

Selling into the Japanese Telecommunications and High Tech Market

June, 2004

Our Business: Build Operate Transfer

We bring outstanding technology companies to Japan.

We build a revenue base for our clients,

... then operate the business, putting in place support,
sales channels, localization ...

...then transfer the business to our clients' management

Selected Clients



Our Team

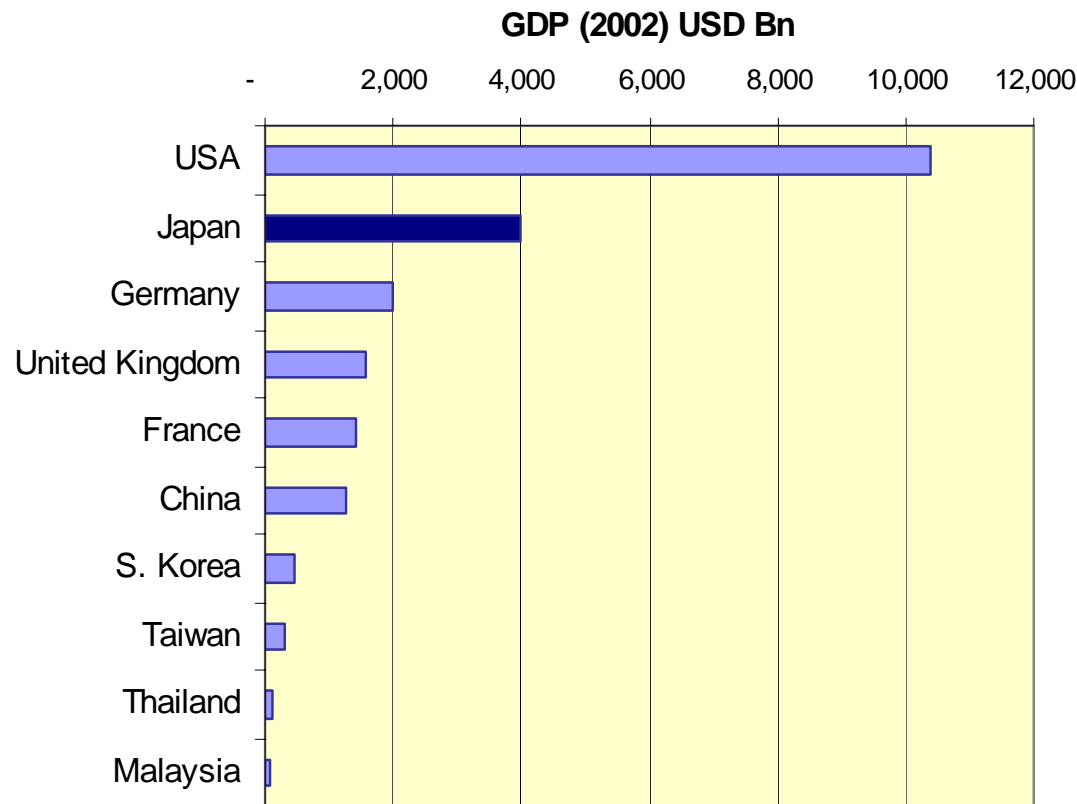
Twelve people, heavily sales oriented, with backgrounds from:

- NTT
- Cisco Systems
- Sun Microsystems
- Fujitsu
- MCI
- Level (3) Communications
- Compaq
- Swedish Industry Japan Office
- Alcatel
- EMC

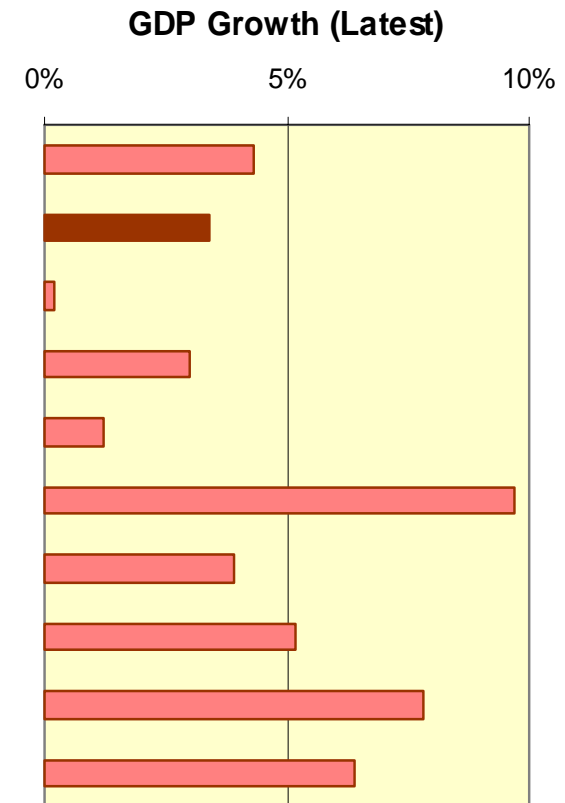
Agenda

1. **Economics: Japan is Back**
2. The Japanese Telecommunications Industry
3. Selling into Japan
 - The Japanese mind
 - The Japanese market
 - How to work with Japanese customers
 - Managing a Japanese team

