Spelling out Value Propositions to Foreign Markets: a Recipe for Japanese Firms to Move up the Value Chain in International Trade

Xiaochen Su
(U.S.A.)

(full text)

1. Reasons for Corporate Japan’s Adversity in International Trade Today

Over the past decades, there have been dramatic shifts in the relative weight of global trade across different geographies. In particular, the rise of emerging markets, most notably China, in their overall share of international exports and imports, has been unmissable in both extent and velocity (Baier and Bergstrand, 2007; Blancher and Rumbaug, 2004; Woo, 2008). The rise of these emerging trading nations is further facilitated by an overall increase in the demand for commodities, consumer products, and various services, driven by increase in the wealth of a growing middle class in the developing world (Zafar, 2007; Kaplinsky, 2006). As the “pie” of global trade volume becomes bigger, corporate Japan has not been able to keep up with the phenomenal growth, relegating itself to a much smaller share of global trade today.

There are a couple of prominent reasons for the overall decline of Japan’s share in global trade. First is the ability of emerging market economies to undertake knowledge transfer from rich countries through attracting foreign direct investments. By learning needed skills from foreign firms, and combining these newly acquired skills with ability to employ ample amounts of cheap labor, local firms in the developing world have become internationally competitive by delivering high-quality products and services at a fraction of the price possible for a Japanese firm.

Such “reverse engineering” of transferred knowledge is applicable for both products and services, and is still progressing at a rapid pace. On the products side, China in particular has shown itself to be adept at importing key technologies from market leaders, modifying the technologies for domestic production, and then exporting the resulting outputs internationally at much cheaper prices. For instance, despite only opening its first high-speed rail lines in 2008 through import of foreign technology, China quickly gained expertise in both construction and maintenance of high-speed railways through creation of the world’s largest network by 2014 (Ollivier, 2015). The combination of cheap labor costs, state financial support, and economy of scale has made China, in a span of just few years, an international player going head-to-head against traditional railway equipment exporters like Japan in competition for new railway projects across the world. China’s ability to execute quickly and cheaply has taken away market share from Japanese firms.

In the services sector, the same phenomenon can also be observed. In this case, India’s burgeoning high-tech industry is of particular note. Using a large pool of cheaply hired software engineers and other tech-field graduates, India was able to attract outsourced software development work from Western transnational corporations. In the process, advanced skills were accumulated to give Indian high-tech firms the necessary human capital to independently develop some of the world’s most widely used tech systems and accompanying
tech consultancy programs (Patibandla and Petersen, 2002; Schware, 1992; Kathuria, 2008). Like China’s railway firms, the best of India’s software firms are now able to wrestle away market shares from the same transnational corporations that served as initial mentors. For countries like Japan that is seeking to diversify from a manufacturing-focused export regime, the presence of cheap services provided by India has only made it much harder to achieve the task of diversifying into the services sector for export.

While Japanese exports suffer, in both manufacturing and services, from strong developing world competitors, the situation is only made worse with less availability and higher prices for imports that Japan needs to sustain its economy. This is largely due to growing demands in the developing world for some of the same products Japan imports. A particularly glaring illustration is South America’s export of soybeans, an essential ingredient in all East Asian cuisines and as base for animal feeds. While the art of soybean planting was first brought to the region by Japanese migrants, and Japan was, for decades, the main market for the output, export of South American soybeans is quickly shifting to China and Southeast Asia in recent years (Dros, 2004; Gudynas, 2008; Pacheco, 2012). As other Asian countries bid up prices for finite amount of soybean export, Japan not only faces less overall import volumes, but also higher food prices and overall inflation. Labor costs in turn rise, driving up overall costs of Japanese exports, and threatening to make them even less competitive internationally.

The economic rise of the developing world is in many ways responsible for Japan’s declining share of world trade. Their newfound capabilities to transform skills and knowledge gained from the developed world into cheap, high-quality products have made Japanese exports less competitive internationally. And with newly gained wealth from exports, these rising economic powers are paying better prices for higher quantities of the same imports Japan needs. However, as gloomy as this situation sounds for Japan, the next section demonstrates that products and services associated with Japan still have several key advantages that can be leveraged on the international market.

