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[Parallel 4] How to share next-generation excellent applications in Asia

**Takeshi Natsuno, Guest Professor, Graduate School of Media and Governance,
Keio University**

**Venkataraman Sriram, Senior Vice President, Head of Japan Business, Infosys
Technologies Ltd.**

John Lagerling, Vice President and General Manager, AdMob Japan

**Ken Kusunoki (moderator), Associate Professor, Hitotsubashi University Graduate
School of International Corporate Strategy**

Natsuno

Until last year, I was at NTT Docomo, but now that I have quit, I am free to speak my mind and feel refreshed (laughs). Today, there was news about NEC and Hitachi joining forces, but for who-knows-what added value? By definition, it is essential that applications be used globally. What in the world are NEC, Hitachi and Casio combining to do? On our part, we would like to hear Infosys (India) and NEC joining forces. In today's parallel panel session, I look forward to the opinions of non-Japanese panelists.

Sriram

Infosys first started out as a venture company in 1981. It almost went bankrupt but thanks to market liberalization in 1991, we were able to target the global market and rebuild our business model. Currently, we operate in 35 countries with net sales of about 500 billion yen. On a profit base, in the field of software, we are second only to Microsoft.

Lagerling

I was with NTT Docomo for five years where I worked on the global introduction of iMode and “*Saifu Keitai*.” After that, I moved to Google and now I am at “AdMob,” which transmits advertising for smart phones. While our strategy takes into account global markets, only recently have Japanese and world mobile standards become somewhat unified. Because I consider a carrier just a step up the corporate ladder, I have not regretted even for a day working

at my past job (laughs).

Kusunoki (moderator)

How do you all define “application”?

Natsuno

During its growth stage, Japan nurtured the industry of “making things.” However, as in cars with car navigation systems, “hardware” no longer sells well without “software” (services). Applications, as their name suggests, incorporate everything that applies fundamental technologies. I think Japan should avoid using such outdated phrase as “monozukuri” (making things).

Sriram

I consider the “things” users use as “applications.” It is important to consider how to make business applications with real practical business benefits. It is also important to determine how to apply the benefits of “making things” to the service and applications fields. To do that, you must carefully figure out how to integrate these applications. Japanese companies should think more about this.

Kusunoki (moderator)

What are Japan’s weaknesses?

Lagerling

Japanese companies tend to make a lot of excuses. While there are many Japanese concepts that can be exported overseas, most fail at the execution stage. Currently, many applications are being brought into Japan from overseas. Japanese companies have both the technology and the business model.

Sriram

I think the past excuse, “the way things are done overseas does not work in Japan,” no longer

holds true. It is important to grasp the whole picture and to perfect the final product. Determine what you want to do and sell it. Unless Japan expands overseas with this system, it cannot go far. Unless you have people who really know the local market, results will be hard to come by.

Natsuno

Though I am not referring to any specific company (laughs), in Japanese corporations, there are too many “joke business managers.” These managers realize that the Japanese market is mature, that Japanese economic growth has stopped, and that the two strategic choices left to them are obvious – expand overseas or create a new business domestically. In reality, however, maybe only two of their board members can speak English, a pretty distressful situation. I think that in this era, any manager who cannot speak English should just resign.

In the manga series, “Kosaku Shima, Company Manager,” the protagonist Kosaku Shima works in a traditional Japanese company under a lifetime employment system, but he speaks English and has many hobbies (laughs). In reality, however, there are many who have worked for the same company for 30 years and consider only their colleagues as rivals. Mr. Yoshida of Intel has talked about the importance of diversity, but in Japanese companies, there is no diversity. I think this is one of Japan’s biggest weaknesses.

Lagerling

Japan has a half-baked home market. In countries like Sweden with very small domestic markets, they realize from the start that they must go abroad.

Sriram

In post-war Japan, an “inside out” strategy worked well. However, in the world of applications, you have to think “outside in.” If it is not open, it will not be embraced as a standard. If it is not standard, it cannot go global. These three qualities – open, standard, global – are things that must be pursued together. Otherwise, a Japan-developed application will never become a global standard. While Japanese manufacturers ask, “How long will it take for Indians to

acquire the income levels necessary to buy Japanese products?”, in contrast, Korean manufacturers say from the start, “We will begin local development, manufacturing and marketing, and want to enter into your market right away.” As a result, Korean manufacturers now command an over 50% market share. Unless Japanese manufacturers adopt a similar attitude, they will find success hard to come by. I think the same applies for automobiles, as well.