Growth has returned to the world's second largest economy

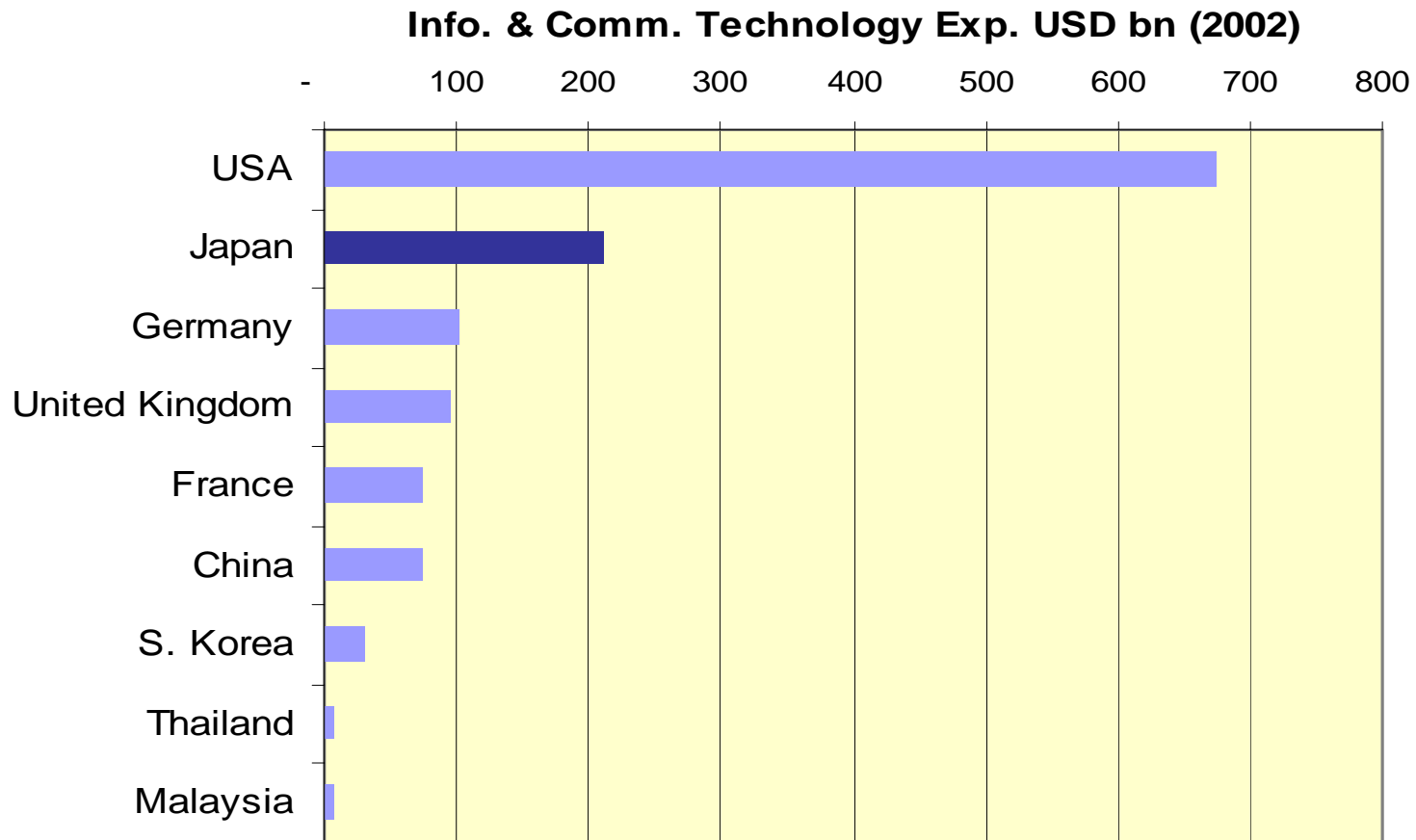


Source: World Bank



Source: The Economist, 2004/5/6

An annual \$200 billion IT & Telecom Market



Source: World Bank

A Slow, Grinding Restructuring

Japan has had 14 years of low growth. Now it has started to grow again. What has changed?

- Major firms have restructured:
 - Reduced workforce
 - Reduced debt
 - Concentrating on core businesses
- Supply chains have become more optimized
- Lower prices: Japan is no longer the high priced economy that it once was
- Economy has opened up: M&A; international standards

The Economy Has Become More Open

- Much more open to foreign M&A
 - Renault purchased Nissan
 - Two Japanese banks are now foreign-owned
 - Aozora Bank: Cerebus Group
 - Shinsei Bank: Ripplewood Group
 - Telecommunications:
 - Vodafone purchased J-Phone
 - Ripplewood purchased Japan Telecom
 - Retail: Wal-Mart purchased Seiyu
- Trade barriers reduced

Result: More Open, Standardized Economy

Examples:

- PC operating systems: 14 years ago dominated by NEC proprietary OS; now entirely Windows/Linux
- Telecommunications:
 - Japan had many proprietary specifications
 - For the Internet, follows international standards

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Major Telecommunications Carriers

	NTT Group	KDDI	Vodafone	Softbank	Power Company	Others
Local Access Residential	NTT East NTT West			Softbank BB	Power Utilities	Usen, Acca, e-Access, CATV
Local Access Business	NTT East NTT West	KDDI		IP Revolution & Japan Telecom	Powered Com, K-Opticom, etc.	CATV, KVH C&W IDC
Value added, IP services	NTT Communications	KDDI		Japan Telecom	Powered Com, Fusion	C&W IDC, many others
Cellular	NTT DoCoMo	KDDI: Au and Tu-Ka	Vodafone Japan			

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Where is the Money? Major Carrier Finances

	Revenue (¥bn)	Net Income (¥bn)
NTT East	2267	58
NTT West	2166	61
NTT Communications	1106	24
NTT DoCoMo	5048	650
KDDI (Total)	2846	117
<i>Of which mobile (au, Tu-Ka)</i>	2101	254*
Vodafone Japan	1501	260
Softbank	517	-54*
<i>Of which BB infrastructure (Yahoo BB)</i>	129	-86*