2. “Made-by-Japan’s” Advantages and Value Proposition for Foreign Consumers

The primary advantage held by Japanese products abroad is reputational, stemming from foreign consumers’ association of Japan as a national brand of high quality and reliability (Shimp, Samiee, and Madden, 1993; Hong and Kang, 2006). As such, for foreign consumers in need of products that perform consistently for long durations, they are willing to pay higher initial prices for well-perceived Japanese products, in attempts to balance out overall expenses by reducing cost of maintenance and replacement. A case in point is the prevalence of Japanese secondhand cars in the author’s current country of residence, Tanzania. Because of massive logistics costs and turnaround time due to underdeveloped local transportation infrastructure, vehicle importation remains difficult. Given the resulting infrequency of vehicle availability, purchasers naturally want the longest lasting products. Japanese secondhand cars have been trusted in this respect and thus dominate local streets.

But part of Japanese dominance visually noted on the streets can also be attributed to the goodwill Japan established locally through direct financial support. Decades of aid through JICA and other government programs have given local elites exposure to Japanese products, in what is essentially marketing through social
and political means (Ampiah, 1996; Carlsson, Somolekae, and Walle, 1997). Despite Japan’s declining share of overall aid to Africa in recent years, the effects of decades-long exposure to Japanese products remain strong, giving the local populace preference for Japanese products when similar products from other countries are also available. This inadvertent marketing mechanism serves to reinforce the reputation of “made-by-Japan” as a code word for high quality and reliability.

Finally, Japanese products and services benefit from Japan’s reputation as a society of health and convenience. Foreigners seeking to mimic what they perceive as positive aspects of Japanese lifestyle have driven the consumption of certain Japanese products. One particular example is the rise in status of Japanese cuisine in the West, to a position of trendiness among the young and health-conscious, from a previously low base as pure ethnic food (Cwiertka, 2005). The newfound affinity has much to do with people associating Japanese foods with Japan’s longevity and health. The same enthusiasm can be seen when it comes to Japan’s convenience lifestyle. Recent increase in Chinese tourists purchasing toilet seats in Japan illustrates a visible fascination with convenience lifestyle. While Japanese toilets have been admired for centuries by foreign visitors, its adoption abroad remains a largely untapped potential market (Chun, 2002; Campbell, 2014). In both cases, the desire to “be like the Japanese” in daily lives has driven sales for Japanese lifestyle products that are thought to improve the overall standard of living.

The above-noted series of advantages for Japanese products can be stringed together to create comprehensive value propositions for foreign consumers. In positioning the importance of “value proposition” in overall business strategy, Kaplan and Norton (2004) note “satisfying customers is the source of sustainable value creation.” The key for Japanese firms here is the word “sustainable,” as a point of differentiating themselves from their foreign competitors. While any firm creating a high-quality product can satisfy a certain consumer need, to continue delivering sustainable satisfaction requires arrangement and deliverance of an entire range of products and services that satisfy the overall life-improvement needs of a customer.

In this high-level thinking, the value of a product or service being sold is no longer limited to just sufficiently fulfilling a particular need that the client deems necessary for daily life. Instead, it becomes part of a lengthy process to improve the overall lifestyle of the client. The firm selling the product or service, rather than merely marketing it as resolution of a daily issue, needs to propose how it will supplement a series of other products and services that constitute steps toward an overall lifestyle goal. These products and services, many of which the client did not even think of purchasing initially, need to be presented in a packaged way to increase the overall standard of living for the individual.