Lagerling

In Japanese companies, even internally you could not call them open. They seem so focused on internal battles. Google is the first foreign-affiliated company I have worked at, and here, everyone naturally understands that for innovation, walls between colleagues and management just must not exist. This is one big way it differs from Japanese companies.

Kusunoki (moderator)

What then are Japan’s strengths?

Natsuno

Japan has many strengths. For example, take the Shinkansen bullet trains. While JR is not considering overseas expansion of the Shinkansen, it should aggressively pursue it. In terms of cellular phones, when you talk about the type of functions Japanese cell phones have, lots of people say they want to buy one. Last week overseas, when I said, “With a Japanese phone, you can ensure privacy of your phone directory and one phone can have two numbers,” many people said “Where can I get one of those?” There are so many products and services that Japanese corporations have that can go global, but so many people seem to think it is too much of a hassle to even try.

Lagerling

I am currently in advertising and one thing I felt after dealing with Japanese trading companies is that they could be a good means for Japan to develop links abroad.

Sriram

Japan has many good systems, take for example, convenience stores. However, certain business models cannot be exported abroad as is. For example, since there is no cold chain (a system for shipping frozen goods directly to the consumer), business models must take into account the entire system.

The second problem is the trade off between “speed” and “quality” (level of completion). America tends to place importance on speed, while Japan favors quality. I wonder how many corporate managers have this understanding. In terms of applications, “software engineering” is practically non-existent in Japanese academia. Corporations desire software engineering to compete, not hardware functions.

Lagerling

The usual desire for manufacturers abroad is to put the product on the market as soon as it is finished. If one out of 100 customers is dissatisfied, an overseas company would be content that 99 are happy. On the other hand, Japanese companies would do their best to try to satisfy the one complainer.

Natsuno

The Japanese market offers three benefits. The first is that the market is very demanding (making it ideal as a test market). The second is that Japan has a good IT infrastructure. The third is technological prowess.

Japanese companies should have term limits, say 10 years. If you work at the same company for more than 10 years, you get lax. I myself was at NTT Docomo for 11 years and the job got easier year by year. I even thought that it might be OK to stay (laughs). In this kind of environment, people tend to stop thinking about how to introduce new products and technologies.

Another benefit Japan offers is cumulative household savings (1,500 trillion yen in capital

assets).

Sriram

I believe that 1) the market; 2) money and 3) technology are really important. Japanese companies cannot become number one if they continue to think in terms of which market is more profitable, Japan or the world. These days, money can be procured from anywhere in the world. Technology is Japan's treasure, so it won't leave. For Japan to become innovative in the future, it must promote the exchange of human resources and technologies.

Lagerling

Japanese needs a radical change of its HR policies. There needs to be an environment that allows free and open debate inside the company. Looking at companies with Silicon Valley corporate cultures like Google, there is so much movement of people quitting and then rejoining companies. To them, people more than companies are what is most important. It would be interesting if we can nurture more individual players.

Kusunoki (moderator)

For Japanese companies, which market holds greater potential, B2B or B2C?

Natsuno

I think that the B2C market is an easier business in terms of expandability to the rest of the world. In Japan, the B2B market regulations are too different and it would be difficult to change them. Take, for example, the advertising market (in particular, the advertising agencies of the past). While this is a B2B market, despite the explosive popularization of the Internet in early 2000, it took several years before advertising shifted to the network. This was because top management at ad agencies were reluctant to do small-sized net advertising and favored large accounts where one TV commercial could earn them 1 billion yen. They were so spoiled. They went to big vendors because of systems and past preferences. Even the information systems division did not compete.

Sriram

With so many internal and industry rules, B2B is difficult. In the Japanese B2C market, the cell phone is the main terminal, but that does not necessarily mean it can become a world standard. In China, India and many other Asian countries, most mail is SMS, which may make it difficult to offer Asia the same services available in Japan.

