing safety or durability. This influences the entire firm's brand value, and such decisions are taken by the headquarter president, not a local subsidiary president. Slowly raising design standards can be achieved in a bottom-up process, by ideas of engineers. However, lowering design standards is a high level business issue, even though it is not so difficult for engineering, which can only be achieved in a top-down process.

Fig. 4 Vietnam Motorcycle Market



Thus in January 2002, Honda started selling its \$1,090 “Wave α ”. Launching this product suddenly shrunk the price gap with Chinese made motorcycles. Also, Chinese made motorcycles which had already flooded the market broke down often, so Vietnam’s consumers also began to worry about their quality. The Vietnam government also began to regulate them. As a result, Wave α was a hit product when it entered the market, and Chinese made motorcycle sales plummeted in 2003.

Figure 5 shows this example in the previous section’s framework. Usually, when Japanese firms cut costs, they reduce costs without reducing quality. However, that alone cannot shrink a huge price difference. In such a situation, they may follow a procedure of “Review design standards → Use low cost parts → Reduce quality with large price cut”. This way makes the large cost reduction possible and makes the products competitive even to Chinese products.

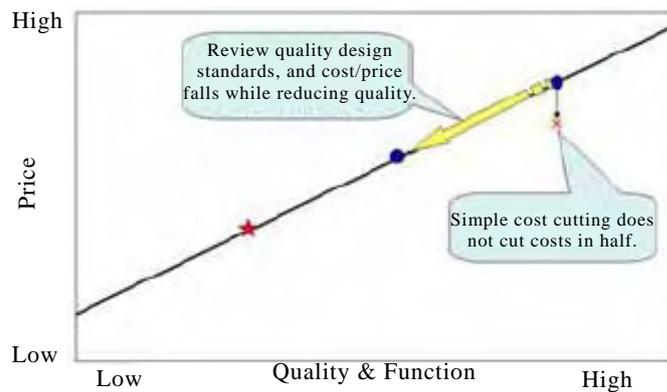


Figure 5 Lower Price Products with Reducing Excess Quality

[2] Customers Determine the Quality – Quality Concept of Samsung Electronics

Samsung Electronics has a perspective on quality which reflects the above discussion. First of all, a basic assumption is their concept “Quality is determined by customers, not determined by the manufacturer alone”. It also understands that even for the same product, customers seek different qualities depending on the purchase price. In short, even for the same product, the level of quality sought depends on the income level. It applies this strategy to countries and regions.

Specifically, even for products with the same basic design, it changes the parts used depending on the market where sold. That is, it ranks parts, using high rank parts for markets accepting high prices, and low rank parts for markets which like low prices, with a different cost structure even for products with the same appearance. Thus in emerging markets like India, this system can launch products which look the same as products for developed countries, but are low cost structure products at low prices.

Samsung Electronics utilizes “Market Failure Rate” as a quality control index. The rate is the number of complaints (not product failures) divided by the total number of units sold. In other words, even if there is a failure, if it does not result in a customer complaint, the market failure rate does not rise. If customers think that “This product is cheap, so nothing can be done about this kind of failure”, then the market failure rate does not rise, judging that this is allowed by the market. In markets which prefer low prices, even if the real product failure rate is 10%, the market failure rate can be 5%. This is to avoid excess quality by looking at the market failure rate. Japanese firms have aimed at zero failures, but this example suggests that they cannot thereby handle quality differences depending on the market.

[3] Developing Low Price Models in China – Nokia’s Conquest in China’s Mobile Phones

Nokia’s success in China’s mobile phone market in recent years is also largely a result of its development and launch of special models which cut quality for emerging markets. In the growth process of China’s mobile phone market, foreign firms like Nokia and Motorola held an overwhelming market share at first. But since around the year 2000, the market shares of Chinese firms grew rapidly, and they achieved over a 50% market share in 2003.

Then instead of shifting to the high priced segment, Nokia took the strategy of thoroughly confronting Chinese firms in the low priced segment. Until then, it was common knowledge that mobile phone handsets were a global product, and products were developed for global markets. Models which were one generation old in developed country markets were often launched in the low priced segment of China and other emerging markets. Nokia turned around this common knowledge, by developing low price models which from the start target China, India and other emerging markets. It developed products economizing both functions and costs, with black & white LCD, no camera, and few frequencies, in candy bar shapes with no independent keyboard.

With these products, Nokia regained market share from Chinese firms, unusual among foreign firms. Looking at Nokia’s share of the China market by price segment, it gained the highest market share (40%) in the low priced segment of up to 1000 yuan. Currently, the Nokia 1200 model is sold as the lowest price model of all products in China’s high volume stores, at 280 yuan in Shanghai in August 2008. This is cheaper than products by China’s large firms. China’s consumers seem to be choosing products with low price along with Nokia’s reliability and brand.