Japanese firms, in comparison to their foreign competitors, are in a uniquely ready position to make these value propositions. First, foreign consumers’ mesmerization with Japan’s reputation for health and convenience already creates a ready global market keen to converge toward Japanese lifestyle products, without the need for costly marketing campaigns. And because of Japan’s maintenance of decades-long economic and political relationships in the developing world through trade and aid, its firms are in a better place than others to take advantage of any purchasing power growth in the developing world. Many locals are already, in one way or the other, experienced with high quality and durability of Japanese products; corporate Japan simply has to craft a better story to put them together as components of a better, “more Japanese” lifestyle.
3. **Needed Efforts Abroad for Japan to Establish Its “Value Propositions”**

Of course, to say that Japan is in a better place than others to spread its “value propositions” abroad does not necessarily mean that the task can be easily achieved. Even with concrete values to be proposed, along with component products and services determined, several obstacles need to be overcome by Japanese firms before those values can translate into greater sales of “made-by-Japan.” In this section, the essay explores some of the main obstacles and how corporate Japan can potentially diminish their detrimental effects and solidify Japanese values in international markets.

The first hurdle remains to be the small proportion of non-Japanese with firsthand exposure to Japan. World Tourism Organization (2015) notes that Japan ranks only 8th in Asia in terms of foreign tourist arrivals, pulling in a mere 13.4 million per year in comparison to more than 50 million for China and more than 20 million for Malaysia and Thailand. At the same time, Ministry of Internal Affairs and Communications (2015) reports that only slightly more than 2 million foreigners reside in Japan, making up less than 2% of Japan’s total population. Further considering that there are many travelers making frequent trips to Japan, and that long-term foreign residents are already familiar with Japanese consumer culture, it can be said that the vast majority of the world population can only learn about Japan through incomplete and potentially biased secondhand information.

Such partial portrayals can be detrimental to Japanese lifestyle being accepted as mainstream in foreign societies. To be more specific, the spread of modern Japanese culture, while worldwide to a certain extent, has been limited to certain aspects of sometimes maniacal and fringe interests, projecting an image of Japan as the “cultural other” in foreign, and especially non-Asian, societies (Berndt and Richter, 2006; Iwabuchi, 2002). The author himself has encountered frequent occasions where Japanese hobbies such as manga and anime are ridiculed by Westerners as something “weird,” to be enjoyed only by the socially awkward and abnormal.

Countering such perverse notions of Japan in foreign minds requires more direct exposure to Japan and Japanese people by foreigners, through greater physical presence of Japanese firms abroad. Relating to previously discussed logic of value propositions, this effort is needed to make the Japanese seem “normal” and their lifestyle worthy of emulation in the eyes of much larger numbers of foreigners, without leading to negative social perceptions.

Greater Japanese physical presence can be established in two ways:

One is active participation of Japanese firms in marketing campaigns at the most grassroots level. While attending trade fairs and exhibitions continue to be important, Japanese representation in these events can only appeal to foreign traders without messages about values of Japanese products and services trickling down to the individual consumer level. As such, a better investment for Japanese firms is to directly take demonstrations of products, services, and how they tie into healthy, convenient lives of the average Japanese, to individual community shopping centers and markets. Only by being visible in local spaces for commercial congregations can Japanese firms convince locals that the supposed high values of a Japanese lifestyle is not a reserve for the wealthy elite, but reachable for the common man on the streets, and all it takes is purchasing the demonstrated products or services.

To convert potential clientele from these community demonstrations, Japanese firms must also invest
more in permanent presence in foreign markets. The availability of local customer service and direct sales points makes it easier for interested foreigners to become paying customers. In this aspect, the Chinese telecom equipment firm Huawei may provide some inspirations. The firm established physical presence in several foreign markets through customized market entry strategies, combining use of local agents, direct sales subsidiaries, and local production to localize services for each target country while maintaining a global brand name (Wu and Zhao, 2007; Li Sun 2009). In the Japanese case, physical presence can be further complemented with Japanese staff, who can serve as ambassadors to convincingly reinforce, through firsthand explanations, values of their products for the average Japanese’s lifestyle.