Figures for FY ending March 2004,
except Vodafone: 2003

USD 1 = ¥110

*Operating
income

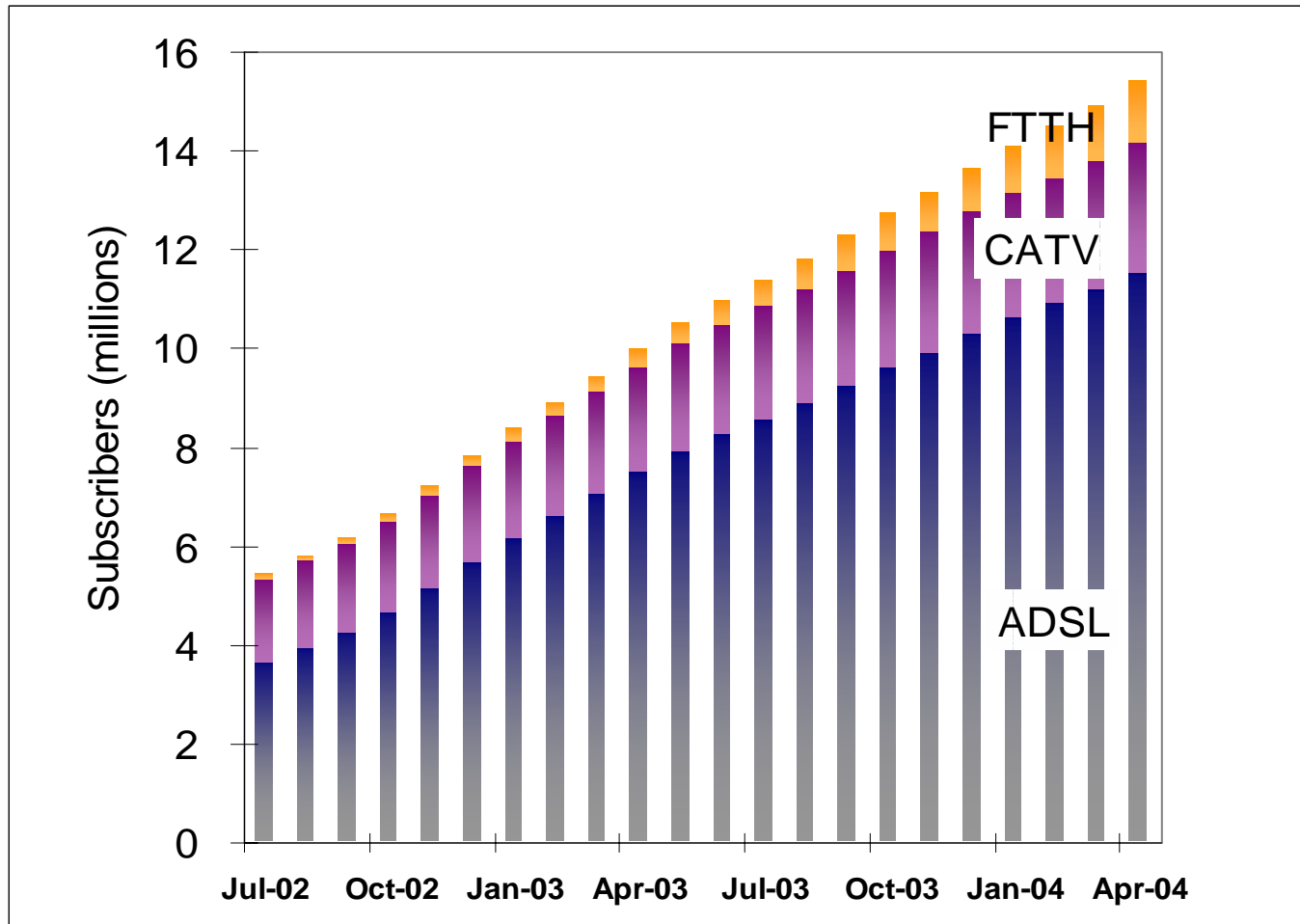
Infrastructure Spending Remains Healthy

Capital Spending on Telecommunications Infrastructure in Japan

	2001	2002	2003
Wireline Carriers	\$12,298 M	\$10,766 M	\$11,130 M
Mobile Carriers	\$13,973 M	\$12,717 M	\$12,942 M
Satellite Carriers	\$164 M	\$208 M	\$190 M
Cable Television	\$801 M	\$867 M	\$952 M
Total	\$27,236 M	\$24,558 M	\$25,378 M

Source: *BizMarketing* Survey

Access: Broadband Internet Access Growth



Fiber Access: FTTB, FTTH

Several carriers are now competing fiercely for the FTTx market:

- NTT East
- NTT West
- Usen Broadnetworks
- Tepco
- CTC (Chubu Tele-communication)
- K-Opticom
- Energia Communications
- QT-Net

Remaking of the NTT Network: RENA

NTT has a highly ambitious plan to re-build the entire telecommunications network using its all-IP Resonant Network Architecture (RENA) from 2005:

- IPv6 core:
 - IPv6/v4 dual stack routers
 - IPv6 multicast
 - 10 GbE interfaces
- Subscriber edge routers and L2 switches allowing:
 - Extensive priority and QoS control
 - IPv6/v4 dual stack
- Optical access network using EPON and point to point fiber