(2) Making Quality Difference Visible – Value-oriented Strategy in Emerging Market Countries

Up to now, we described low price product strategy, but it is also necessary to look at a high quality/high price product strategy. Looking at an example of watches, Japan’s watch manufacturers led the wave shifting to quartz in the 1970s, grabbing the global watch market from Switzerland. Japanese firms also started the business of selling movements, the core watch part, also holding about 70% of the global market in this field. Instead of Intel Inside, they achieved “Japan Inside” for watches.

But looking at Japan’s watch market under their nose, only 46 million Swiss watches sold for 540 billion yen in 2004. This was only 4% on a quantity basis, but reaches 67% on a price basis. Swiss watches have grabbed most of the added value in Japan’s market.

Setting each of their prices to 100 in 1993, Japanese watches only reached 135 in 2004, while Swiss watches reached 316, a clear gap.

The same phenomena are seen in Japan's motorcycle market. Japan's motorcycle industry dominates the world, but in Japan's market for large motorcycles (750cc and up), Harley-Davidson has boasted the top market share since the year 2000. As Japan's motorcycle market peaked in 1982 and has steadily shrunk, Harley-Davidson has steadily grown in revenues and profits since 1985. It has the top market share of 33.2% in 750cc and up (ranked second at 18% in 250cc and up), with its prices double those of Japanese products, at 2 million yen and up. Harley-Davidson Japan has the concept of selling "life time services", instead of just selling motorcycles, planning various events and shows so that customers can enjoy their lives with Harley-Davidson motorcycles.

This does not necessarily show the effectiveness of a dual strategy with high value added strategy in developed countries, and low price strategy in emerging countries. Even in emerging markets, Japanese firms may succeed with a high value added strategy. Regardless of whether it is a developed or emerging market, to adopt and succeed with a high value added strategy, the key is effort to convince customers of the value of products and services provided. Decide which customer class to target, make products and services for them backed by the firm's unique technology and know-how, and advertise their value through marketing activities. That is the basic pattern of differentiation strategy.

The previous section showed that even if the quality of a product is 3 times better, the product cannot be sold if the price is 3 times as high. However, are the phenomena in emerging markets always excess quality? Looking closely, we see it is not actually the case. In many cases, local consumers cannot recognize a "3 times" quality difference. Even if there is an actual 3 times quality difference, sometimes consumers do not think there is such a big difference, but only see the price difference and choose low price products. Only the visible price difference is obvious, and the invisible quality difference ends up downplayed.

Actually, this aspect is also seen in CD-R and DVD-R, which were described in the previous section. If one measures disc durability (disc life: time until the disc becomes unreadable), Japan brand media (including made in Taiwan) has a life of 10 years or more. But overseas brands including Taiwan manufacturers, even though they are advocating reasonable quality, had dramatic errors and it was not possible to measure them. However, many consumers think that CD-R and DVD-R are standardized products, so all of them are basically the same. But they are not the same at all in reality.

However, in a sense, it is natural that consumers think that way. A problem on the side of Japanese firms is that they have not very actively delivered information to consumers

on disc life and other quality indicators. Therefore people in Japanese industry started to act. They formalized the measurement methods to estimate disc life an international standard of ISO (ISO/IEC 10995). Such standardization is an effective means to make visible unseen quality differences.

This is similar in the energy saving technology in electronics products, where it is important to appeal to consumers via international standards and home electronics standards. In China, these types of standards have been established recently (1 to 5 stars), and electronics firms became required to display the energy saving level of each product in shops. There are also subsidies accordingly. As a result, the market share of foreign products has grown since around 2008. In air conditioners, Japanese products use inverter technology, and tried to appeal with their energy conservation, but had been losing their shares against low price non-inverter Chinese products in past. But after the energy saving display policies, this situation is slowly changing. For example, Daikin, which has built a large market share in the commercial air conditioner market, are also building their competitive market position in home-use inverter air conditioners in China market.

