Japanese Multinational Enterprises in China: Successful Adaptation of Marketing Strategies

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This paper examines three case studies of Japanese multinational enterprises (MNEs) in China. They are from different sectors — retailing (Ito-Yokado), consumer goods (Shiseido) and automobiles (Toyota) — and all have had to adapt their business models to Chinese conditions. The paper examines the direction, extent and nature of adaptation of the Japanese firms’ business models in China and seeks to explore the changes in terms of conventional ‘Japanese’ international marketing behaviour. It finds that Japanese international marketing has evolved. While some aspects of success (organisational abilities, long-term orientation, aggressive growth strategies, ownership, R&D) have been diffused from developed to emerging markets, others (identification of customer needs and wants, information processing capabilities) have been extended. Segmentation and positioning are fine-tuned and are significantly different from Japanese strategies in developed markets. However, it would be a mistake to characterise a ‘Japanese’ strategy for the Chinese market, as no single approach predominates. Even within our sample of three case studies, strategies vary between the three firms and within each firm they vary over time. In all three cases, the Japanese MNEs are very conscious of consumer needs in China and the dynamics of these needs. A flexibility of approach is evident from Japanese MNEs in China. Overall, we conclude that Japanese MNEs are not ‘Western’ or ‘Japanese’ in their approach to the Chinese market, but are flexible, realistic and pragmatic.

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Introduction
This paper examines three case studies of Japanese multinational enterprises (MNEs) in China (Ito-Yokado, Shiseido and Toyota). The case studies are of three iconic companies. They are from different sectors (retailing, consumer goods and automobiles) and all have had to adapt their business models to Chinese conditions. The paper examines the direction, extent and nature of adaptation of the Japanese firms’ business models in China and seeks to explore the changes in terms of conventional ‘Japanese’ international marketing behaviour as portrayed in extant literature. It examines the Chinese context and consumer behaviour in China to show the influence of the host country on adaptation to foreign market conditions. With a view to the change in quality and quantity of Japanese investment in China, the case studies were deliberately chosen to show the spectrum and extent of adaptation efforts.

The rise of the Chinese consumer market offers unique insights into the extension and adaptation of home market strategies

The rise of the Chinese consumer market offers unique insights into the extension and adaptation of home market strategies. Foreign firms, including Japanese MNEs, have entered the market approximately at the same time, and face a new and often adverse environment. They need to learn the local rules of engagement. China puts ethnocentric extensions of home market strategies to the test. Stereotypical views of ‘Japanese’, ‘Western’ and ‘Asian’ management styles must be challenged, and this study explores the applicability of received theory to Japanese firms’ operations in China. The best way to do this is to provide empirical evidence of what firms actually do. The case studies analyse Japanese management in China and provide a litmus test of the degree to which a ‘Japanese’ management system is adapted to a ‘Chinese’ (‘Asian’) environment. The paper challenges the traditional portrayal of the globalisation path of Japanese firms, which are commonly thought to follow geocentric strategies (in contrast to the polycentric approaches of European MNEs).

Using Rugman’s (2008) classification: Ito-Yokado is bi-regional (Asia and North America), Shiseido is home-region orientated and Toyota is close to being a global company. Our three case studies thus encapsulate the spectrum of international and internationalising companies. Our paper therefore offers answers, at firm level, to three key questions:

1. To what extent does the international marketing behaviour of Japanese firms differ from that in the past?
2. How far have Japanese firms overcome their ethnocentricity by successfully implementing local marketing flexibility?
3. To what extent are Japanese home market idiosyncratic strengths transplanted into the Chinese market?

Research framework
Historically, much has been made of the Japanese international marketing approach. In Western literature it has been widely described as superior to and more efficient than that of Western competitors. Numerous studies have attempted to portray Japanese marketing methods. As shown in Table 1, conventional theory indicates that Japanese competitive advantages derive from organisational abilities, information processing capabilities, product-segment fit, identification of customer needs and wants, long-term orientation and aggressive growth strategies (market share). Most findings, however, relate to the heyday of Japanese management and largely ignore the widely documented (at least in the Japanese literature) problems of Japanese firms in adapting to local market environments. Contrary to Western understanding, extant Japanese literature classifies the
international marketing approaches of Japanese firms as ‘simple-global’, with a strong emphasis on product standardisation and an omnipotent Japanese headquarters.\(^5\) If we assume that global strategies are a product of specific management vistas, this ethnocentric heritage (as opposed to the polycentric globalisation paths of many European firms)\(^6\) becomes a barrier to success—particularly in view of the increasing heterogeneity of world markets. New consumers in emerging markets and the increasing atomisation of consumer behaviour in developed markets force firms to find a balance between integration advantages and differentiation needs. The presumed strength of Japanese marketing may then indeed be an inherent weakness. Recent studies reveal that the centrally orchestrated global marketing management of Japanese firms is giving way to decentralised decision processes. These show that Japanese firms are in the process of outsourcing key functions such as production, human resources, R&D, finances and marketing to their subsidiaries.\(^7\) Consequently, this means that this ‘forced’ decentralisation strategy is evolving into one of subsidiary leadership.\(^8\)

Most findings largely ignore the widely documented problems of Japanese firms in adapting to local market environments

Japanese firms and the international market environment have evolved dramatically, but accurate descriptions of contemporary Japanese international marketing behaviour are largely absent. A substantial body of research has recorded the international approach of Japanese firms amid recent rapid economic integration and increased economic linkages between China and the rest of Asia,
including Japan. The thrust of this research concentrates on internationalisation motives and strategies.\textsuperscript{9} Within this literature there are a number of studies that investigate the activities of Japanese firms in emerging economies, most notably China. As most of these studies are based on quantitative and econometric analysis,\textsuperscript{10} their explanatory value for the international marketing behaviour of Japanese firms remains somewhat limited.

Several interrelated factors are responsible for this myopia: (1) Japanese firms have been reluctant to introduce modern marketing techniques in their home market, making the international findings look arbitrary. Changes in Japanese consumption patterns and the arrival of foreign firms have, however, led to intensified competition, and serving individual consumer needs has become paramount.\textsuperscript{11} The effect of this on international strategy is unexplored. (2) The literature is mainly geared towards Japanese firms’ behaviour in developed markets (with the notable exception of Fongsuwan 1999).\textsuperscript{12} The shift towards emerging economies, particularly in East Asia,\textsuperscript{13} suggests the need for careful scrutiny, Japanese strategies here seem to have changed dramatically. (3) In the wake of the bursting of the bubble economy and the longest recession Japan has experienced in the post-war era, Japanese firms were forced to adapt their organisation and management, including ‘Japanese-style’ marketing.\textsuperscript{14} Today the Japanese marketing environment is characterised by saturation, hyper-ageing and mass-customisation. In this ‘pressure cooker’ environment, Japanese firms have had to develop new home market strengths.\textsuperscript{15} These form the basis of their international strategy.\textsuperscript{16} If marketing orientation has become the key determinant of Japanese management in the home market, strategic behaviour outside Japan may evolve accordingly.