VoIP Services

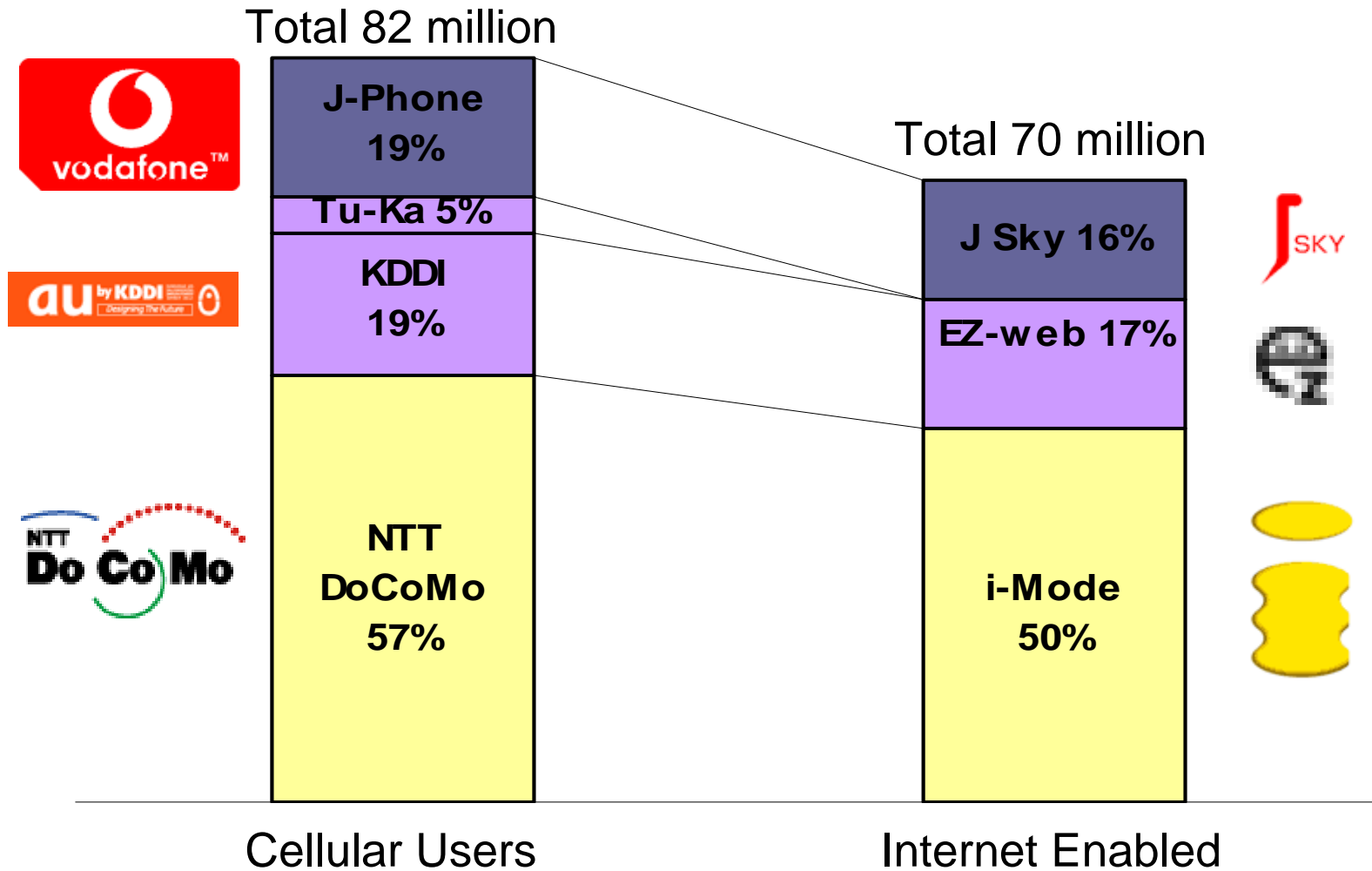
VoIP has experienced very fast growth in the past year, leading to many opportunities.

- Japan is a SIP market. Impossible to sell equipment based on H.323, MGCP.
- VoIP is also becoming a very fragmented industry:
 - Traditional facilities based carriers (Type I carriers)
 - Non-facilities based carriers (e.g. the old value added networks)
 - DSL operators
 - ISPs
 - Internet data center operators