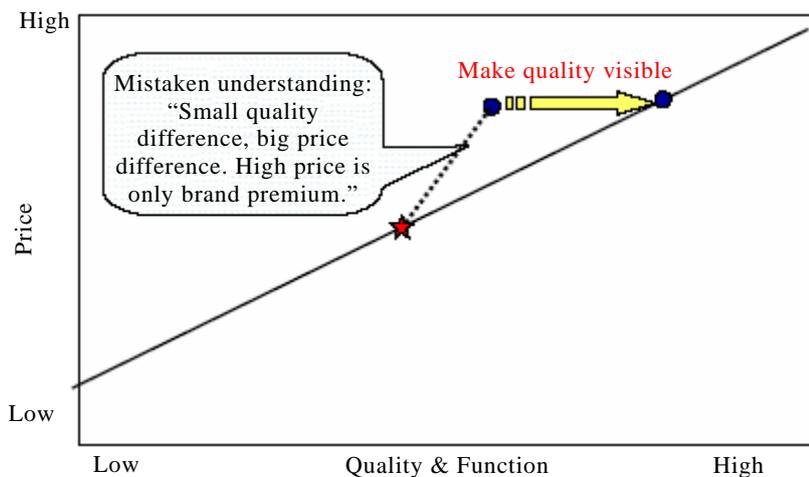


Figure 6 Make Quality Differences Visible

The case of LCD TVs in China also fits the case. When thin screen TVs first became common in 2005, Chinese firms immediately conquered the market, but since around 2007, Japanese and Korean made TVs started a comeback. One cause was the larger screen sizes. With larger screen size, one notices quality differences which are not noticeable in relatively small screens. The move to larger screens is an example of quality differences becoming visible.

(3) Priority-driven Localized Products – Shift in Differentiation Axis

The third strategy is development of so-called localized products. One can also call this a shift in the differentiation axis. Japan, China, and India each emphasize quality and function differently. Improve the quality/function axis emphasized in the local market, and relax the quality/function axis which is not so important to it. Just because it is an emerging market that does not mean that demand for all functions is lower than in Japan. For example, there are many car thefts in India, so higher cost is acceptable if it is for stronger an anti-theft mechanism (Park, 2009). On the other hand, Indians do not care as much about the detailed specifications demanded by Japan’s customers.

Shifting the differentiation axis is reducing the quality level and cutting costs for axes unimportant to the local market, while improving for axes prior to it even if it requires higher costs. Such a strategy is needed in order to launch differentiated products in a local market without raising costs much. Developing localized products requires such priority-driven product development.

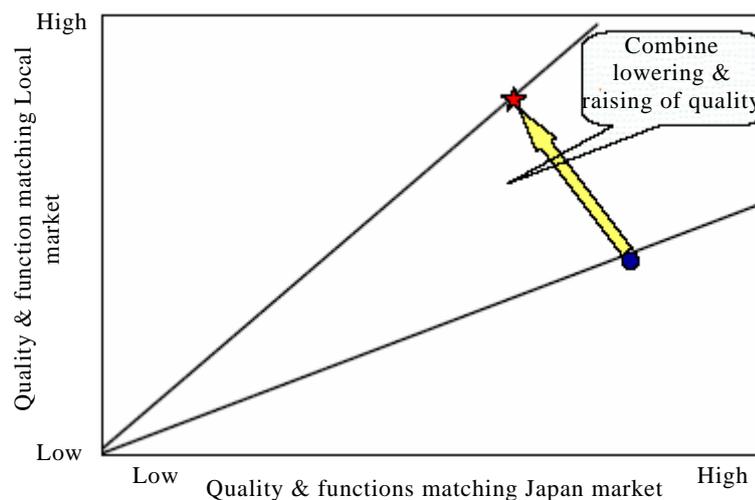


Figure 7 Localized Product Development by Shifting Differentiation Axis

The phenomena in which this is required when products for developed country markets are converted to products for emerging markets is similar to the “Innovator’s Dilemma” which Christensen asserts. The innovator’s dilemma is that it must slacken a value axis previously emphasized, while emphasizing a value axis previously neglected. When the customer segment dramatically changes, the value sought by customers changes. He asserts that leading firms which had their greatest success via the value network with existing customers fail due to inability to respond to such changing values. For example, in Christensen’s book, he plots a graph with the value of shrinking drive size on the

horizontal axis, and increased storage volume on the vertical axis, showing that for the same hard disk drive, the value emphasized in the notebook PC market is very different from the mainframe market. Minimizing the size is added value in the notebook PC market, but sometimes negative value in the mainframe market.

Recently, Japanese firms are also trying to develop differentiated products for emerging markets, and we can see various efforts. As one example, Panasonic established the China Lifestyle Research Center in Shanghai in 2005. Its activities include performing thorough field studies of China's consumers, and proposing product plans based on such information. In China, there are many survey firms which provide modified information from the internet etc. But few survey firms perform reliable field surveys. High quality information is not obtained from internet surveys, etc. Thus the goal is to properly perform field surveys by its own organization, and provide feedback to product development departments Japan.