\textbf{To what extent is the international marketing behaviour of Japanese firms today different from the past?}

The question thus arises: to what extent is the international marketing behaviour of Japanese firms today different from the past? A further central dimension of exploration is whether Japanese firms have overcome their inherent simple-global management style by successfully implementing local marketing flexibility. The Chinese market is an excellent environment in which to assess the international marketing profile of Japanese firms. First, China has emerged as prime destination of Japanese foreign direct investment (FDI) in Asia, and Japan’s premier trade partner.\textsuperscript{17} Second, China’s economic growth policies, market liberalisation and market opening to foreign business,\textsuperscript{18} have given rise to a high degree of Sino-Japanese economic interdependency. Third, following China’s accession to the World Trade Organisation (WTO) in December 2001, Japanese firms have started to reconfigure China’s position as a FDI destination. Investments for domestic sales have overtaken export-orientated motives,\textsuperscript{19} signalling a shift towards China as both a prime production location and a key market. Fourth, amid this shift from production-orientation to market-orientation, Japanese corporations need to adapt to the new rules of engagement.\textsuperscript{20} Nascent Chinese consumerism and intense local competition challenge Japanese international marketing expertise.

\textbf{Nascent Chinese consumerism and intense local competition challenge Japanese international marketing expertise}

Comparative case studies help to focus on micro details of the operation of Japanese companies in China and facilitate a fresh and more realistic look at the localisation of marketing \textit{à la Japonaise}. The three case study firms have key challenges to face in reaching Chinese customers, and in adapting their products and business models to Chinese conditions. Our initial focus is on success factors for the Japanese firms in China. This enables us to identify continuity and change in Japanese marketing strategies in China, and to identify the extent to which the success factors arise from Japanese
home market idiosyncratic skills. We are also able to identify intercultural awareness and successful adaptation to Chinese conditions.

**Itō-Yōkadō in China**

While the entry modes of Western retailers into Asian markets are well known, little research has been done on the internationalisation of Japanese retailers. This section offers insights into how Itō-Yōkadō, one of Japan’s premier retailers, entered the Chinese market, reacted to past and current barriers to competition and tailored its marketing to Chinese consumer behaviour (location, store layout, communication).

Seven&I Holdings is a key player in Japan, one of the world’s most advanced retail environments. Established in 2005, and following the purchase of the former US-based parent company (2005) and the merger with Millennium Retailing (2006), it has become the largest distribution/retailing operation in Japan. Its retail formats include department stores (Sogo, Seibu, Robinson), convenience stores (7-Eleven), general merchandise stores (Itō-Yōkadō, Marudai), supermarkets (York Benimaru, York Mart), food services (Denny’s, Poppo), speciality stores (Mary Ann, Akachan Honpo), financial (Nanaco) and IT services (7-Dream.com).

The general merchandise store arm of the Seven&I Holding, Itō-Yōkadō Co Ltd, is central to this retail conglomerate. The primary business model is that of dominance (Dominanto Senryaku), i.e. location decisions follow the sole logic of area dominance. Instead of developing a loose nationwide network, Itō-Yōkadō has developed high-density operations concentrated in key areas of Japan. This means high efficiency in terms of customer reach (two thirds of its stores are located in the highly populated Kantō region, which comprises more than a third of Japan’s overall population), but also in logistics, advertising and brand awareness. Regional concentration is also inherent in its commitment to tailoring its operations to local consumption patterns. This ranges from regional adaptation of store formats to one-to-one marketing as part of the customer relationship strategy. Store planning, layout and product assortments vary geographically in accordance with local lifestyle profiles in the trading area. Local grounding is achieved by the integration of local produce or ingredients. Individual consumer preferences are carefully monitored (using POS/database/store cards). Based on this information, stores can react flexibly to changes in consumption patterns and new needs.

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**Instead of developing a loose nationwide network, Itō-Yōkadō has developed high-density operations concentrated in key areas of Japan**

**Success factors**

**Local partnerships.** Itō-Yōkadō has only recently begun to test international waters. After approval was given for the first foreign-capital owned countrywide chain store by the Chinese government, Itō-Yōkadō opened its first GM supermarket outside Japan in 1997. Through a majority joint venture (JV) with local retailer Chengdu, Itō-Yōkadō was established in Sichuan province. In the following year Itō-Yōkadō established the Beijing-based Huan Tang Yo kadō group via a minority JV. Itō-Yōkadō expanded its China operations step-by-step. Today, the firm operates six GM supermarkets in Beijing and two in Chengdu.

In addition to the expansion plans of Itō-Yōkadō in Beijing (four further GM superstores in 2008, followed by the establishment of a distribution centre and further store expansion), Seven&I Holdings has intensified its involvement in China. In 2004 7-Eleven (Beijing) Co Ltd was established, and by May 2007 the group had developed a network of 53 convenience stores in Beijing. The group expanded to 350 stores. Further to this, the group formed a JV with Wangfujing Department Store Co in 2005, planning a chain of 20 stand-alone supermarkets in the Beijing area by 2008 (as majority shareholder: 40 per cent held by the Chinese partner and a combined 60 per cent
by Itô-Yökado and subsidiary York Benimaru). These investment activities highlight the importance of the Chinese market to the group. While current operating income is comparatively low, the group is firmly establishing itself as local/regional key player.

Location strategy. A key aspect of Seven&I’s expansion in the Chinese market is local concentration. General merchandising and convenience stores, as well as the supermarkets, are geographically focused on the Chinese capital. With the exception of the retail brands Sogo and Seibu (arising from the merger with Millennium Retailing), all operations are located in Beijing and Chengdu. Plans to extend the operations to Tianjin, Chongqing, Shenyang and Dalian have been put on hold. This is in stark contrast to the activities of Western retail chains and at first sight seems somewhat surprising.

China’s retail fragmentation may justify a localised concentration; however, the economic divide between metropolitan/coastal regions and the largely underdeveloped hinterland forces retailers to re-visit their expansion strategies. The French retailer Carrefour and US retailer Walmart Stores have found different answers to retail developments in China. The geographic profile of these retailers is distinct from the Japanese strategies, as they pursue what might be called a ‘sprinkler strategy’. Due to the competitive environment, maturation effects of metropolitan retail markets and expected growth in the hinterland, these retailers are simultaneously expanding their operations across China. The inherent business model of geographic dominance outlined above throws a different light on Itô-Yökado’s China activities. The home-market approach of selective/regional dominance seems to be replicated and extended in the Chinese market. Vertical ‘deep integration’ synergies as in Japan (streamlining distribution, logistics and brand awareness) are drivers of this concerted multi-format expansion.

The home-market approach of selective/regional dominance seems to be replicated and extended in the Chinese market

The initial strategy of central locations was replaced by an extension to city peripheries, without forfeiting the idea of deep integration. While further store operations continued to follow strategic market entry criteria (target group, catchment area, competition), a more flexible route was taken to new store selection. Abandoning the minimum location preconditions, the speed of store openings accelerated from 2003. Itô-Yökado’s most recent GM store in Chaoyang district, opened in 2007, exemplifies the shift towards integration into new urban developments (greenfield developments with combined living, shopping and working). However, it also signals intensification of competition for prime retail locations.

