Entering Asian Markets Through the Lens of a Japanese Company

What are the key challenges faced by Japanese companies when finding a suitable business partner in Singapore?

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By Ryota Yamazaki (Director, IGPI Singapore), Zhi Hao Thean (Analyst, IGPI Singapore)

Japanese companies should consider venturing abroad amid a shrinking domestic market, to explore opportunities that lie in neighbouring ASEAN countries

Japan's population has registered 11 straight years of decline since 2011, experiencing the steepest fall in 2021 after a drop of 644,000 people compared to the previous year. The population is also rapidly greying, with the proportion of those age 65 or older hitting a record high of 28.9% while the younger population reaches a historic low[1]. A shrinking and ageing population could spell trouble for domestically focused companies, as they are essentially competing for a smaller pie and human capital.

Outside Japan, ASEAN is experiencing quite the opposite where member states are gaining affluence with a rising GDP and a growing middle class. The 10 ASEAN countries have a combined population of around 660 million, making it the third most populous region after China and India. The region's GDP has increased exponentially from just US$0.6 trillion (~13% of Japan's GDP) in 2000 to US$3.1 trillion (~61% of Japan's GDP) in 2020. It is expected to reach US$6.8 trillion in 2030 (~108% of Japan's GDP), exceeding Japan's GDP. Due to rapid urbanisation, a wide gulf is observed in terms of the population density and GDP capita in capital cities. The middle and higher classes also make up a larger proportion of the total population today[2]. These factors highlight the opportunities that lie outside Japan's national borders.

Put together, these push-and-pull factors have implications for domestically focused Japanese businesses to come up with a strategy for diversifying their revenue streams, increasing their earning potential by looking beyond national borders and considering market entry in neighbouring countries, especially in rapidly developing ASEAN countries.

Why Southeast Asia and in particular, Singapore?

People in Southeast Asia generally have a positive perception of Japanese brands, as they are commonly associated with reliability, craftsmanship, and simplicity. This grants Japanese companies greater pricing power, provided they are able to meet higher quality expectations.

Among ASEAN countries, Singapore is by far the most affluent with the highest GDP per capita of ~US$60k, exceeding Japan's GDP per capita of ~US$40k in 2020[3]. Consumers in Singapore have relatively high spending power. In turn, this aligns with the value proposition of many Japanese companies, which prefer to compete based on quality rather than on price.

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[1] The Japan Times (Apr 2022): https://www.japantimes.co.jp/news/2022/04/15/national/population-drop-japan-record/

[2] Previous article published by IGPI Singapore (June 2022): https://www.igpi.com.sg/transformation-of-organizational-capability/

[3] The World Bank, GDP per capita (current US$) - Singapore, Japan

Located at the heart of Asia, Singapore is a popular destination for companies looking to establish a presence in SEA, with over 4,200 regional headquarters based in the country as of 2019[4]. Key reasons include its business-friendly environment, strong regulatory body, stable political system, ready access to a highly skilled workforce, and the list goes on. Singapore has capitalised on its strategic strengths to become the global hub for business and innovation. Notably, out of the ~35 unicorns that exist in SEA, ~15 hail from Singapore[5], dwarfing Japan's ~10 despite its significantly larger size[6].

Having an affluent consumer base and a conducive business environment makes Singapore a highly viable choice for Japanese companies that are looking to explore growth outside Japan. However, as with any form of entry into a foreign market, forming strategic alliances with a suitable business partner equipped with the necessary market intelligence and connections could be one of the determinants of success.

Japanese companies face both 'hard' and 'soft' issues when identifying a suitable business partner in Singapore

'Hard' issues are those related to having the requisite capabilities and knowledge about a new market, while 'soft' issues refer to challenges faced on an individual and interpersonal level.