The China Lifestyle Research Center was only recently established, so there are still not many of their proposals implemented in actual products. One successful case is a slim form refrigerator. In Chinese households, the refrigerator is often placed in the living room instead of in the kitchen. It was remarked that "Chinese put a new refrigerator in their living room so guests can see it." But a thorough survey showed that the kitchen door is narrow in standard Chinese homes, and a 60cm wide refrigerator cannot fit through. Sales leapt 10 times just by changing its size.

Actually, it may be obvious for Chinese that kitchen doors are small and refrigerators cannot fit through. But changing the size requires costs such as metal shape changes. Also, in Japan there is no value in creating a halfway product like 55cm width. Thorough field survey data may be needed in order to convince the development team in Japan of its value.

One key to success in localized product development lies in methods to shorten the spatial distance and psychological distance between the local market and Japan's development team. Panasonic's Lifestyle Research Center is one method to solve this without moving the development organization. Another approach to this problem may be localization of the development organization. Hitachi is one successful example of this in India's air conditioner market.

Hitachi formed a joint venture with an Indian air conditioner firm, then developed its business, and that firm is now transformed into a subsidiary. It was originally an Indian firm, so this immediately achieved localization of development. Thus Indian engineers are developing products for the India market while absorbing Hitachi's technology. One successful product is a blower/air conditioner with an automatic detection function.

India and ASEAN countries differ from Japan in that if people do not directly feel air blown from the conditioner, they do not feel they are being cooled by the air conditioner. Thus Indian engineers proposed adding a sensor to detect people's movement, and blow air focused in the direction of people. This was popular when launched in the market. Other home appliances also have such needs which cannot be seen in Japan. For example there are still many power blackouts in India, so washing machines are often stopped in the middle of a cycle. When a normal washing machine stops in a blackout, the user does not know how far it was in the wash cycle. Thus they added memory in the washing machine to remember the washing machine's status the moment power was cut, and when the blackout ends and the wash is restarted, it automatically continues from the same point.

4. Resource Reallocation and Local Capability Development

When considering strategy for emerging markets, resource strategy has another important aspect. The resource conditions sought for business activities in developed country markets and emerging markets are fundamentally different. Firms entering emerging markets usually have an initial condition of insufficient resources necessary for penetrating into the middle class market in developing countries. Local organizational capabilities must be newly developed through learning-by-doing activities in local markets. This aspect is less emphasized in traditional literatures which think the technological and managerial resources of a firm are mainly developed in its mother countries and transferred to the host countries.

(1) Resource Reallocation and Capability Building under the Low Price Strategy

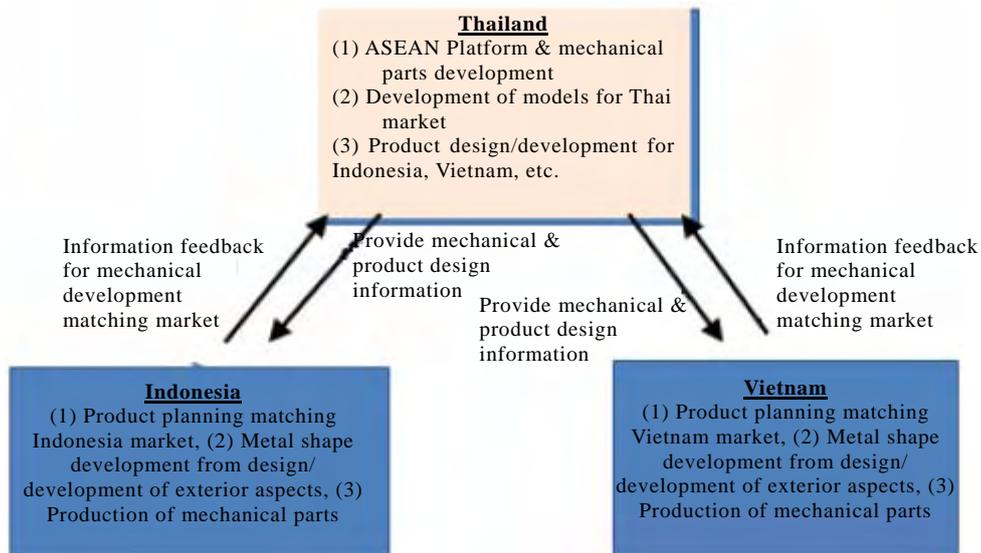
Almost all firms which accomplish a transition to the strategy of low price and reasonable quality have also implemented dramatic changes in resource allocation. This was true for the ASEAN strategy of Honda motorcycles, foreign markets strategy of Samsung Electronics, and Nokia's recovery in the China mobile phone market. Change in market strategy also requires a "leap" in resource conditions.