Consumer focus. Adapting to local consumption patterns is at the very centre of Seven&I’s business model. In the first twelve months of its China operations it was confronted not only with the obvious and anticipated divergences in Sino-Japanese consumption patterns, but also with vast regional differences in style, colour and brand preferences and physical attributes between Chengdu and Beijing. These experiences reconfirmed the company’s strategic path of localisation. Prior to the launch of the Chengdu store, a task force of Japanese managers lived for a prolonged period in China to get first-hand experience of daily life and local lifestyles. The management was aware that western-style supermarkets, and their inherent aspects around self-service and central check-out, were at this time a completely new concept to Chinese consumers. Itô-Yökado identified cleanliness, safety and freshness as differentiators from local competition — on top of status as a window to modernity (‘foreign’, ‘exciting’). The bundling of offers in one place was put forward as a unique selling proposition (USP). Differences and changes in lifestyles are constantly monitored, enabling the firm to react to marketing variations and build up local expertise.

Shiseidô in China
Shiseidô is a Japanese success story in China and serves as an example of how Japanese MNEs primarily target luxury segments. It also shows that Japanese firms have a remarkable and so far
under-explored ability to fine-tune and fine-slice their marketing activities to the local environment. Not only has the toiletry manufacturer for the first time in its corporate history developed brands specifically/solely for a foreign target market (Aupres, Za) in contrast to other markets, but it has also successfully integrated both localised and globalised facets of its approach. Shiseidō is one of the world’s biggest manufacturers of cosmetics. While characterised as ‘home-host oriented’, firm level data reveals that the firm is able to draw from substantial international experiences. The first regional steps were taken as early as the 1950s (with exports to Taiwan, Singapore and Hong Kong), followed by an expansion to North America, Europe and South Pacific in the 1960s. In 2007, Shiseidō was active in 67 countries, with 12 manufacturing (50 in Asia) and eight R&D (mainly in Europe, North America) overseas facilities.

**Japanese firms have a remarkable and so far under-explored ability to fine-tune and fine-slice their marketing activities to the local environment**

Foreign MNEs are key players in the Chinese cosmetics and toiletry market. Japanese cosmetic firms were among the first to arrive in China. While domestic manufacturers serve the lower to medium end of this developing mass market, foreign brands, skilfully entering with massive marketing budgets and fine-tuned advertising, have become icons of modern lifestyle. Foreign manufacturers dominate this market, with Procter&Gamble, L’Oreal and Unilever leading the retail sales table. Shiseidō is ranked seventh overall, and dominates among Japanese cosmetic corporations in terms of retail sales followed by Kao (in 15th place overall). Shiseidō possesses a nuanced brand profile, close to the market leaders Procter&Gamble and L’Oreal in key dimensions of consumer evaluation.

**Success factors**

*Localisation of R&D.* Early on, Shiseidō identified the Chinese market as a cornerstone of the firm’s international expansion strategy. As early as 1980 the cosmetic manufacturer exported products to China. With the motto ‘high quality, high service, high image,’ skin products were available in Beijing. Here the firm benefited from increased fashion awareness, brought about by the influx of Western-style fashion shows. By 1990 cosmetic markets were rapidly growing and Shiseidō set up a majority JV with the Beijing Liyuan Cosmetics group. The objective of this undertaking was to use the Japanese firm’s technology to develop cosmetics for the local market. After the establishment of production facilities in Beijing, joint research on Chinese skin, hair and consumer behaviour (i.e. cosmetic awareness/consciousness) was conducted for over two years.

**The firm benefited from increased fashion awareness, brought about by the influx of Western-style fashion shows**

After the market introduction of the Shiseidō mainline (imported from Japan in 1993), the brand ‘Aupres’ was launched in 1994. From 1998 the Shiseidō group extended its production facilities. New facilities were added to the Beijing operations and in Shanghai a second plant was opened. Again the cosmetic manufacturer opted for a majority JV and split production between these two operations. While in the Shanghai plant ‘Za’ and ‘Pure & Mild’ are produced, premium brands are produced and/or assembled in Beijing. The newly formed Shanghai Zotoc Citic Cosmetics Co therefore signals a strategy shift to include middle income earners in the customer portfolio. In
2002 the firm added a research centre to its China activities, where adaptation requirements and potential (e.g. exploration of Chinese medicine) are explored.

**Branding and communication.** Shiseido’s brand architecture and socio-economic segmentation strategy in China has been innovative. On the one hand, the orientation towards premium brands is evident. While import brand positioning is clustered towards the high end, locally produced Za and Pure & Mild address the middle-price segments. By 2010 the main target groups will be households with a minimum income of US$33,000. The Aupres brand was developed solely for the Chinese market and is not sold in Japan. It was first launched in Shanghai (Pacific Mall) in 1994. With its exclusive (European) yet localised appeal (in advertising, only Chinese models were used and its exclusive development for Chinese skin was highlighted), it struck a chord with Chinese consumers. With a core target group of 20–40 year old female professionals and its high quality/medium price range positioning, Aupres became an instant success story in China. Key factors include a relationship of trust between the company and the local government, the technological expertise of the JV partner and the fine-tuning of the Aupres products to local needs.

Despite fierce price competition, Shiseido has achieved stability since the initial market launch. The line-up was carefully extended and today sales of Aupres exceed those of combined Shiseido brands; in addition, more retail space is allocated to it. The firm has localised its brand hierarchy, so that Aupres acts as an umbrella for the Shiseido brand name. This turns the usual patterns of Japanese brand management upside down, because in Japan the firm name acts as the umbrella brand. Competitors such as Procter & Gamble and L’Oreal have tried to follow the route of localised development, but Shiseido still has an edge as the firm is perceived to have a better understanding of ‘Asianness’. This image is strengthened by the retail staff and their focus on individualised consulting services.

**Competitors such as Procter & Gamble and L’Oreal have tried to follow the route of localised development, but Shiseido still has an edge**

Meticulous market research detected an increased market potential for top-of-the range cosmetics in China — triggering not only the influx of Shiseido’s top brand (Cle de Peau) but also the extension of existing brands. The new Aupres brand (Supreme Aupres) is targeted at an increasingly affluent clientele (higher price, superior image). Hence a dual brand strategy can be deducted. On the one hand the firm extends its brand portfolio downwards (for example Za, Pure & Mild) to reach a bigger customer base. On the other, it strengthens its position in the premium segments either by new brand introductions or careful up-scaling of existing brands.