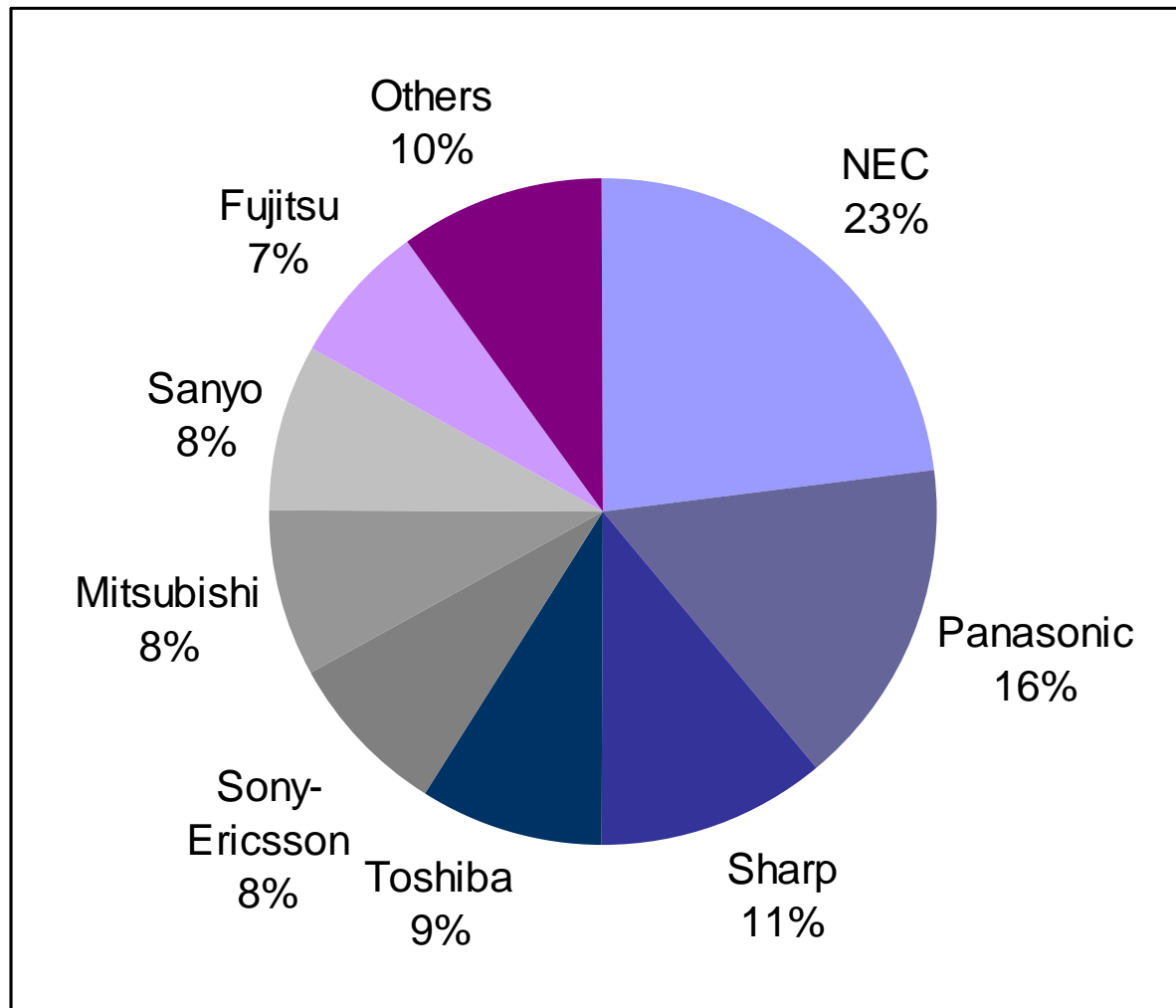
Four Cellular Networks: Three Dominate

Mobile Operator	NTT DoCoMo	Vodafone	KDDI: "Au"	KDDI: Tu-Ka
2G Standard	PDC	PDC	CDMA One	PDC
3G Standard	WCDMA	WCDMA	CDMA 1x EVDO	
Subs (m)	46	15	17	3.6

And Almost All Users Are Internet Enabled



Japanese handset vendors dominate



Relentless Evolution in Mobile Phones



Technology

Services

Voice

Phone calls, Voice mail

Internet enabled

E-mail, Browsing

MIDI

Ring melodies

Music download

Java/Brew

Games

2003

Camera

Photo, movie mail

Video phone, conference

GPS

Location services

2004

RFID Tag

M-Commerce

SD Card Socket

Data exchange, WLAN

WiFi dual mode

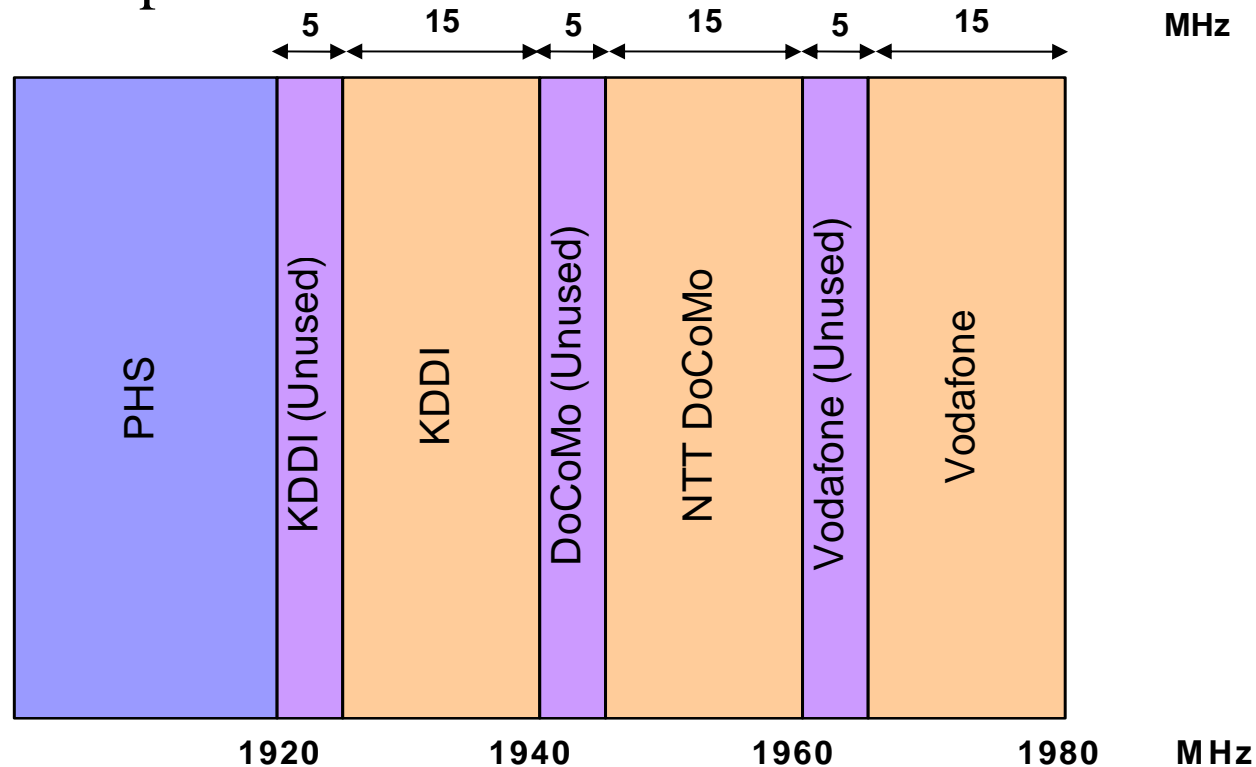
VoIP

Cellular: Key trends and issues for 2004

- Dual mode cellular/Wifi handsets:
- RFID tag in phone used for m-Commerce
 - Multiple electronic purses
 - Multiple loyalty programs
- Increase in 3G subscribers
- At least one new 3G license to be awarded (in 2005)
- Move to a 3GPP infrastructure

3G Spectrum for New Operator(s)

Uplink band plan



5MHz of each operator's allocation unused due to interference.
 Pressure to allocate each of the 3x5MHz channels to a new operator

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 - **Managing a Japanese team**

Inside The Japanese Business Mind

Imagine you are making a sales pitch to a potential Japanese customer ...

... what are they thinking?

The Japanese Mind: Risk

Japan is a very risk-averse culture, perhaps the most risk-averse in the world.

You are also probably selling into a big company, and big company employees are always risk-averse in any country.

Above all, your customer is thinking:

“I cannot afford to make a mistake.”

Technical Risk

You will receive a huge number of technical questions from a Japanese customer.

They are seeking to eliminate any nasty technical surprises.