Let's examine the case of Honda. In 2002, Honda launched the Wave α , reacting to the quick growth of Chinese motorcycles in Vietnam markets. This product launch enabled Honda to recover from the worst situation in this market and to change the company to be competitive in low-price market. For them, this product became the trigger of changing

the development and production system in ASEAN

Like automobiles, motorcycles are products which need fashion aspects different by country. Even within ASEAN market, Thailand, Indonesia and Vietnam each prefer different characteristics in exterior design. Thus the design of these parts requires different specifications by country. Based on the market research in each country, gathered market data is transferred to Honda motorcycle R&D center in Thailand and engineers at the center plan and design motorcycles in major countries in ASEAN. After the specifications of models are decided, the design information moves to the production sites in countries like Vietnam and Indonesia, where die making, mass production and procurement of parts, and the assembly of these parts are implemented accordingly.

Figure 8 Division of Labor for Development in ASEAN Motorcycle Platform



On the other hand, in order to guarantee the “reasonable quality” in the drive system of motorcycles, Honda tried to standardize their engines and other core parts among different models and different countries in ASEAN, which we call “platform” strategy. Honda also located the design/development base of these internally standardized parts in Thailand.¹ Data on motorcycle driving use in each country is gathered in Thailand, and the core drive parts of common platforms for ASEAN are designed centrally in Thailand. The design data is transferred to production sites in each country, where metal shaping and mass production of parts are implemented.

¹ Motorcycle design and development was already being done in Thailand since around 1988, but in 1997, Honda R&D Southeast Asia Co. Ltd. was established in Thailand, and it was made into a design and development base. Then it invested 800,000 baht in this center in 2003, strengthening its motorcycle design activities for the ASEAN market. It performs various full scale R&D activities, including market

Figure 8 shows the above division and network of development. In the system, Thailand performs (1) development of standard mechanical parts used in ASEAN Cub platform, (2) development of models for the Thai market, (3) development of products for Indonesia, Vietnam, etc. Whereas Vietnam and Indonesia performs (1) market research and data reporting for product planning in each country's market, (2) die-making and parts mass production, and (3) assembly of motorcycles in each country.

This production strategy enables mass production of products which can assure reasonable quality in the drive system. There is also great progress in R&D capabilities in Thailand, as well as production and procurement capabilities in Vietnam and Indonesia. The local procurement ratio for parts in Vietnam was 53% in 2001, rising to 76% in 2003. In Indonesia, in addition to final assembly, upstream processes are being developed in factories: aluminum casting, machining, engine assembly, pressing, welding, painting, etc. Local factories have approximately a 10% internal production ratio for parts for monitoring and assistance to local suppliers. The number of suppliers has broadened to about 130 suppliers, with Honda's assistance.

(2) Gathering Market Knowledge by Continuous Experiments and New Business Creation in Local Context

As described above, emerging markets have unique market characteristics not found in developed markets, and if product development is not done which benefits from adaptation, hit products are unlikely to result. Simply selecting low end items from the existing product line, removing features and bringing to market is not a true solution to mismatches between market and product.

Many developed country firms have product development bases in the home country, and their products naturally have a "developed country market bias". To get away from this bias and develop differentiated products in emerging markets, it is ideal to have the functions and a base for information collection, planning and development in growing local markets, collect high quality information from the market, and plan products and business systems based on such information. The differentiation axis in a local market is not understood in advance, but comes into view later as a result of deep local market surveys and interactions with users. An important issue is how to design a place for such interaction with the market and building up resources, and how to utilize knowledge and resources. In that sense, Panasonic's China Lifestyle Research Center mentioned above is an important example.

In the sense of creating contacts with the market and designing sites for planning and surveys, product planning, design, mock-ups, prototyping and inspection.

development, we find cases a step ahead in retail, which is closer to consumers than manufacturing industries. From that aspect, Seven-Eleven's expansion in the China market is an interesting example.

Retail is an industry with stronger local characteristics than manufacturing. When it enters a foreign market, how to localize overall merchandising policy (below, "MD policy") including product development has great impact on local business results. In the case of Seven-Eleven, brand and basic operating policy, installation of the information system, etc. are determined by the license consignee in Japan via contracts. But the local subsidiary is relied on for almost all marketing decision making such as store location strategy, interior design, product development, product procurement & delivery, and pricing strategy.

Seven-Eleven Beijing is a local subsidiary established in 2002, in response to the deregulation of China's retail sector. It currently has 75 stores directly managed under the local subsidiary. When they first entered China, there were dry goods stores everywhere on street corners, where daily goods and dry goods were sold at very low prices. It seemed difficult for a foreign firm like Seven-Eleven selling the same things to earn profits. Thus since the time it entered China, an issue was whether it could create added value in ways not in local dry goods stores and be competitive.