**Retail outlet selection and adaptation.** Deregulation opened the path to the expansion of retail channels in 2003. The selection of retail outlets is key to the success of Shiseido, which attaches great importance to fine-tuning its retail marketing mix. Shiseido started to add chain stores to its department store retail channels in Beijing, Shanghai and Hangzhou. A further advance was the establishment of Shiseido (China) Holdings in 2004. The nationwide roll-out of speciality stores is coordinated from Shanghai. These investments mirror the importance that Shiseido attaches to this market. China with its huge market potential is crucial to the strategy of the cosmetic group. Shiseido’s profits in China outpace those of other regions. Beauty counsellors are extensively trained (centralised in Beijing) to meet the needs of the customers.

**Toyota in China**

Toyota has overtaken the recently bankrupted GM to become the world’s leading car manufacturer. In this light it is surprising that this prominent Japanese firm struggles to gain a strong foothold in China. Even though it has been in the vanguard of Japanese investment in China, it has traditionally lagged significantly behind competitors such as Volkswagen (which had almost three times Toyota’s unit sales in China in...
2004), but is currently closing this gap in terms of unit sales. The case study will scrutinise the historic development of Toyota’s operations with particular attention to barriers for Japanese companies in China.

With global sales in more than 170 countries, manufacturing facilities in 26 countries, and eight R&D sites outside Japan, Toyota is a good example of a global firm. While industrialised markets remain a strong source of revenues (the majority of Toyota’s income is generated here, and Japan continues to be the firm’s key market), the manufacturer is in the process of restructuring its global sales architecture. A key ingredient of its strategic vision ‘global 15’ — which aims to establish Toyota as the world’s No 1 car manufacturer with a world market share of 15 per cent by 2020 — is the firm’s success in emerging markets. From a volume perspective it is anticipated that the BRIC markets (Brazil, Russia, India, China) will grow in prominence. Within these four growth markets, China is a critical element, contributing more than half of overall market sales. Despite its latecomer status, Toyota envisions a market share of 10 per cent. This equates to sales of one million cars. With more than 200 local and foreign automakers, the Chinese car market is, however, a prime example of ‘mega-competition’.

Success factors

Network creation and leveraging partnerships. Notwithstanding a 40 year history in China, it was not until 1988 that Toyota collaboratively manufactured the one-box car (Hi Ace) under license to Shenyang-based Jinbei Corp. Realising the growing importance of the Chinese market, Toyota intended to extend its operations in China. However, the firm failed in its bid to secure a JV agreement with Shanghai-based Automotive Industry Corp (SAIC). As the Chinese government declared a five-year moratorium for further car manufacturing/assembly, Toyota lost first-mover ground to its main competitors VW (1984) and General Motors (a beneficiary of Toyota’s failed bid). Technology transfer tie-ups were used as beachheads. In 1996 a co-operative venture with Tianjin-based Fengjin Corp was agreed, to form Tianjin Toyota Motor Engine Co Ltd. In 1998 these activities in Tianjin were extended with the establishment of Toyota-affiliated suppliers. In what has been termed ‘pre-clusterisation’, Toyota developed partnerships and built up a substantial local supplier network. Following government approval in 2000, Sichuan Toyota Motor Co Ltd was founded, and in a 50:50 JV with the First Automotive Works (FAW) group the minibus model Coaster was produced. Tailored to the Chinese market, this was the first fully locally manufactured product under the Toyota brand. In 2002 Toyota deepened its partnership with the FAW group to establish the Tianjin FAW Toyota Motor Co Ltd. The Vios model was developed in Japan, jointly manufactured in China and targeted at South East Asian markets. The sports recreation vehicle models (SRV) Land Cruiser (manufactured in Jilin) and Prado debuted in 2003, and Toyota’s world bestseller Corolla was introduced in Japan, jointly manufactured in China and targeted at South East Asian markets. The sports recreation vehicle models (SRV) Land Cruiser (manufactured in Jilin) and Prado debuted in 2003, and Toyota’s world bestseller Corolla was introduced in Japan, jointly manufactured in China and targeted at South East Asian markets. In 2004 saw the geographical expansion towards Guangzhou, where Guangzhou Toyota Motor Co Ltd was established; from 2006 the new Camry model was produced here. In the same year the Crown was relaunched and Toyota’s middle-class model Reiz introduced (it was subsequently rebranded the Mark X model). The introduction of the Lexus brand completed Toyota’s line-up. In contrast to the other models, this luxury brand is not manufactured locally, but is imported from Japan. The geographical expansion of production facilities is related to consecutive model launches and widening coverage of target markets.

In the case of passenger vehicles, the Japanese manufacturer carefully developed its local product line-up by consecutive moves into higher price segments

Product introduction. The evolution of model introductions followed an upward segment pattern, reflecting the socio-economic shifts in Chinese society. In the case of passenger vehicles, the Japanese manufacturer carefully developed its local product line-up by consecutive moves into higher
price segments. This pattern was followed with its SRVs and special vehicle models. The Lexus brand is a spin-off from the Toyota brand umbrella.\textsuperscript{62} It is positioned as a standalone, top-of-the-range brand with only loose associations to its manufacturing origin.

Lexus is distinct because the top model was introduced first, followed by a trickling down to the ‘lower’ price segments (which are of course still higher than for the Toyota models). In this way the entry-level models benefit from halo effects. All models are produced in China with Toyota’s latest technology. The firm is trying to close the three month-market introduction gap between launches in Japan and China. This simultaneous launching of product models reinforces the influence of home-country marketing activities.

While Toyota is extending its production bases in China, it is also consolidating its sales, marking a shift towards market-seeking investments. Toyota has consequently been developing a strong foothold in the Chinese market — compensating for its latecomer disadvantages. In the area of passenger cars it ranked third with a market share of 8.2 per cent (September 2007). This success was the result of the re-launch of the Camry and the introduction of the Corolla — both of which are in the top 10 of best-selling cars in China.\textsuperscript{63} It also highlights the successful market strategy of the Japanese automaker: the smaller car classes are left to local competitors, while Toyota focuses on the middle to upper-class segments (and in the case of Lexus on the top luxury class).\textsuperscript{64} Within China, the metropolitan areas of Shanghai, Guangdong and Beijing are the most important sales areas.

**Speed.** In the competitive Chinese car market Toyota has identified speed as a key enabler for successful operations. In this respect, Toyota follows a localised marketing approach, in that the local subsidiary is given room to manoeuvre, in order not only to reflect Chinese consumer needs but also to react speedily and flexibly to changes in the market environment.

*Within the Toyota group, product promotion follows the motto: ‘where products are different, they must be differently explained’*

A comparative analysis of the cases
The case study scenarios of Ito-Youkado, Shiseido and Toyota in China help to re-assess Japanese marketing in foreign markets in general and the dynamics in developing markets in particular. The first question posed above was the extent to which Japanese international marketing practices had evolved. Based on our three case studies, the answer is — substantially. In terms of product, focus and targeting, market orientation, management and market research, there has been considerable evolution. This is less true in communication and not confirmed in institutional support and pricing. Pertaining to our second research question, on whether Japanese firms have successfully implemented local marketing flexibility, our three sample firms have all shown a high degree of cultural awareness and willingness to adapt the marketing mix locally. Geocentric attributions of the international orientation of Japanese firms seem in this light oversimplified. Table 2 represents our expanded understanding of Japanese marketing in China. Commonalities in success factors occur in the emphasis on quality, consistently high service provision and selection of distribution and communications networks. All three firms are sensitive to intercultural differences between Japan and
China, and additionally to regional differences within China. The focus on research and development and the careful monitoring of consumer behaviour are keys to the firms’ flexibility and customer responsiveness. Based on extensive market intelligence, they have successfully tailored their products/services towards growing medium to premium market segments.