On the positive side:

- If you get lots of technical questions, you know you have an interested customer
- Once the sale is made, the implementation is usually smooth with fewer technical problems.

Answer all technical enquiries diligently,
honestly, promptly.

Financial Risk

Japanese companies have been hurt many times by suppliers going out of business.

Common solutions:

- Partnership with a Japanese company:
 - OEM relationship with a Japanese vendor
 - Joint venture
 - Strong reseller relationship
- Source code for software kept in escrow
- Second source of product

Relationship Risk

Japanese people want to have personal relationships with their suppliers.

They rely on personal trust to ensure that they will be able to work through the inevitable problems.

Common solutions:

- Recruit or work with people who already have relationships
- Work on building the relationship: before making a sale need to have at least twice the number of meetings as you would have in the US.

Value the relationship more than the
transaction

The Japanese Mind: Japan is Different

Japanese customers are the most demanding in the world

- Quality
- Reliability

There are many specific requirements for the Japan market:

- Language
- Customer service
- Technical specifications

Will this supplier be able to satisfy those requirements?

The Japanese Mind: Pride

“Japan is the source of the best technology in the world.”

Why do I have to go overseas for technology?

You always need to overcome a preference
for buying Japanese.

The Japanese Mind: Insecurity

Don't understand English well.

Feel at a disadvantage in dealing with non-Japanese.

Not sure if he can trust you.

But is interested in dealing with the wider world.

Opportunity: treat your customer with trust and respect. You will have a loyal customer for life.

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Understanding the Japanese Market

Many of our preconceptions about a market do not hold in Japan.

What is different?

- Competitors
 - Purely domestic Japanese companies
 - Purely domestic business units of international Japanese companies
- Product offerings: different domestic and export products
- Industry structure
 - Distributors
 - Cross shareholdings and relationships

Mistake: Poor Market Research

- Poor knowledge of competitive landscape
- Underestimating barriers to entry
- Insufficient knowledge of local specifications and standards
- Value proposition may be quite different to other markets
- Difficult to break strongly entrenched supplier positions

Leading to ...

... insufficient or mistaken
understanding of market and its size

Solution: Get in Front of Customers Quickly

Preliminary research:

- Market
- Competitors
- Regulations



Make First Sales Calls

Explore

- Specifications
- Value proposition
- Market size, timing
- Current supplier relationships

Necessary start, but no substitute for meeting customers

Within one week can meet many potential customers

Sales calls should involve both you, the vendor, and local rep.

Mistake: Poor Knowledge of Industry Structure

Often there are long-established supply relationships in Japan:

- Keiretsu or equity relationships
- Senior employee or board member at the supplier has come from the customer company
- Strong personal relationships

Develop a Detailed Knowledge of Your Industry

- Develop your own champions in customer organizations
- Retain a senior advisor or consultant who can advise you
- Consult reference books:
 - Guides to keiretsu and cross-shareholdings
 - Guides to listed companies, showing all company directors and their previous employment history

Mistake: Underestimate Customer Demands

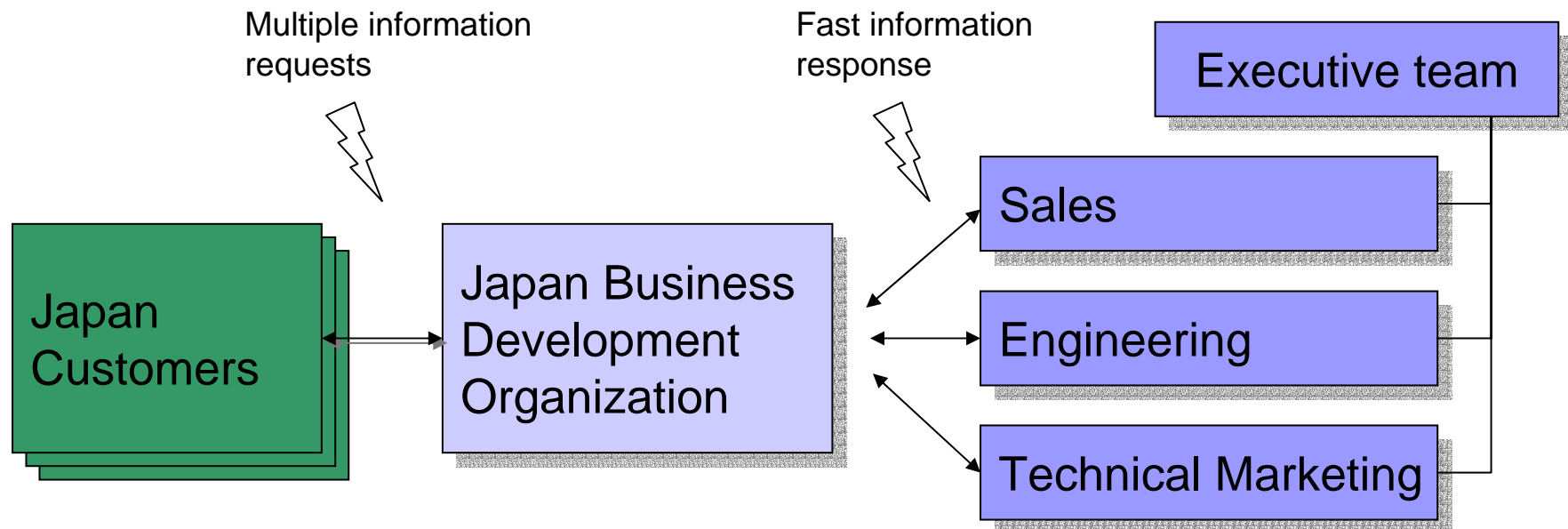
Sales leads will generate a deluge of enquiries and demands.