Thus they firstly built a "semi-open" store system comprised of 75 directly managed stores with Seven-Eleven Beijing as headquarters. Among those, they began many "market experiments". Rather than generate large profits, Beijing's directly managed network aimed to learn local market characteristics from sales sites, and in combination with trial experiments for product development, to develop products and systems which can create original value and generate profits with strong possibilities for differentiation vs. competitors. They try to standardize once developed products and systems in preparation for franchising strategy in near future.

Let us look at an example. Seven-Eleven's store locations in Beijing are concentrated in the east side Chaoyang District with mixed office and residential areas, and in the northwest side with many universities and research institutes. It targets the customer segment with household income of 5000 to 6000 yuan or more. As a result of detailed analysis of customer need information received from its stores, they found that daily goods and dry goods have slow product turnover and are difficult to differentiate, but rice balls, side dishes, full meals, etc. have fast turnover and are easy to differentiate.

The daytime Beijing office district is filled with people who cannot take lunch. Chinese food is usually shared by 5 to 6 people if at a local restaurant, and a person does not go to a restaurant alone. But Beijing has many dual income families and single people,

and many people eat lunch and dinner alone, and they saw that demand certainly exists if hot Chinese food could be provided separately in single portions. Then they planned the idea of a “Chinese Food Set Meal”. The local Seven-Eleven developed the business of remodeling sections of the stores, cooking hot Chinese food there, and selling set meals in small portions at reasonable prices. In order to use the benefits of a retail chain, they prepared ingredients in a central kitchen, packaged them in a kit with seasonings, and delivered them twice daily to stores. The menu changed weekly, and they also built eating spaces in stores. In a country where steamed rice is expected, they contracted with a special factory in order to introduce boiled rice, and thoroughly implemented hygiene controls. China originally had no custom of eating raw vegetables at neighborhood stands selling side dishes, but when Seven-Eleven displayed raw vegetables with hygiene controls, they were flooded with buyers.

As a result of efforts in trial and error and commercialization over about seven years, items like side dishes and set meals now comprise over 50% of the local subsidiary’s sales, making large contributions to store differentiation and profitability. Today, based on products and know-how developed and standardized in its system of directly managed stores, as its next stage they have begun investigating franchising which is a more “open” system than now.

(3) Managing High Volume Production in Emerging Market– Establishing the Second Mother Factory in Asia

“Market experiments” in growth markets avoid the risk of “home country bias” in growth markets with market conditions which are totally different from the home country, and are an attempt at obtaining on-site information for the development of local business.

The same logic applies to production. The home country’s production conditions are fundamentally different from production conditions in an emerging market country, so when doing full scale mass production in emerging market countries, one must take into consideration uncertainties and risks which are unimaginable in home country production. For example, there are problems of (1) Vast production scale and fluctuations, (2) Large scale labor and organizational management as prerequisite for labor intensive production activities, (3) Failure to achieve conditions such as quality, cost and delivery due to insufficient local organizational capabilities. These risks are interrelated each other, and risks tend to increase with larger production scale. When a firm takes low cost strategy, one must especially consider these points.

There is also the way of thinking of the home country’s mother factory trying to supervise and control the local mass production. However, there are many cases that this

mother factory system cannot control like following cases; (1) Design for products manufactured in local factories is complex, and advanced adjustment and local problem solving is required, (2) As local production becomes very large scale, the production risks mentioned above become much larger, (3) Rapid launch of local production is needed, related to the time allowed in the product life cycle, (4) There is a limit to the engineering resources which can be allocated to foreign support from organizational capabilities of the mother factory in the home country.

In such cases, it becomes useful to have a problem solving unit near the developing country production site for supporting production process development, production launch and daily operations for high volume production (this can be considered a “production experiments” site for volume production, corresponding to the “market experiments” in middle class market). Seagate’s Singapore base and Honda Motorcycles’ Thailand base are truly bases which provide such functions.

These bases can be thought of as playing the role of “the second mother factory”. That is, based on product plans and design drawings created in the home countries, firms develop optimal production processes considering unique local production conditions. It launches mass production lines locally, standardizes production know-how, transfers technology to other developing country bases, and also supports launches of mass production there. It builds local know-how and experience for high volume production, standardizes, and expands. Building such organizational capabilities locally is an effective production strategy for skillfully adapting to production conditions in emerging markets and middle and low end markets, reducing the risks of ultra mass production. Above all, in product areas for which mass production cannot easily be outsourced, the firm must work to scale up mass production and assure quality, and development of such an organizational structure becomes essential. The above examples of Seagate and Honda are such cases.