**Product/service**

All three firms emphasise a high degree of product awareness, with a fundamental belief in offering superior quality. Product launches are rapid, almost staccato-like (particularly in the case of Toyota), and with a clear focus on developing products to local needs (particularly Shiseido). The latter case is interesting as it first established a strong localised platform (the Aupres brand) and developed a good understanding of the local market environment, and then introduced Japanese brands and retailing techniques. In this sense the case studies show that Japanese firms are highly adaptive, developing products continuously along the trajectory of sub-regional consumer needs and changes over time. The Itô-Yôkadô case shows a very pragmatic approach to the Chinese market, basically extending its business model to China (domination) but at the same time showing a high degree of cultural awareness. Services are adapted to local consumer behaviour, and in many cases Itô-Yôkadô monitors and ‘educates’ consumers to learn new skills, e.g. store cards, in a process of continuous improvement.

**Focus and targeting**

In contrast to their experience in developed markets, all three firms have successfully addressed the rise of affluent, middle-class consumers in China. Thus, they are not competing with local firms but with other top-of-the-line marketers and brands. While this focus on up-market segments may be a distinct feature of Japanese marketing behaviour in emerging markets, it contradicts the over-generalised and maybe outdated understanding that Japanese firms are positioning their products as mass-market, value-for-money brands. Nevertheless, the anticipated focus on high-growth segments can be maintained, as the presence of Japanese firms in China itself mirrors the fact that that they follow emerging consumer clusters. By adequately developing new segments, our cases not only underline a highly nuanced understanding of Chinese consumer shifts, but also highlight the fact that Japanese firms are capable of taking the lead in defining and addressing emerging segments. As they are developing these segments both upward and downward (with the beachhead brand as platform), they also show finely nuanced and to date unreported positioning skills. Japanese firms have always struggled to develop a premium image for their products, which to some extent has to do with their brand heritage as low-cost competitors, but this hurdle seems to have been overcome in the case of the Chinese market, where this initial positioning gives more room for brand manoeuvring (e.g. Toyota’s experiences with Lexus).

**Market orientation**

All three firms have identified China as a cornerstone to secure long-term growth. Their activities are stringently market-orientated with a clear eye on the consumer. They are all carving out specific market niches that they then attempt to dominate, particularly by establishing a leadership position in that specific product segment. In this respect all three firms can be shown to follow an aggressive market share strategy. For the retailer Itô-Yôkadô this is evidenced by the local focus (domination strategy), while Toyota explicitly aims at reaching a specific market share in China. In order to achieve this, they also prefer to concentrate their operations geographically, even when this policy is constrained by (two) JV partners (Toyota). However, both Shiseido and Toyota have begun to

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All three firms have successfully addressed the rise of affluent, middle-class consumers in China

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### Table 2. Comparative analysis of case studies

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<td>- Business development as product of consumption patterns monitoring</td>
<td>- Retail outlet selection</td>
<td>- Focus on high brand recognition</td>
</tr>
<tr>
<td><strong>Focus and Targeting</strong></td>
<td>- Supermarkets positioned as 'windows to modernity'</td>
<td>- Aspirational brand development</td>
<td>- Status symbol brand</td>
</tr>
<tr>
<td></td>
<td>- Middle-income group as main target</td>
<td>- Affluent middle class and high-end earners as main target</td>
<td>- Metropolitan concentration</td>
</tr>
<tr>
<td><strong>Market Orientation</strong></td>
<td>- Growing importance of Chinese market within company network</td>
<td>- Key market for group growth</td>
<td>- Target luxury segment</td>
</tr>
<tr>
<td></td>
<td>- Market entry simultaneously with Western competitors</td>
<td>- Market entry prior to most Western competitors</td>
<td>- Initially cautious approach, now important market for global growth targets</td>
</tr>
<tr>
<td></td>
<td>- Deep integration (forward and backward)</td>
<td></td>
<td>- Latecomer due to government restrictions</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>- Mainly Majority JVs, concentrated</td>
<td>- Majority JVs, concentrated</td>
<td>- Mainly 50:50 JVs</td>
</tr>
<tr>
<td></td>
<td>- Reliance on local employees</td>
<td>- Close liaison with headquarters, but high management flexibility</td>
<td>- Majority JV at supplier level</td>
</tr>
<tr>
<td></td>
<td>- Centralised R&amp;D</td>
<td>- Strong focus on local R&amp;D, JV partner selection (technological expertise)</td>
<td>- Location choice dispersed due to two partners</td>
</tr>
<tr>
<td></td>
<td>- Flexible and pragmatic reaction to changes in market environment (store concept characteristics)</td>
<td>- Local citizenship</td>
<td>- Focus on local R&amp;D, technology transfer</td>
</tr>
<tr>
<td><strong>Communication</strong></td>
<td>'Localised’ adaptation of advertising</td>
<td>- Service focus</td>
<td>- Media-mix focus on internet</td>
</tr>
<tr>
<td></td>
<td>- Importance of brand recognition</td>
<td>- Fit of retail, advertising, product</td>
<td>- Experiential services</td>
</tr>
<tr>
<td></td>
<td>- Consistency in high quality service</td>
<td>- Multi-channel communication</td>
<td>- Focus of dealership network metropolitan areas (product fit)</td>
</tr>
</tbody>
</table>
| **Market Research** | - Data base marketing (POS system)  
- Substantial \(a\ priori\) planning  
- Awareness of substantial regional differences in customer base (learning curve) | - Substantial \(a\ priori\) planning  
- Monitoring of socio-demographic consumer differences  
- External and internal market research | - External and internal data collection, qualitative and quantitative  
- Awareness of information diffusion patterns  
- Appreciation of regional differences |
| **Pricing** | - Pricing concomitant to target segment  
- Determined by location choice | - Pricing concomitant to non-mass market target segment (medium price range for toiletries)  
- Upward and downward pricing, related to product positioning | - Price variations across segments, with focus on middle to premium class  
- Upward and downward market development |
| **International Orientation** | - Extension and replication of basic business model  
- Built in marketing flexibility | - Adaptation of basic business model  
- Coordination between HQ and local management (including JV partner) | - Maintenance of basic business model  
- Little to no product adaptation, but corridor to fine-tuning marketing mix |
diffuse their operational network. This reflects a pragmatic expansion strategy, particularly as the firms entered China with no existing customer base. It is also a reflection of expanding circles of affluence in China, as the middle class grows and emerges in non-metropolitan areas.