And vendors usually have:

- Not enough people to respond to pre-sales technical inquiries
- Poor product documentation
- Delays in providing information
- Low understanding of importance of keeping to deadlines (“it’s only one day late”)
- Reluctance to offer free training and product for demo/evaluation

Solution: Mobilize Whole Organization

... And make sure everyone in organization is briefed on the need to respond quickly and effectively



Mistake: Lack Understanding of Japanese Business Culture

The US has a great business culture; Japan does too. But the two are completely different.

Typical issues:

- Too much reliance on e-mail, not enough face-to-face time
- Underestimating importance of forging personal relationships over time
- Language barrier causes misunderstanding of customer needs
- The US is a very casual business culture; Japan is very formal

Solution: Spend Time in Japan

If Japan is important to your business, then it is important that you get to know the country, its customs, and your customers:

- Read up on Japan business customs – there is a white paper on our web site
- Visit Japan often to build relationships
- Work together with someone who has many years' experience of doing business in Japan – you will find that you make less mistakes and learn quickly
- Ensure that you have someone in Japan who can respond to enquiries in Japanese

Mistake: Don't Understand Business Calendar

Japan works on its own fiscal calendar:

- Fiscal year for most companies runs from April 1 to March 31
- Six month accounting, not quarterly accounting

Fiscal Period	April to September	October to March
Budgets Prepared in Preceding	December to February	July to August

- If your sale is not in the budget for the period, the approvals process is much more difficult.

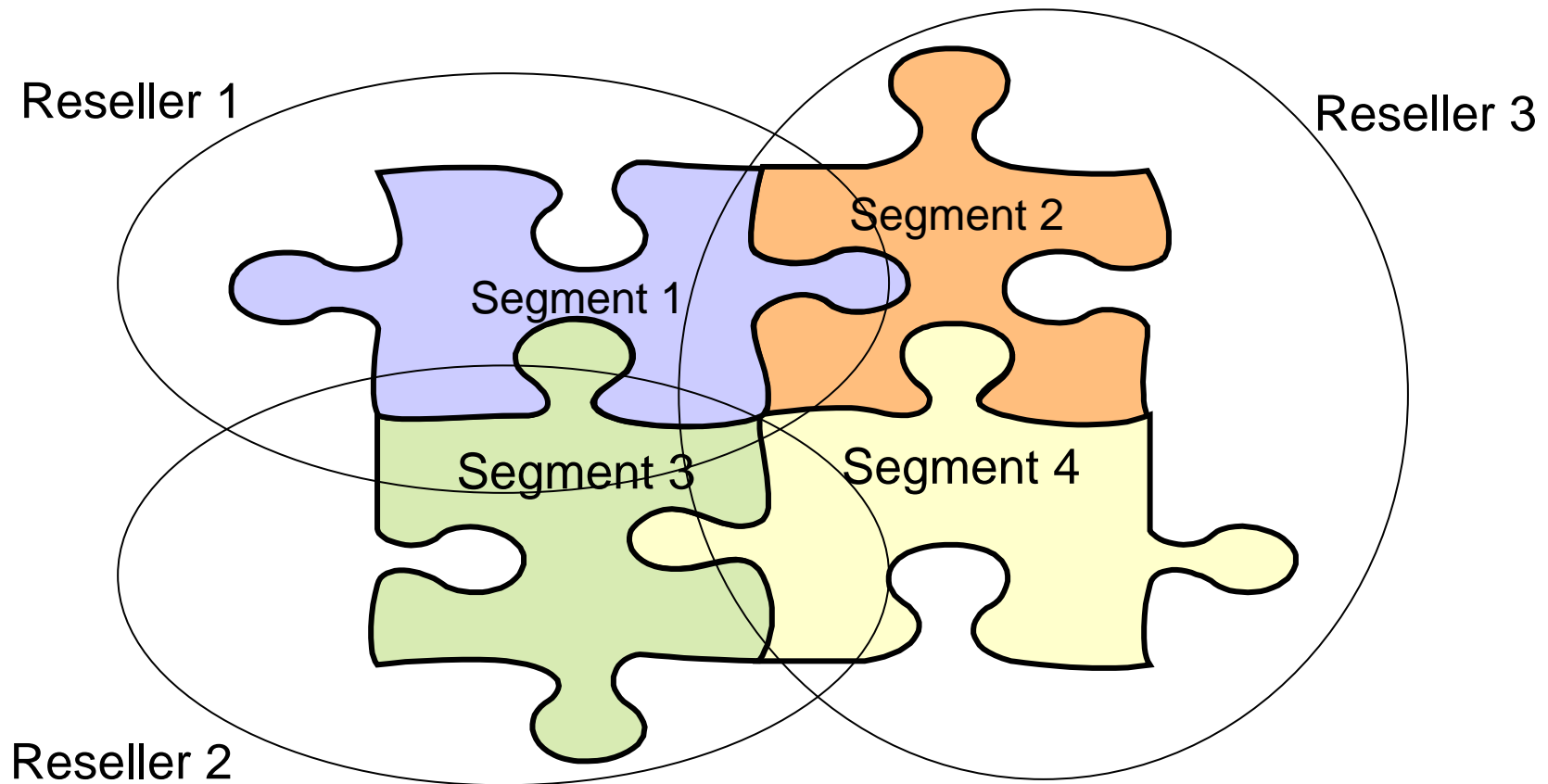
Mistake: Exclusive Reseller Agreements

Concluding an exclusive “master” distributor/reseller agreement is usually a mistake

- No one company, no matter how large, can fully address the large, diverse Japanese market
- Any given distributor will be locked out of certain accounts due to politics of cross-shareholdings

Solution: Manage Multiple Channels

Recruit multiple resellers ensuring each market segment covered



Mistake: Expect Resellers to “Sell Aggressively”