On the other hand, there is also the way of thinking that outsourcing in Asia reduces some of the risks of high volume production. In such a case, the firm develops production processes and launches production in its own production bases in its home country and in Asia, builds up know-how on moving to mass production, standardizes, and transfers it to the outsourcing firm as a turnkey system. In cases where an Asia base is used as a secondary main base, local engineers can be used to establish production process know-how and create English language documentation. They can also communicate directly between local sites, developing local technical staff and contributing to the development process of the home country.

Mitsubishi Chemical’s optical media business is a good example. Japanese firms once had a large share of the optical media market of CD-ROM, CD-R, etc., but as the

technology matured, Taiwan firms and other lagging countries boosted their market shares. Around the year 2000, new products such as DVD-R and DVD-RW were launched in the market. But catch up by lagging country firms was also forecast in these fields, so Mitsubishi Kagaku Media (the top firm at that time) took decisive action in advance.

Until then, Mitsubishi Chemical developed products and production processes in Japan, and moved these into mass production in Japan and Singapore, selling under its own brand. However, its production bases in Japan and Singapore had limited production capacities, making it difficult to boost its market share based on these alone. On the other hand, there were large risks in the firm alone making capital investments for large scale mass production.

Then along with the introduction of DVD-R and DVD-RW, it changed from the previous model for international division of labor. In the new model, Japan developed products, cooperated with the Singapore base to establish production methods and know-how, and once mass production was launched in Singapore and know-how standardized, that was outsourced as intellectual property to manufacturing firms in India, Taiwan, etc.

The India and Taiwan outsourcing firms are EMS type firms with vast production scales. Their capital investments are made under each firm's management decision. Mitsubishi Chemical built a system to gain profit from multiple sources such as provision of its intellectual property, sales of optical media products, and supply of raw materials and equipment for outsourcer mass production, while it used outsourcing to reduce a large part of the financial risks of high volume production. As the second mother factory, one can say that its Singapore base is playing a vital role in this turnkey type business model.

(4) Bottom-up Style Organizational Capability Building

From the beginning, managerial resources are scarce in emerging markets, and these resources must be developed newly under the guidance of the firm entering the country. In cases where market share is expanded via a low price strategy and high volume production, it is necessary to build large scale production infrastructure, and it becomes essential to build organizational capabilities covering a wide scope. More than just letting this naturally come about, the firm quite intentionally pushes this forward.

Even if a product includes cutting edge technology, if they require too much to local people and suppliers, then it will be difficult to induce bottom-up organization's learning and broaden the business and market base. Products, projects and management techniques must be chosen which encourage participation by many related local parties, and which raise the overall level in a short time by the organization's learning.

Park (2009) surveyed the Korean firm LG Electronics, which entered India. In the India market, compared to the difficulty of Japanese firms, Korean manufacturers like Samsung and LG built competitive market positions. Their efforts in the India market began in the late 1990s. LG Electronics India was established in 1997 as a fully owned subsidiary, and is engaged in production of home electronics in New Delhi and Pune. It established a software research center in Bangalore in 1998. It is now a top class home electronics firm in India, enjoying large market shares in color TVs, electric ranges, washing machines, air conditioners, mobile phones, etc. We will now describe its background from the perspective of local sales organizational capability development.

First, they put efforts into developing their distribution and service network in India's market. Their slogan is "Number one to the customer", and since they entered India they have set 18 branches, 1800 dealers, and 85 service centers in the market. Half of branch staff work in service (currently 2000 dealers, 150 branches, 1100 service centers). When they launched the production bases, even when there were quality issues in the beginning, they compensated for "lack of quality" by providing quick after service, striving to build relationships with the final consumer. They focused on India's non-working women, actively recruiting wives as saleswomen, and working to have their products penetrate rural homes, while thoroughly surveying which kinds of products and services are needed in the home. Products which penetrate widely in the local market were created through these local efforts.

Second, they decisively localized planning and marketing work for products sold locally. LG selected specialists with strong knowledge of local consumers, and giving them authority for almost all marketing activities. They also recruited 350 engineers for the local R&D department. This also resulted in a growing number of successful cases. For example, the voltage situation in India is unstable, and there were repeated accidents in which the TV condenser's capacity was exceeded and it exploded. In response, LG Korea developed condensers for India and installed them in TVs. Also, since water is precious in India, they imported core part from Korea and produce and sale drum type laundry washing machines and food washing machines. They became very popular with consumers. Such cases are increasingly common.

