Distributing Your Software in Japan   Nov. 1990

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Earlier this year, we extolled the virtues of the Japanese market and encouraged you to think seriously about localizing your products for it (see "Turning Toward Japan," *Apple Direct,* Feb. 1990). Nothing much has changed since then—except, that is, for the better. At $13 billion in annual sales, the Japanese software market is now fully one-third the size of the U.S. market (which makes it the second-largest software market in the world), and it's growing fast. In fact, it's outpacing the growth of both the U.S. and the European software markets by substantial margins.

The Japan Information Service Industry Association, a Japan-ese trade group, predicts that over the next five years, software sales in Japan will increase 150 percent. As the U.S. software market begins to slow, a $33 billion non-U.S. market is nothing to sneeze at.

But rapid growth is not the only encouraging trend in today's Japanese software market. Another favorable sign is that the Japanese are buying more packaged software than ever before. Traditionally, Japanese businesses have relied on custom software (produced in-house by legions of programmers) to meet their computing needs. Now, however, these same businesses are beginning to see that in many cases packaged software (and personal computers) will suffice. According to Japan's MITI (Ministry of International Trade and Industry), this realization comes not a moment too soon—by 1995, claims MITI, Japan simply won't have enough software engineers and programmers to go around.

Good News After Bad. On the one hand, a shortage of technical expertise sounds like bad news, although on the other hand, such a shortage simply means that the Japanese must begin to find the best packaged software available and that some of that software must come from outside

Japan. This is where you come in. Ad-mittedly, the Macintosh now holds a relatively small slice of the Japanese personal-computer-market pie. However, current Macintosh sales in Japan indicate that the size of that slice is increasing rapidly: Macintosh unit sales doubled last year and will easily double again this year. Apple expects that the Japanese market will be a $1 billion business for it by the mid-1990s.

The problem, of course, is how to take maximum advantage of both the Mac's growing popularity and the need for packaged software in Japan. Historically, getting your product to the Mac's Japanese installed base has not been easy. In Japan, most packaged software is sold with hardware at point of sale, and most hardware is distributed through labyrinthine distribution systems that are all but impenetrable if you happen to be on the outside. These days, however, several options are open to Macintosh developers who want to enter the Japanese software market.

Many Roads, One Destination. Entering any non-U.S. market involves a major commitment of time and resources, and the Japanese market is certainly no exception to this rule. To do the job properly, you must localize your product in Japanese, a task that requires technical, linguistic, and cultural expertise. But there are ways to test the waters in Japan that involve neither localization nor inordinate financial risk.

For example, you can contract with a trading company. Trading companies, such as Swire Transtec, a division of John Swire & Sons, Ltd., simply move your product from one shore to another, warehouse it, advertise it, and sell it to any interested party. These are catch-all organizations—they might trade in software today and drift nets tomorrow, and they typically offer no support to end users. They do, however, establish your product in new markets, and they can do so on a rather large scale.

The problem is that when you deal with a trading company, you most often relinquish all control over how your product is represented in the market. Trading companies and those to whom they sell have every right to market your product in any way that suits their interests, and their interests may not always coincide with yours. Because inappropriate marketing can damage a product's future prospects within a particular country, you are well advised to approach trading companies with caution.

Try A Trade Show. Another way to establish a presence in Japan with minimal risk is to demonstrate your product at Japanese trade shows. You can either do this yourself or authorize your U.S. distributor to do it for you (or both). There are literally hundreds of such shows, ranging from special-interest events (particularly effective for developers with vertical-market applications) to general-purpose computer trade shows.

By demonstrating your product at trade shows, you'll attract the attention of Japanese developers and distributors interested in helping you explore ways to enter the Japanese market; of professionals who might be interested in purchasing your product directly from you; and, if you're lucky, of the Japanese trade press. Another advantage of testing the waters at trade shows is that you retain control over the way your product is introduced to the Japanese. The San Francisco-based JETRO (Japan External Trade Organization) publishes a list of trade shows annually.

Of particular interest on this front is that Tokyo will host its first Macworld Expo next February. Word has it that this event is already sold out (in and of itself encouraging), but Apple Japan is currently seeking extra space for non-Japanese developers to demonstrate products. If you've thought about taking your product to a Japanese trade show but just haven't made the move, Macworld Expo Tokyo may be the opportunity you've been waiting for.

Finding a Niche. But perhaps trading companies don't appeal to you and you've gone the trade-show route and are now ready to pursue the Japanese market more directly. Here too you have several options.

You might, for example, attempt to find a partner among the growing number of Japanese Macintosh developers. Such a partnership can work to mutual advantage. Your Japanese partner can help you localize your software and introduce you to various distribution possibilities. You, on the other hand, can help your Japanese partner enter the American market, which, although slowing, is still three times the size of the Japanese market.