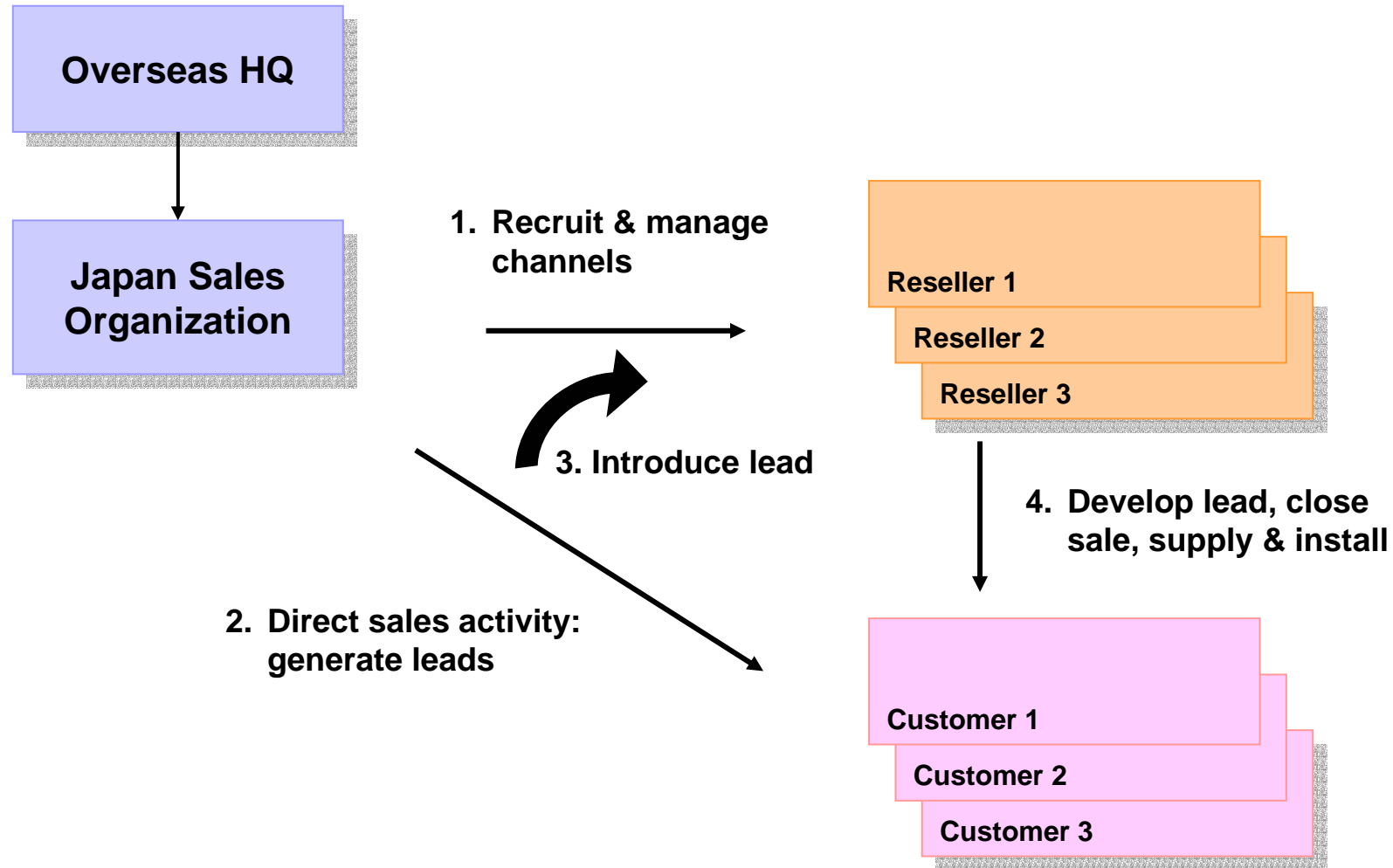
Common complaint: my resellers in Japan are not aggressive sales people:

- Don't beat down doors
- Don't hustle for the sale

Why?

- Systems integrators are focused on satisfying their clients' needs, not on selling your product
- Distributors and trading companies do not have the technical depth to sell a complex technology product
- Japan is not a pushy culture

Solution: Combine direct sales and channels



Mistake: Manage the business from overseas

- Insufficient face time with customers
- Time difference causes delays in responding to inquiries

Result: Japanese customers feel a lack of commitment to Japan

- Who's going to provide support?
- Who do customers call when something goes wrong?
- Who do customers call when they need an answer urgently?

And you can't see new market conditions and trends

Mistake: Send an inexperienced expatriate to manage the business

- Expatriates lack contacts and experience, can take 3 years to come up to speed
- Very high cost
- Large language and cultural barriers
- Lack of understanding of management expectations of Japanese employees lead to workplace problems

Japan is Not in "Asia"

... at least the way that Japanese people understand the term.

Japanese regard themselves as different to the rest of Asia ...

... other Asians see the Japanese as different, too.

Never make the mistake of having your Japanese operations report to a head of Asia based in another Asian country.

Mistake: Hiring the wrong people in-country

Good Japanese managerial and technical staff are reluctant to join a “risky” startup:

- Well aware that many tech companies entering Japan do poorly and end up firing staff
- Often leads to hiring low quality Japanese candidates, usually a candidate who is fluent in English, but is ineffective in delivering results in Japan
- These people often have friends of the same caliber from their last business failure, and they will hire them for your business ... soon you have a whole team of losers.

Solutions: Build Sales First then Build Organization

- Either: Work with “exclusive” distributor initially i.e. exclusive in practice, but not exclusive in contract
- Or work with a business development organization such as ours

When you have sufficient revenues, then start hiring in Japan

Solution: Hire Carefully

There are many great Japanese professionals working at foreign technology companies:

- Enjoy working on leading edge technologies
- Enjoy the entrepreneurial environment of foreign startups
- Are loyal and hard working
- With the technology downturn, many are available for hire

Select carefully:

- Especially the first employee
- Use personal recommendations of people you trust. If you have a good employee, ask him/her to introduce former colleagues
- Set probation periods
- Set incentive based compensation

Japan: The Challenges are Worth the Effort

Japan is different, sometimes difficult, sometimes frustrating.

But is a huge market, with enormous demand for good technologies.

And Japanese customers, once gained are very loyal.

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