**Management**

Key aspects of Japanese marketing behaviour derived from the home market (our third question) continue to thrive, including the firms’ long-term orientation and commitment. On the one hand, this is evidenced by the ownership strategies where majority JV is the preferred entry mode, providing high levels of control. On the other hand, the importance and reliance on local staff has been reconfirmed across all three case studies. Even if key functions are filled with expatriate staff, the evidence suggests a high level of intercultural awareness, including Chinese language competence. While no significant institutional support by the Japanese government has been detected, the identification of local partners has been the key to the successful market presence of all three firms. Japanese firms are sensitive to the local environment. This may take the form of a delegate responsible for government relations or simply shared ownership (JV) with local representatives. Via JVs they have gained access to the Chinese market expertise, including management, human resources and marketing. These partnerships have also enabled joint R&D, and with it the tailoring of products and services to local consumer needs. The managements have shown great flexibility, foresight and pragmatism in setting up their businesses in China.

**Communication**

With a focus on brand recognition, all three firms have taken great care in communicating the values of their brands to Chinese consumers. Experiments with the brand hierarchy have been captured by the case studies. The traditional umbrella brand orientation of Japanese firms has been supplemented by more flexible approaches with looser links to the corporate brand, including even Western-style single brand strategies. Shiseidō has been hugely successful in reversing its brand hierarchy with the company brand ‘added on’ to the single-brand Aupres. Similarly, Toyota has introduced its stand-alone brand Lexus, while at the same time being forced to deviate from its mega-brand due to local partnerships (Jinbei-Toyota etc) or potential new government regulations that foresee the use of Chinese characters instead of English characters. Itō-Yōkadō was forced to adapt its branding strategy to local market needs: it used a shop-in-shop system for anchor brands to overcome branding problems of the Itō-Yōkadō brand. In addition to flexibility of brand management this also reflects current Japanese marketing thinking. All three cases underline the significance of longstanding brand-building, in contrast to the traditionally short product life-cycles prevalent in Western markets. Contrary to horizontal brand extension, the case study evidence highlights a trend towards vertical product introduction and therefore segmentation. This new aspect of international marketing can be interpreted as a direct outcome of developments in Japan itself, where similar strategies towards streamlining the product line-up have been implemented. The rapidity of product introductions, particularly in the case of Toyota, is notable. Potentially the result of Toyota’s latetcomer position, it nevertheless portrays the Japanese firm’s flexibility, pragmatism and, most importantly, uncompromising commitment. As an outcome of this evolving brand management and an awareness of the importance of word-of-mouth communication in China, all firms have tailored their communication-mix to the local environment. Diverse communication channels are therefore complemented by individually tailored communication (narrowcasting using the internet or mobile phones). A further facet, so far under-explored in extant literature, is the importance of personal services. All three firms go to great lengths to train service
personnel and to secure coherency in customer experiences, thereby adding a new facet to the de-
bate on Japanese marketing approaches.

All three firms go to great lengths to train service personnel and to secure coherency in customer experiences

**Market research**
All three firms take great care in collecting information about consumers and consuming trends. Substantial planning and monitoring prior to the market entry/product launch, plus tapping into the expertise of local partners, have helped to develop a profound understanding of the Chinese market environment. In contrast to the earlier focus on ‘hard’ data (i.e. the importance of market share, as opposed to soft data in the form of in-store observations by product managers), the firms now actively engage in collecting first-hand consumer insights. All three firms use multiple channels that may range from ‘soft’ in-house data collection (point-of-contact information collection by sales representatives, use of help-line information etc.) to ‘hard’ data methods such as most advanced POS systems. The firms interviewed also use external market research agencies or omnibus studies. Across all firms we found that local partners are a vital form of gaining and fine-tuning consumer insights. These multi-method designs enable Japanese firms to anticipate and to react to changes in Chinese consumer behaviour. Beyond the understanding of substantial differences in Sino-Japanese customer bases, the commitment to market research has lead to the awareness (and appreciation) of substantial regional and socio-demographic differences. Through stringent data monitoring, the firms also have a clear view of competitors. Features of the traditional market research focus are therefore complemented by modern, customer-orientated, quan-
titative and qualitative data collection methods. The case studies confirmed the importance and centrality of market research in foreign markets. Instead of a linear extension of ‘hit products’ from the home to the world market, as conventionally and conveniently reported, full or partial product adaptation based on extensive market research becomes paramount. Products are even developed solely for the Chinese market, underpinning a high degree of adaptation competence. Important aspects of this marketing localisation are the establishment of R&D facilities and the stringent integration of marketing research in product development processes, indicating new strengths in Japanese marketing behaviour not reported in extant literature to date.67

Instead of a linear extension of ‘hit products’ from the home to the world market, full or partial product adaptation based on extensive market research becomes paramount

**Pricing**
Contrary to the common profile of Japanese pricing strategies and concomitant to the position-
ing strategies, our case studies reveal that they are by no means addressing the lower, price-con-
scious segments of markets. Their commitment to quality dictates an orientation towards middle to high-end consumer clusters. Leaving the low-price brackets to local competition or specialised retailers, this brings them into direct competition with Western manufacturers. After the initial targeting of high(er)-end consumers (equating to high prices), they are currently in the process of extending their market presence. With its full product line-up Toyota is addressing medium to premium price segments. Equally, Shiseidō has extended its presence both upward and downward.
Japanese international marketing

This research adds to our knowledge about Japanese international marketing behaviour and answers the questions relating to adaptation in local marketing flexibility and utilising Japanese home market strengths. In reviewing the case studies it is apparent that Japanese firms have substantially extended their marketing repertoire. Generalised attributions of geocentric orientation cannot be maintained. The reality shows much more nuanced approaches than have been reported to date. Japanese firms are entirely capable of customising their marketing mix to the local environment. In the case of China, the findings support and extend numerous facets of Japanese corporate behaviour.

International orientation

All three firms base their success on the transplant of idiosyncratic strengths into the Chinese market. At the same time, however, intercultural sensitivity is prevalent across all three cases and has led to different responses in terms of their business models. Itō-Yōkadō emphasises the decentralisation of decisions, Shiseidō focuses on coordination between the HQ and the local management, especially relations with the JV partner, while Toyota essentially keeps central control because of quality and speed concerns. These differences reflect not only sectoral issues (retailing versus consumer goods and cars) but also differing philosophies and administrative heritages. The retailer (Itō-Yōkadō) emphasises flexibility and customer responsiveness whereas the other two firms, needing more control of product specification and brand protection, are more conservative. However, the emphasis on speed of introduction of new models is also a feature demanding head office control in the case of Toyota. Consequently, we can describe Itō-Yōkadō as extending the basic philosophy of its business model ‘dominance’ by introducing built-in flexibility, largely determined by adaptation to indigenous Chinese consumerism. Shiseidō adapts its basic business model. A divergent brand architecture, brand extensions, distribution channel development and, overall, careful attention to specific issues of the Chinese market have added specifically ‘local’ elements to its global strategy. Toyota, however, has continued its basic business model. There are few product adaptations and the marketing mix is merely ‘fine-tuned’. A similar brand architecture to the home market is deployed, and although some innovations have taken place in service provision, these are customer-dictated. The three firms have thus responded differently to China in terms of their business models.

