



Successful Market Strategies for a Changing Japanese Market

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Japan was the largest semiconductor market in the world. In 1989, the Japanese market shared about 40% of total worldwide chip sales. However, the regional market share trends show that Japan is becoming a smaller factor in world end-use markets. According to the latest forecast by SIA, the Japanese market was only 24% of the total in 2001 and it will decline to 19% in 2005, while Asia-Pacific market will maintain much higher growth rates. Even though Japan's semiconductor market is no longer as large as in the past, semiconductor vendors should make sure they have a good strategy and the right marketing/sales channels for Japan.

One of the reasons why the percentage of the Japanese semiconductor consumption is declining is very simple: OEM customers are shifting their volume production sites to other Asian countries. We believe that the Japanese companies will preserve their dominant market shares in future digital consumer electronics products area, but a larger percentage of their products will be produced in lower-cost Asia-Pacific countries. If chip suppliers want to expand their business in the growing Asia-Pacific market, one of their top efforts should be to accomplish more design-ins in the Japanese market since these design-ins will migrate to high volume production centers in their offshore Asian plants.

With a few exceptions, typical U.S.A semiconductor vendors are still getting only 8 to 13% of their total business from Japan. This fact remains true even after the political issues between Japan and U.S.A. relating to semiconductor trade have become history. There are still big challenges facing U.S. chip firms in order to succeed in Japan. These obstacles include higher operating costs, on-going requests for reliability information, quality issues from customers, dealing with translations for literature, among others.

Is there a secret formula to successfully access Japan's market? No, there isn't a magic bullet. To succeed there, a chip vendor must have marketing and sales strategies specifically customized to the Japanese market. A key factor is to select and assign the right manager for the firm's Japanese branch office. Also, selecting the appropriate local distributors and partners is of paramount importance. The company needs to have a special team to provide excellent supports to Japanese customers.

In the past, we have observed many mistakes made by U.S. companies in setting up operations in Japan. For an example, when recruiting their Japanese branch manager, U.S.A. companies often misunderstood that a good English speaking person who otherwise has good credentials would make a good branch manager (unless the candidate has a very well known established reputation in Japan already). A good choice for branch manager is often an upcoming Japanese national who has worked for another American firm in Japan and has experience in the chip business.

When selecting distributors, a chip vendor should carefully evaluate whether its products and business size will match the potential distributor's line card and features. In some cases, an aggressive smaller distributor is better rather than established large distributors. Also pay

attention to who is selected at the distributor to be the key driver for representing the American company in Japan. Often, Japanese distributors are selected based on an executive's previous Japanese contacts but this approach leaves out other potential sales channels that may be better suited for the company's situation and products.

The Japanese semiconductor industry is now in a major transition phase. Hitachi and Mitsubishi will form a joint venture to consolidate both companies semiconductor business units. NEC will spin-off their chip business unit to a new company. Toshiba and Fujitsu made a strategic alliance agreement.

We believe that U.S. chip firms will have more business opportunities in Japan since these giant corporations will need time to finalize their new business planning. Since many of their new product development plans will be delayed during this transition phase, it is a window of opportunity for overseas suppliers to get more design-ins at Japanese customers. Due to these structural changes, our recommendation is to review the Japanese strategy in light of the new opportunities.

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