However, for Japanese nationals to willingly move abroad and serve as ambassadors for Japanese lifestyle in foreign lands also require efforts by Japanese firms. Japanese cultural belief of *uchi-soto* (in-group/out-group) has led to, among the Japanese population, a widespread accentuation of Japan’s “cultural uniqueness” from the rest of the world (Lebra, 1992; Benedict, 1967; Varley, 2000). Belief in the uniqueness of Japanese culture is further bolstered by political and academic rise of *Nihonjinron* (“theory of Japanese people”), which in essence separate Japan from the rest of the world based on traditional ideology and ethnic identity (Shepherd, 1991; Sugimoto, 1999; Befu, 1992). These beliefs act as emotional barriers for Japanese individuals to promote Japanese lifestyle products abroad. The inherent belief that the Japanese lifestyle is unique and possible only in Japan, due to Japan’s impossible-to-replicate cultural uniqueness, will make it difficult to convincingly argue that foreigners can take up Japanese-like lifestyles with only purchases of Japanese products.

Thus, in the process of training Japanese staff for foreign deployment, complete removal of such fundamental belief in “Japanese cultural uniqueness” is essential for whether corporate Japan’s value propositions will be accepted by local consumers. In conjunction with local language training, acknowledgement that at least certain aspects of Japanese lifestyle and societal values are universally transferrable through material means will be the principal determinant of whether Japanese on-the-ground “ambassadors” will be able to connect with, and then sell to, local consumers through resonance in values.

Finally, while proposing the values of Japanese lifestyle to the common man, corporate Japan must ensure that the offering remains “premium.” In other words, the conveyed message should be that acquiring Japanese lifestyle is exclusive to only some who are willing to invest in greater health and convenience. By justifying higher prices as proxies for higher qualities, Japanese firms will be able to earn sustainably high margins even in smaller markets with fewer potential clients. Moreover, by maintaining high prices along with high reputation, Japanese lifestyle values will become conspicuous consumptions that locals will strive toward, giving Japanese products and services greater ability to capture newly available customers as more people in the developing world move into the consumption-capable middle class.

4. **Needed Efforts at Home to Support Foreign Expansions of “Value Propositions”**

Of course, it is not enough for Japanese firms to simply invest in presence and business strategies in foreign lands to establish “value propositions.” In Japan, as well, the firms need to work with the government and society at large to ensure that all parties are aligned in concerted efforts to push for Japanese values abroad.
Only with domestic economic players onboard can the efforts of Japanese firms in other countries bring forth concrete results in increased international trade.

First, to enhance the appeal of a Japanese lifestyle, the Japanese government can make efforts abroad to give greater visibility to Japanese cultural products. By giving local populations greater firsthand exposure to Japanese culture, these efforts can strengthen value propositions of Japanese firms and translate into higher uptake of Japanese lifestyle products in foreign markets. Such “cultural export” strategy has been adopted by South Korean government to increase Korean visibility abroad. Actively promoting the “Korean Wave,” the government is able to use cultural affinity for Korea among foreign audiences to construct political and diplomatic clout, in the process improving economic positions of Korean products and services abroad (Jang and Paik, 2012; Shim, 2008). Without a doubt, Korean lifestyle became better comprehended in foreign countries through airing of Korean dramas, increasing demands among their foreign fans for Korean products seen in those dramas. Japan, with similarly large, well-developed entertainment industry, can replicate the same strategy used by the Korean government. But this will require greater coordination and cooperation between Japan’s leading producers of cultural products and the government, something that is rather limited today.

To take the logic a step further, the government can also increase investments in comprehensive nation-branding that goes beyond just export of cultural products. Today, the Japanese government uses the “Yokoso! Japan” campaign to promote the country abroad, but the effort is largely limited to the immediate goal of increasing international tourist arrivals (Uzama, 2012; Huang, 2011; Dinnie, 2008; Uzama, 2009). While the effort is admirable, its effect in increasing understanding of Japan among foreigners is limited to only those who are wealthy enough, curious enough, and adventurous enough to make the physical journey to Japan. Judging from the World Tourism Organization (2015) numbers, the output from these efforts has been less than optimal. Instead, the government can shift focus, collaborating with foreign governments and businesses to bring Japanese lifestyle, in the form of products and services, directly to foreign lands, allowing people to “visit Japan” without stepping outside their native countries.