Common 'hard' issues faced by Japanese companies in Singapore include limited knowledge about local business practices and language barriers

Other than cultural differences between Japan and Singapore, business practices between the nations also vary. For instance, large Japanese companies tend to do business with their subsidiaries, especially if they operate in related fields or different stages of the value chain. As a result, some companies are able to thrive by serving the parent company as its major customer and excel in the domestic market without aggressively pursuing new clients or exploring new markets. On the contrary, Singapore companies prefer not to do business with related companies in a culture that advocates transparency and fairness. A tendering process is usually conducted to identify the companies that are able to fulfil requirements with the best quality at a reasonable price, thus embodying meritocracy rather than relationships. This strategy, in turn, ingrains a greater sense of accountability and motivation to ensure continuity after the initial business relationship has been secured. It is important to be aware of such country and industry-specific business practices prior to the market entry in order to have productive discussions with prospective business partners during the business matching process.

Compared to Japan, which has a relatively homogenous society, Singapore is a multiracial country that is predominantly made up of Chinese, Malay and Indians, and other races. English is the common tongue that bridges language differences between the various races. Naturally, doing business in Singapore necessitates making business presentations and doing negotiations in English. However, only a minority of the Japanese population possess English skills, which could hinder the progress of Japanese companies that are looking to do business in Singapore. With that being said, Singaporeans do not expect non-English speakers to converse fluently and will try to accommodate by speaking slower and using simple terms. As

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4 EDB Singapore (Apr 2022): https://www.edb.gov.sg/en/business-insights/insights/futuristic-workspace-spore-a-hub-for-corporate-headquarters.html

5 The Straits Times (May 2022): https://www.straitstimes.com/business/weekly-money-fm-podcasts-understanding-south-east-asia-startup-scene%E2%80%99s-diversity

6 Nikkei Asia (Mar 2022): https://asia.nikkei.com/Business/Startups/Japan-s-top-business-lobby-wants-to-see-100-unicorns-by-2027

long as an effort is made by both sides to be understood, language barriers should not be a hindrance when it comes to finding a suitable business partner in Singapore.

Conversely, common 'soft' issues faced by Japanese companies in Singapore include the speed of decision-making and lack of management support for overseas expansion.

Japanese companies are known for being cautious in decision-making and placing great emphasis on making a consensus. Major decisions, especially those related to doing business overseas, are subject to a lengthy evaluation process by the HQ. Japanese companies also tend to prefer devoting more time to building relationships before entering into any definitive agreements with third parties, to minimise risks of the alliance falling apart due to irreconcilable differences in the future. In contrast, the decision-making power in Singapore companies tends to be vested in a few senior executives at the top of the organisational chart, which makes the process significantly faster. Singapore companies also tend to be more result-oriented, which makes them more agile and better positioned to seize opportunities as they come by. Finding a balance between building relationships and achieving results would be key to reaching a mutually beneficial agreement between both parties.

Lastly, Japanese companies may face a lack of management support for overseas expansion. This is because the company has established a strong local presence in Japan with healthy revenue streams and stable profit margins. The motivation for change is low as the company is likely to continue doing well in the future by remaining status quo, and managers prefer to avoid the uncertainty associated with any form of business exploration. Therefore, convincing the management about the merits of overseas expansion will be an uphill battle, and likely to rank secondary to business activities that are ongoing domestically. The lack of commitment from the top management and lack of determination to succeed would prove to hamper efforts in venturing outside Japan, resulting in missed opportunities.

Japanese companies can navigate through these issues by deploying the right human resources, obtaining management buy-in through an objective process, and engaging management consulting firms with a sound understanding of local markets

To address the 'hard' issues, Japanese companies should be selective in terms of the human resources involved in managing the overseas expansion to Singapore. Project members should be able to communicate in English to build a positive impression when dealing with prospective business partners. It's less about having a strong command of the language, but more about putting in a genuine effort to promote two-way communication and understanding the other party better. Prior to any meeting, a significant amount of work needs to be done to understand the local business practices and industry context, while having a strategic view of what the company intends to achieve in Singapore. This would help to guide conversations and enable the representatives to ask the right questions to make the most out of each meeting.

As for the 'soft' issues related to decision-making and securing management buy-in, the key is to minimise subjectivity and use a framework for decision-making. Instead of simply biding time to get a better understanding of the other party with no 'finish line' in sight, decision-making tools, such as a selection framework and evaluation matrix, could be adopted. These tools are tailor-made, depending on the use case. They take into consideration inputs from relevant internal stakeholders and are able to provide an 'answer' at the end of the process (e.g. decision as to which business partner to select). Other decision-making tools could be adopted to secure management buy-in, such as building a business case to explain and quantify the basis for overseas expansion (e.g. potential new revenue streams, new capabilities, return expectations, etc.).