The response of Japanese firms is not uniform and the formula that Japanese firms follow a simple-global approach appears outdated. They rather are in a transition phase of increasingly developing a corridor that allows for a built-in flexibility to tailor marketing to the local environment (in the case of China). Within this general inclination to adapt to local needs, we found a high variation among our limited sample of three firms, which we perceive as a warning not to fall into the traditional trap of over-generalising JMNE findings. We characterise Itō-Yōkadō as extending its business model, Shiseidō as adapting and Toyota as maintaining its model from Japan to China. This is further enhanced by Itō-Yōkadō’s model of decentralising decision-making to and within China, Shiseidō’s of emphasising coordination of decisions across borders and Toyota’s of centralising control to enhance quality and speed of new model introduction. It is shown that generalisations across sectors and firms are dangerous, and that forensic micro-studies are necessary to pick up important nuances of international strategy.

Summary

Japanese international marketing has evolved. While some aspects of success (organisational abilities, long-term orientation, aggressive growth strategies, ownership, R&D) have been diffused
from developed to emerging markets, others have been extended (identification of customer needs and wants, information-processing capabilities). Segmentation and positioning are fine-tuned and are significantly different from Japanese strategies in developed markets. The relatively short time-frame of foreign firms’ market presence in China enables Japanese brands to address upmarket consumer clusters in parallel with Western brands. The case study approach underlines the necessity of testing received knowledge with the new realities of the international business environment. At the same time it sends out a clear warning not to over-generalise. Japanese MNEs adapt to the Chinese market in multifarious ways. It would be a mistake to characterise a ‘Japanese’ strategy for the Chinese market, as no single approach predominates. Even within our sample of three case studies, strategies vary between the three firms and within each firm they vary over time. In all three cases, the Japanese MNEs are very conscious of consumer needs in China and the dynamics of these needs. It is a fallacy to believe that because China is a poor nation then strategies have to be aimed at low-cost products. The luxury segment is large, growing, lucrative and identifiable. Each of our three firms pays great attention to the appearance, growth and sustainability of this sector and targets it precisely. Because of rapid changes in Chinese demand patterns and consumer behaviour, it is essential for firms to keep in touch with its development. However, Japanese investors in China are not just responsive to demand patterns — they are prepared to lead them. This involves taking risks with standard business formats and with cherished home country practices. This involves taking risks with standard business formats and with cherished home country practices. A similar balance can be seen between adaptation to Chinese conditions and the use of standardised products, formats and approaches. The first strategy attracts revenue, the second reduces costs and therefore risks. A flexibility of approach is evident from Japanese MNEs in China — witness the extent to which they are willing to modify strategies over time as conditions change. Overall, we conclude that Japanese MNEs are not ‘Western’ or ‘Japanese’ in their approach to the Chinese market, but are flexible, realistic and pragmatic.

It is a fallacy to believe that because China is a poor nation then strategies have to be aimed at low-cost products

Acknowledgement
This research was generously supported by academic research grants from the Universities’ China Committee, London. We are grateful for comments on earlier versions by Philip Stiles and Charles Baden-Fuller and two anonymous referees.

Appendix

Methodology
To investigate the realities of Japanese marketing dynamics in developing markets, this study uses a multiple case study approach within a single setting. Qualitative research is a point of departure for innovative ideas, theory genesis and refinement. Case research permits us to explore complex phenomena within a real-life context. This approach is also particularly suitable to provide a rich context for processes that would otherwise be undetected. Following a replication logic, the use of comparative case studies underpin a more robust inductive analysis as the basis for theory refinement.68

Comparative case studies were chosen as the research method in order to focus on the micro details of the operation of Japanese companies in China. The three analysed firms all have key challenges to face in reaching Chinese customers and in adapting their products and business models to Chinese conditions. The method of enquiry was open interviews with multiple respondents in each firm, conducted in Japanese. This was backed up by primary source
material. The use of open interviewing techniques allowed a respondent-driven agenda to emerge, and our relatively open categorisation of operations in China helped the Japanese managers to focus on the important aspects of their Chinese operations without researcher-induced biases. As will be seen, these techniques enabled us to reach a much more nuanced understanding of the key elements driving Japanese operations in China, and adjustments of their business models.

Retailing, Cosmetics and Automobile are consumer-oriented industries representative of an emerging marketing expertise in Japan. The three cases were selected on the basis of their particular leadership function within the Japanese market in terms of their industry position. Seven&I Holding is Japan’s largest retailer, and its convenience store arm ranked number one in terms of retail value or market share for consecutive five years. Equally, with a market share of 16 per cent, Shiseido is an industry leader of Japanese cosmetics and toiletries. Toyota Motor Corp too is a dominant force in Japan’s automotive industry. Excluding its affiliated brands (Lexus, Daihatsu, Hino), Toyota products hold a market share of 30 per cent in Japan. Each firm has built its strong domestic industry position through a commitment to product development and marketing innovation. With a view to the assumed impact of the domestic business model on the design of China operations, home-market strength was a decisive selection criteria. Further to this, all three firms possess substantial international expertise. In the Global Fortune 500 ranking, Seven &I Holding is the highest ranked Japanese retailer. As of 2008, it was ranked 141 overall (with US$49.7 million in revenue), and globally holds ninth position in its industry. Shiseido is a global top performer in the cosmetics and toiletries industry. While ranked 1363 in the Global Fortune 2000, it holds sixth place in its specific industry category. Toyota is one of the largest corporations worldwide. As of 2008, it was ranked fifth in the Fortune 200 ranking (with US$15.0 million in revenue), outperforming other global car manufacturers, including the once dominant North American firms GM and Ford. As all three firms follow a strategy of continuous geographic expansion (as outlined in various company reports, available online), they are distinct examples of Japanese MNE internationalisation, and provide a useful lens through which corporate behaviour in China can be investigated. Using Rugman’s classification (2008), distinct differences as regards international market orientation are evident. Toyota is bi-regional/global, with 80 per cent of revenues in North America and Asia; however it continues to increase its European activities. Itô-Yôkadô is bi-regional, with 39 per cent of sales in NAFTA. Shiseidô is home-/host-oriented (80 per cent of revenues are regional). In short, the firms are evolving along diverging trajectories, and it is likely that these differences result in diverging international experiences.