One conceivable way for immediate action on this front is organizing Japanese trade fairs in foreign countries with the support of local governments. While privately organized Japanese trade fairs already exist in many foreign locales, officially sanctioned events involving coordination of government officials and private businesses are likely to attract far greater media attention and interests of the local populace. Furthermore, trade fairs organized by governments of Japan and foreign states may also serve as evolving platforms for bilateral trade negotiations. By consolidating needs of different firms on both sides and negotiating for bulk purchases in a single setting, both the Japanese and foreign governments are able to trade larger volumes at better prices, creating a “win-win” situation of increased revenues and demand fulfillments on both sides.

Lastly, to maintain Japan’s competitive advantage, the government needs to do more in encouraging entrepreneurship at home. Entrepreneurship is essential for Japan to create more products to improve people’s standard of living and thus sellable in foreign markets by extension of value propositions. Currently, entrepreneurship is not Japan’s strong suit. According to Global Entrepreneurship Monitor Survey, Japan’s Total Early-Stage Entrepreneurial Activity (TEA) is ranked at the bottom of all developed countries, and third lowest worldwide if developing countries are included (Global Entrepreneurship Research Association, 2014).
Consequently, it is entirely feasible that, even if Japan leads in innovative lifestyle products today, new startups from other countries can quickly erode the lead over the coming years. Without world-leading products, any talk of Japanese lifestyle as value propositions abroad cannot be taken credibly.

In a Japanese society where entrepreneurship remains relatively minimal, the state needs to play a more active role to channel innovative ideas into real businesses. The example of the Singaporean government’s “state entrepreneurship” strategy can serve as a guide. The Singaporean government, by actively funding private sector research and development, entrepreneurship-focused technology parks, and institutions to support startups, has gradually made the city a regional venture capital and startup hub, capable of attracting the best ideas and talents from around the world to launch new ventures (Koh, 2006; Pereira, 2004; Bruton, Ahlstrom, and Singh, 2002; Choo and Wong, 2006). The lesson for Japan here is that it is possible not only for the government to increase domestic entrepreneurship via direct investments, but also for “made-by-Japan” products to emerge with foreign ideas. With products created with an international market in mind from the onset, it will be all the easier for them to be rapidly accepted by a foreign audience and thereby spearheading new sources of Japanese export earnings.

5. A Golden Opportunity for Japanese Exports in the Coming Years

Despite continued declining trend in shares of global trade attributed to Japan, the coming years may present some of the best opportunities for Japan to increase its global commercial foothold. If the country is able to implement value propositions as comprehensive business strategy abroad, it will be in a much better place than its competitors to take advantage of favorable winds for trade.

To summarize briefly, favorability for global trade in the coming years can be attributed to the following factors. First, economic growth in China, India, and many other emerging markets continue to bring millions into the urban middle class every year. With more stable, higher salaries, the newly minted middle class of the developing world represents a previously non-existent market segment with high potential demands for foreign products. Second, the recent declines in commodities prices have in turn reduced production costs for many Japanese products. This gives more room for Japanese firms to strategically reduce prices of their products and further improve international competitiveness. And third, both of the above trends are happening against a background of greater global focus on bilateral and multilateral free trade agreements. In particular, the competing regimes of Trans-Pacific Partnership (TPP) and Regional Comprehensive Economic Partnership (RCEP), if implemented, can provide economic integration across the Asia-Pacific, greatly reducing transaction costs for Japan to trade across a large segment of the global economy (Yi, 2013; Wilson, 2015).

Considering volatilities of the market, economic growth, and political goodwill, there is no guarantee that such favorable trade conditions will continue unabated. This is all the more reason why the strategy of “value propositions” should be undertaken as soon as possible to maximize potential benefits. Japanese firms, in partnerships with governments, entrepreneurs, and society at large, both at home and abroad, can provide strong propositions of Japanese products’ and services’ values toward improving lifestyles of people everywhere, by establishing greater physical presence across the world. Only with strong, concerted push for concrete “value propositions” can Japan sustainably position itself at the hearts and minds of the global middle class.
And by earning the allegiance of the increasingly value-conscious global consumer, Japan can gain the initiative to expand its foreign trade.
Bibliography