Japanese companies can also consider engaging management consulting firms with experience operating in the Singapore market to address any gaps in their organisational capabilities. Since its establishment in 2013, IGPI Singapore has supported established Japanese companies hailing from diverse industries in realising their overseas expansion plans. We understand that the success of overseas expansion hinges upon multiple factors that extend beyond a company's internal capabilities. Identifying and forming strategic alliances with the right local partner could contribute significantly to its success in venturing overseas.

Recently, IGPI Singapore worked closely with an established Japanese company to identify a suitable business partner to support its market entry into Singapore.

Key activities in the business matching process include:

- Conducting a market assessment, including trends, opportunities, challenges and case studies of prominent players to gain an understanding of the industry landscape
- Longlisting and shortlisting prospective partners using a selection framework
- Arranging and conducting sounding interviews to gauge interest level
- Facilitating face-to-face meetings with prospective partners
- Determining the most suitable partner using an evaluation matrix

We hope the information provided some insight into the key challenges faced by Japanese companies when finding a suitable business partner in Singapore. IGPI can support your company in its market entry and maximise its chances of success – Get in touch with us!

About the authors

Mr. Ryota Yamazaki is the Director of IGPI Singapore. Before joining IGPI, Ryota worked in Deloitte Consulting in Singapore, where he was a leader in the areas of Consumer Business and Supply Chain & Logistics in Southeast Asia. His areas of expertise are Strategy & Operations, such as market entry, Route-to-Market (RTM) strategy, business due diligence, and PMI. He started his career with A.P. Moller-Maersk Group as a management trainee and also worked for Kurt Salmon, where he had vast project experience, especially in Supply Chain & Logistics for the retail and consumer goods clients. Ryota graduated from the Faculty of Economics at Keio University.

Mr. Zhi Hao Thean is an Analyst in IGPI Singapore. Zhi Hao started his career with IGPI. He graduated from Singapore Management University with a Bachelor of Business Management, majoring in Finance. During his penultimate year, Zhi Hao embarked on an internship in Corporate Advisory, where he was engaged in M&A, financial due diligence, and valuation projects across various industries. He also worked as a Research Assistant at SMU, where he performed academic research on real estate investment trusts. Zhi Hao is proficient in English and Mandarin. He enjoys keeping up with the latest developments in consumer technology such as smartwatches and mobile operating systems in his free time.

About IGPI

Industrial Growth Platform Inc. (IGPI) is a premier Japanese business consulting firm with a presence and coverage across Asian markets. IGPI was established by former members of the Industrial Revitalization Corporation of Japan (IRCJ) in 2007. IRCJ, a US $100 billion Japanese sovereign wealth fund, is known as one of the most successful turn-around funds supported by the Japanese government.

In 2017, IGPI collaborated with Japan Bank for International Cooperation (JBIC) to form JBIC IG, providing investment advisory services and supporting overseas investment. In 2019, JBIC along with BaltCap jointly established Nordic Ninja, a €100 million venture capital fund to focus on deep tech sectors such as autonomous mobility, digital health, AR/VR/MR, artificial intelligence, robotics and IoT in the Nordic and Baltic region. In 2019, IGPI established IGPI Technology to focus on the area of science and technology. The company invests in technological ventures and provides hands-on management support. The company also provides business development support for the commercialisation and monetization of technologies.

IGPI Australia is a branch office of IGPI Singapore. The latter, which was established in 2013, focuses on management consulting and M&A advisory in Southeast Asia across various sectors. We act as a bridge between Japan and wider APAC, having advised on market entry strategy, potential target search, valuation, due diligence, M&A process management, post-merger integration and change management for leading Japanese clients. In addition, we have helped businesses in Southeast Asia enter Japan and acted as sell-side advisors for SMEs and private equity funds looking to divest. IGPI Australia was established in 2020 with a dual focus of helping Australian businesses enter and grow in ASEAN / Japan and attracting Japanese investments into Australia. We have since successfully helped to connect multiple Australian businesses with Japanese businesses within IGPI’s network.

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