Semi-structured expert interviews were conducted in both Japan (for Toyota, using marketing and retail think tanks, advertising agencies) and Beijing, China (for Itô-Yôkadô, Shiseidô and Toyota) in two waves between April and September 2007. All interview partners held a leading marketing or top-management position. The interviews were conducted in Japanese. The number of interviewees totalled 15. To further establish Japanese perceptions, and for triangulation purposes the authors conducted an extensive literature review of original language material (Kokkai Toshokan and Nikkei Telecommunication 21 data base). Each interview lasted at least two hours, in most cases longer (including factory visits). The interviews focused on: (1) company background and marketing orientation in Japan; (2) motivations for the firms’ Chinese market entry; and (3) Chinese consumers and the comparative impact on the local marketing design. Information on recent developments in the three firms in China was complemented by follow-up contacts, review of press releases and company material (newsletters; websites etc.). This three-dimensional approach, involving three core firms, marketing experts and literature review, is an effective way not only to analyse Japanese perceptions of marketing activities in China, but also to shed new light on how marketing of Japanese MNEs has evolved since its 1980s heyday. Intercultural sensitivity and language competence must not be underestimated for this undertaking and are essential for a cross-disciplinary research approach.
References


25. The establishment of a convenience store chain in China is timely. This retail format signals not only the advent of new urban lifestyles, that places emphasis on convenience (and expression of modernity). As this convenience is compensated by top-up fees of 15–20% of high street supermarket prices, it also signals a diversity of income structures (with an estimated income threshold of US$3,000 as benchmark for convenience store development). Legal changes in China in 2006 now allow for franchise operations, which will fuel the expansion of 7-Eleven outlets.

26. Itō-Yōkado has positioned itself as a mid-income retailer. The Wangfujing Supermarket chain, however, uses an up-market appeal (Anon., 2005, op. cit. at Ref 23), and halo-effects towards the Itō-Yōkado brand are to be expected.


30. A similar pattern as that of Seven&I can be demonstrated for the Japanese AEON group. While it also expands its operations in China, the stores are mainly located in Guangzhou region.

31. According to M. Friese, CEO of a Beijing-based marketing consulting agency, it becomes increasingly difficult to identify promising locations for retail outlets. One factor is the cost explosion of land (particularly in metropolitan areas such as Beijing or Shanghai), which makes further expansions difficult.


33. These initially foresaw a total space of 24,000 sqm, shop floor space of 15,000 sqm with a sales space ratio of over 62%, minimum of 2–3 floors, and the rent payments below a 5% threshold of the expected sales, T. Yahagi (2005) op. cit. at Ref 21.

34. S. Sakamoto (2005) op. cit. at Ref 23.

35. Chinese consumer decision processes differs decidedly from routine purchases such as white t-shirts, because of price and practicability considerations. China’s societal and geographical heterogeneity leads to further differentiation: Itō-Yōkado planned to introduce beige and white polo shirts — traditionally Japanese male summer wear. As well as the price, these items failed due to perception differences. Chinese consumers prefer colours over design aspects on the one hand and the Beijing working population had the perception that light colours get dirty easily (differences in garment washing patterns) on the other. And as they are not washed regularly they are not usually worn by Chinese workers, T. Yahagi (2005) op. cit. at Ref 21.

36. As the retail brand is not well known in China, it initially also faced difficulties in developing an adequate supply base, S. Sakamoto (2005) op. cit. at Ref 23.

37. New employees are undergoing a strict service training. Here customer interaction is exercised using role play and on the job training, Gamble (2006) op. cit. at Ref 21.

38. F. Miyamoto, Chūgoku ni okeru Shiseidō no Burando Māketingu [Shiseidō brand marketing in China]. *Kuoritti Manajimento* [Quality Management]. 57(10), 16–23 (October 2006); K. Sham, Chūsān Kaikyō no Taitō de Kyūseicho suru Chūgoku Kōkū Shōhin Shijō [Chinese luxury cosmetics market accelerates in the wake of the rise of the middle class], *Kokusai Shōgyō* [International Commerce Industry]. 46–50 (March 2007).


43. In the early days the firm provided hotels in Beijing with soap and toothpaste.

44. F. Miyamoto (2006) op. cit. at Ref 38.

45. The Chinese market is not only huge but also highly heterogeneous. Class affiliation and income levels vary with regional economic development — and with it consumptive patterns (e.g. the urban-rural split). Access to media and retail outlets (and with it an influx of Western imagery) is territorially incongruent. Moreover, the climate plays a pivotal role in product adoption of cosmetics and toiletries. Cold areas in northern China show very different product preferences (e.g. ageing crèmes) from consumers in the warmer south (lifestyle accessories). Socio-demographic aspects too are important. Because the history of cosmetics in China is very short, consumption patterns are not similar to Western ones. The ‘cosmetic role model’ of the mother as the blueprint for toiletry use is non-existent (and rather taken over by media/beauty consultants). Accordingly, the majority of consumers — even for premium products that in Western markets are usually reserved for an elder generation (40s/50s) — are in their 20s and 30s. While this younger generation is benefiting most from China’s economic rise, elder age clusters lag behind in disposable income. This complex mix makes for an attractive yet fragmented and fluctuating consumer market.

46. Demand fuelled further expansion in the aftermath, with a third extension to the Shanghai plant to be completed by the end of 2007.


49. The brand name translates into ‘a part of you’.


51. By producing the Aupres products in China, high import taxes were avoided and the final price is below that of other Shiseidō products.

52. T. Ueda, Shiseidō no Gūrobā Tenkai ni Okeru Chūgoku [Success in China as part of Shiseido’s global development]. Japan Marketing Journal 89, 84–100 (2003).

53. Shiseidō conducts multi-channel market research, both internally and externally (user profiling). The counters in high end department stores and flagship stores (Wangfujing, e.g.) are the eyes and ears of the marketing department. The commitment to regional diversity is met with nationwide research. Moreover, a customer help line is used to collect further information about Chinese consumers.

54. With the influx of international brands consciousness for cosmetics increased. This created more demand and therefore opened the door for more brands.

55. Shiseidō plans to export this brand to other Asian countries, including Japan.

56. Following the Aupres success story the firm further develops localised brands, such as the recently introduced Urara, Asplir and Whita Y. Kawashima, Shiseidō Burando [Shiseido brand]. Aspekuto, Tokyo (2007) p. 248.

57. More than 80% of Shiseidō employees work as beauty counsellors, underlining the importance the firm attributes to marketing and service.


60. The Vios is also manufactured in Thailand, Indonesia, Singapore, and Malaysia. While originally developed for East Asia the model found its way back to Japan’s domestic market in the form of the Belta.

61. The Toyota group’s newest success story, the environmental friendly Prius, was only recently introduced into China. With no tax incentives from the Chinese government, prices of the Prius are considerably higher than in Japan and Europe. This model is therefore unattractive for Chinese consumers and sales are symbolic rather than the herald of another success story.

62. This brand spin-off stands in the tradition of recent changes in Japanese brand management. The nature of Japanese business systems (keiretsu and activities in various industries) dictated until recently a concentration on ‘umbrella brands’ K. Suyama and H. Umemoto, Nihongata Burando Yuï Senryaku [Japanese Multinational Enterprises in China] 516
style brand dominance strategy]. Daiyamondosha, Tokyo (2000) p. 258. Changes in consumer behaviour and corporate restructuring brought an introduction of Western style brand management with a strong focus on the development of single brand profiles.

65. E.g. the case of Suntory in T. Matsu (2006) op. cit. at Ref 20.

Biographies

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