For developers interested in entering the Japanese market in this way, Apple Japan is already laying the groundwork. Last July it sponsored the Japan Software Developers' Conference, which was attended by 400 Japanese developers. The focus of the conference was to inspire more Japanese software developers to develop on the Macintosh platform and to point out the advantages of taking on non-Japanese partners. Also, both Apple Japan and Apple Pacific regularly attempt to introduce Japanese and non-Japanese developers they feel might work well together.

If, on the other hand, you have a vertical-market application and you've decided that Japan is the place for it, you might want to consider finding a Japanese partner that has already established distribution within your niche but that is not necessarily in the software business. Several Macintosh companies have had success with this approach.

Take, for example, DigiDesign, a California-based company that develops professional audio software and hardware and has recently moved into multimedia products. DigiDesign has found distribution with a Japanese music-equipment dealer, Cameo Interactive. Cameo Interactive had a long-standing distribution mechanism in place for its electronic musical equipment, and many of its

customers happened also to be Mac enthusiasts; DigiDesign had hot music-software products and needed to find a way to reach the Japanese Macintosh installed base. The two companies saw that a partnership would be to mutual advantage.

Salt Lake City-based Proficiency Software is currently pursuing the Japanese market in a similar way. Proficiency has just finished developing an educational product called MacEnglish, which teaches English as a second language. Japan is the first country in which the firm is attempting to market it. Although it has not decided exactly how it will ultimately distribute MacEnglish, it is considering establishing alliances with dealers that have connections in the education market. Shimazurika, a dealer and distributor that sells everything from medical equipment to software for Japan's vast educational system, is an organization that Proficiency is seriously considering. Shimazurika does not deal in software exclusively and cannot offer support to Proficiency's customers, but it has connections in the schools, which is exactly what Proficiency needs.

Reaping the Lion's Share. Of course, if you have a general productivity application and you've decided you need widespread distribution, you may want to go in with a major Japanese Macintosh distributor. Naturally there are pros and cons to contracting with major distributors, but before we get into them, let's take a look at just what the word *distribution* means in Japan.

In most non-U.S. countries, the word *distributor* is a bit of a misnomer. In the U.S., most distributors are true to their name— they simply distribute your products; you give them your packaged software, and they make sure it finds shelf space in retail outfits throughout the country. In Japan too there are several such organizations: SoftWing, Software Japan, and Softbank basically move boxes within preestablished distribution networks. However, the major Japanese Macintosh distributors such as Canon and SystemSoft, do far more than find shelf space for your product. They also have the technical expertise to localize your product fully. Which brings us to the main advantage of contracting with a major Macintosh distributor: localization. In a market in which

Macintosh engineers and programmers are in short supply, partnering with an organization that can localize your product can be a real advantage.

You should be aware, however, that both Canon and SystemSoft are currently reluctant to take on new products that have not proved themselves to be blockbusters in other markets. The shortage of Macintosh engineers has reached these two giants as well, and for the time being they are working at capacity.

The main disadvantage of contracting with a major Macintosh distributor is that more often than not, it will want exclusive rights to your product in Japan. This sounds harmless enough, especially from an American point of view. In the U.S., it's commonplace to give a distributor an exclusive contract. In Japan, however, such an agreement can work against you by prohibiting you from pursuing avenues your distributor may not pursue.

For this and other reasons, some Macintosh developers avoid exclusive contracts and choose instead to enter into limited agreements with several distribution partners. The California-based Ministry of Software is one such developer. The Ministry of Software produces the bilingual word processor ByWord. When this company first entered the Japanese market two years ago, it strenuously resisted becoming too dependent on one distributor exclusively. Instead it entered into limited agreements with three separate distributors, and it also approached computer retail chains, such as Catena Corporation's ComputerLand Japan stores.

Make Your Move. Late last June, Apple Japan and third-party hardware and software vendors and distributors sponsored a MacAdvantage Fair in Tokyo. The purpose of the fair was to introduce the general community to the Mac and its applications. Thirty-thousand people attended, twice the number anticipated, and all told, there were 100 localized products for the throngs to view. In all respects, the fair was an overwhelming success. But compare those 100 products with the 4,000-

odd applications available to American Macintosh users, and you can see that we have a long way to go in Japan. We'd like to see the number of Macintosh applications in Japan increase severalfold in the near future.

The Macintosh has established a foothold in Japan, but the strength of that foothold depends partly on the applications available to the growing number of Japanese Macintosh enthusiasts. The software-distribution paths are many, and with some creative maneuvering, you can take advantage of them. It's time to make your move.