Lagerling

One weakness of Japanese companies is that they lack a user-centric frame of mind. To enter into the B2C business, rather than through a joint venture, they should handle it directly. Feedback in a B2C business is faster. And another important factor is that the concept be international. One Japanese music magazine (Punk) targets a niche market but is translated and sold overseas. Even niche products, when sold globally, can command a high volume. Having niche products go global is an important strategy.

Natsuno

Last week, I was in Dalian and discovered that there are Louis Vuitton and Armani shops lining the streets. Even if only 0.1% of the Chinese population can afford to buy Vuitton or Armani, because of the huge population, it makes for a major market. Why do European brands have stores along the streets while Japanese do not?

Sriram

Infosys's business model is to use India as a means to compete in the global market. Our headquarters are in India. Our directors are in India. This helps cut overhead costs. There is only one internal platform and processes are uniform in each country. Simple, standard, global. These are the qualities we embody.

While China is trying to get its own standards adopted worldwide, I wonder if this approach will work in the future. India does not try to develop domestic standards. Rather, it chooses to use the best the world has to offer. Take telecommunications, for example. Rather than expensive technologies, such as optic fiber, India uses low-cost wireless technologies, such as

HSDPA and WiMAX.

Kusunoki (moderator)

Japanese understanding of ICT language also differs. In Japan, ICT has been heavily packaged. How will they overcome this?

Natsuno

Though not a Japanese product, Apple's iPhone is a superior example of packaging. Packaging raises the price of the product so it's hard to say whether it is good or bad. The idea behind packaging should be maintained but on the other hand, maybe it is better to pull things apart to determine what works best.

<Q&A>

1. *When talking about Japanese companies trying to enter China and India, you talked about the difficulties of communication, but what should Japanese companies be careful about to secure corporate growth in these countries?*

Sriram

Unless you put local people in key positions, especially for companies in the consumer market, you will have great difficulties. LG in India has many Indian employees. The second point is to create a structure that meets local consumer needs.

2. *As a committee member of the Japanese Government's advisory group, what do you think is important for manufacturers?*

Sriram

Consider how to educate people from a young age and expand exchange programs between Japan and abroad.

3. *I am from Nepal. Software and applications have a correlative relationship. How should I work with Japanese manufacturers to expand my business?*

Sriram

Infosys was unfortunately too small in scale to change Japanese rules but we were able to raise general awareness of India's software industry. Whether we are competing or complementing SI in Japan, I think both. Because we are still "chicks," we will dispatch a young 25-year-old Japanese employee to Infosys. We want young people to experience and feel the energy of India. In that way, maybe they will understand why India is taking the world by storm.

Lagerling

Google is a multinational company but everyone is efficiently running in the same direction. That is fantastic, and is of benefit to both sides.

4. *The Indian market is only 4.5% of the Japanese market. What should Japanese companies do to enter India?*

Natsuno

While Japan's global presence is currently waning, its GDP is second in the world at 500 trillion yen. Japanese companies must absolutely do business globally. China and India have obvious potential, and now all that needs to be had is a "Just Do It" attitude. Japan's biggest problem is why is it doing nothing? India is aggressively entering Japan. I think now is the time Japan must take action.

Kiyoshi Kurokawa (professor, National Graduate Institute of Policy Studies, from the audience)

Last week, I traveled abroad with Mr. Natsuno and realized that Japanese do not know how to sell things. Their presentations are so bureaucratic. India has a population of 1 billion people but there are only 3,000 Japanese businessmen. Japan has to get out there more.

Sriram

Japanese universities have to accept more Indian students. Japanese need to learn how to make more friends.

Lagerling

Asia still has many unexplored markets that do not use cell phones yet. Japan is a successful ground for many overseas companies. Niche markets can become huge in scale.

Natsuno

Men from Hong Kong go to Hokkaido, and men from Taiwan go to Karuizawa on dates. There are a lot of Indians in Japan, too. There are surprisingly many people who consider Japan a great country. Japanese should go abroad more.

Kusunoki (moderator)

Everyone should go abroad to Asia.

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