Third, in order advance aggressive localization of sales and production, the personnel department played a main role in staff development and localization. Today, there are only 27 Koreans among the 3500 employees in LG Electronics India. Functions and positions directly contacting with the India market in the subsidiary organizations are especially localized. When it was initially established, few managers wanted to be transferred from Korea to India, which also forced LG to work on raising the level of all local staff. Thus it

ensured the transparency and fairness of personnel evaluations, and established a thorough meritocracy, with ongoing development of local staff and promotion to management. It trusts its appointed managers, and delegates authority. Korean top management stress direct talks with local sites, and department manager level staff also directly enter production sites and talk with employees to seek paths to enhanced productivity. LG Electronics' success in India is largely due to this localization policy and boosting its overall organizational capabilities.

The participatory type organizational capabilities development is a basic technique of Japanese firms, but a problem is how to implement that overseas. Some Japanese firms have succeeded in this. For example, a factor in the market share growth of Honda automobiles in China is the quality improvement activities with participation by all employees and suppliers, using the QC cycle. There is also Toyota's success in Thailand, with its policy of localization of staff and the organization called "Thainization" implemented since the end of the 1980s, encouraging independence and delegation of authority to mid-level managers since its IMV project in 2002, and training and guidance to develop the attitudes of Thai and other emerging country managers and suppliers' managers. An important point is how to expand the scope and deepen the level of these organizational buildings to meet the business scope required by market penetration strategies. If targeting the larger volume zones of middle and low end markets, not only qualitative but also quantitative targets are needed in building organizational capabilities. To that end, systematic human resource development and drastic localization policies may be required when it becomes ready.

(5) IT System as Strategic Infrastructure

Finally, even though this is a bit supplementary, I want to touch on the importance of IT systems for implementing the above four operations. In contrast to undertaking business in a solely domestic organization, for entering emerging markets, business is likely to have a broad scope and large scale. Also, staff and firms of various countries will participate, so it becomes very important to use the IT system to disclose and share information with people involved, communicate to remote areas, control security, etc.

To boost the organizational capabilities of local managers and staff in a large scale factory, it is important to disclose timely and accurate information to all the organization's members, cutting across the organization's departments and levels, and have each department take autonomous decisions. Also for communication of skills, one must standardize as much as possible where standardization is feasible, and broaden the scope covered by communications. Developing this information infrastructure facilitates

delegation of decisions to local staff, promotes communication, builds the consciousness of managers, supports training, etc.

Firms have also appeared which strategically utilize their IT system to develop emerging markets. In order to sell construction machinery in the large China market, Komatsu installs GPS in construction machinery to understand the location and operating status of construction machinery after the sale, prevent theft of machinery, sense problems, and facilitate parts supply and other after service. The distribution status of construction machinery also helps it understand the regions where much construction is being done, enabling very detailed demand forecasts. Sales teams can utilize this “live data”, enabling very effective and efficient development of sales activities. Also in Japan, it may be necessary to consider various requirements hypothesized for emerging markets, and develop IT systems which facilitate market development and organizational capability development there. There are many uncertainties in emerging market strategy and sales & production operations in middle & low end markets, so IT infrastructure and systems should be developed which enable local autonomous problem solving to handle those uncertainties. These system building may require an initiative role of mother factories in the home country.

Conclusions

This paper discussed issues in emerging market strategy both from the aspect of marketing strategy and resources strategy. In the midst of the economic crisis, some scholars believe that radical innovation will break the stagnation of industries and economies. But there is a danger in the concept of aiming at dramatic turnaround by revolutionary innovation to break out of a stagnant situation. This is also connected to the way of thinking that it is sufficient to compete with technology and innovation in emerging markets. But when developing new markets, one certainly does not succeed by technology strength alone.

Another point is the danger of thinking that income levels are low in emerging markets, so in any case it is good to cut prices. Price reduction is important as one step to developing the market, but price reduction itself is not important. The important point is what approximate price that country’s consumers can accept for buying what things. Of course, aiming to reduce prices without trying to understand the market is obviously unlikely to lead to long term success.

On resource side, difference from the situation in developed countries, firms

approaching middle class of emerging markets, will face very discontinuous situation and very limited condition of local resources. Since the target markets have certain scale and need newly developed external and internal resources, building up market related resources and organizational capabilities in local context is very critical for the success of the emerging market strategies. If resource strategy is not systematically considered, the strategy will falter in the implementation process. Rather it is important to have a view to accumulate local contextual resources in the implementation process of the strategies.

While Japanese firms have their manufacturing competences as their foundation, it is that time when they rebuild these competences from the above mentioned two perspectives of emerging market strategy, if they recognize these new markets will be the next battleground of global competition and the next potential pools of business gains.

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