

International Marketing
Prof. Biswarup Ghosh
Vinod Gupta School of Management
Indian Institute of Technology - Kharagpur

Lecture – 27
International Business Case Analysis

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Hi, welcome back. So, we have left at what are the steps we have to take in Japan market. And now, we will tell you about just what are the things you have to understand before you enter a market. So, typically I have given a map here of Japan where you can see the major cities and you have to study as an international manager if you are not from Japan, if you are from some outside country, you have to understand more about this geography.

Here that where is your local office or the sales subsidiary if it is in Tokyo because you know the Tokyo is the capital and the cities in and around Shinjuku and other cities are very costly cities and Japan itself is one of the very costly cities. So, you may not be able to take an office in proper Tokyo, you might have to have an office which is a little far from Tokyo, but it is very well connected with the local trains as well as the Shinkansen Express or the bullet trains so that very modern communications are available.

So, you need to also ensure the nearest seaport from where your equipment will land. So it is in Yokohama seaport or in which seaport it will land so that also you have to find it out that it should be the nearest from the seaport. So why this map is important for you to understand,

you have to put all your installations up there, I will come into that my next slide, all the installations here in this and see that what are the installations in Hokkaido or maybe the installation in Nagoya or maybe the Osaka.

And all those are what are the installation and where are your major installations you have to ensure. And also you have to ensure this map will tell you also that typically the distance for traveling for the equipment how long it will take, typically your communication if you have to come commute or your servicing has to commute, what will be the typically the commute time from the place all these things you have to understand.

So, you may put some of the service engineers operate from home, I should always recommend that you do not put all the service engineers, they do not have to really come to the office, in modern days concept there is no need for service engineers to come to the office, maybe once a week they come to settle their accounts and all those to update the data in the ERP and all those and that to also you can nowadays do it online from your home also from your own laptop.

So, all those you can do it. So, I would suggest that you first look into your installations in this Japan in which are cities where you have major installations and try to put the service engineers in and around that city so that it is easy for them to commute and in case of an emergency in the night time if there is a breakdown of any of the units they can move there without any problem.

So that is the reason the map for you is very important for an international manager to understand and also the logistics of travel. Japan being such a very high developed nation, so you really do not have to worry on the communications either by car or by train or by air. So, these are very ultra modern communication services are available. You can travel from Tokyo to Osaka by Shinkansen express and this Shinkansen express are typically known as bullet train and you can travel in a very short time this long distance you can travel.

So, this map is very important for you to understand. And also you know from here you can send the engineers who come from after training from USA when they come so you can send the engineers to a country like South Korea, Seoul where they can go and there is also ABC

Incorporations office and installations there they can be with the Korean engineers and attend field service with them so that they will have better hands on service.

So, neighbouring countries you can send them to China because there is also large operation of ABC Incorporation in China, you can send the Japanese engineer in China and also the countries like Philippines or the countries like Thailand or maybe Malaysia or Singapore, these are the markets you can sell for the hands on. So, this is very crucial for you to understand the map from the communication point of view.

Where is a seaport nearest to office, where it should be your office, where you can really put and locate an office space which is not very costly because you have to look at the cost because you know there will be the revenue line coming after 8 months, 9 months, maybe after a year once the transition is over. So, there will be no revenue line, so you will not be able to generate any sales revenue, any service revenue till you have your operation.

So, the subsidiary will not generate any revenue, your distributor will generate revenue till you complete the transition. So, there is no revenue line, only the cost line which is more than 8 months, 9 months or 1 year period. So that is a huge cost for the company. So, you have to ensure how to minimize the cost that time because you have no revenue, only the distributor, whatever the equipment's distributor is selling that is the revenue which is coming that is all, you are not getting any additional revenue there.

So that is the cost line. There is a huge cost of transportation or your airfare for traveling these people to United States, staying there for a month, so all those costs you have to take into consideration which is a huge cost for you.

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Japan & India Comparison		
GDP	\$5.3 Trillion -JAPAN	\$ 3.049 Trillion- India
GDP Rank	3 rd	6 th
GDP Growth	0.3% (2018) 0.7% (2019) -4.8% (2020) 2.4% (2021e)	8.3% estimated 2021-22
GDP per capita	\$42,928 (nominal, 2021 est.)	\$ 2,191

Next comes your Japan and India. As a manager as I have told you in my earlier lectures that most important for you to consider what is the gross domestic product of the country, as I have explained to you GDP in absolute value and the growth of GDP is also very important, both the things are very important. Look, I have compared for here with India. So, India typically is around 3 trillion is the GDP absolute value.

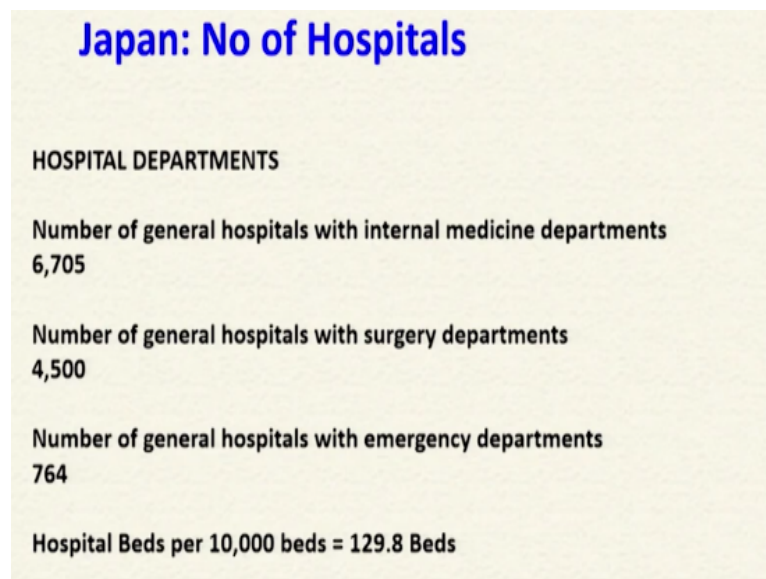
Whereas Japan is 5.3 trillion dollar and GDP our ranking world is sixth and the Japan's GDP rank in the world is third country. And GDP growth is estimated there around 4.8% was the estimate and in 2021 around 2.4 it is the estimate in India, we are estimating that will grow 8.3%. So, from purely from the GDP perspective, the growth perspective we are much better than Japan, but if you look at the absolute value, which is also very important because absolute value is very high.

That means there is an enormous amounts of activities going on in Japan for various production and other activities are happening in Japan that is why the GDP is very high. And GDP per capita is also I have given you an idea which is around 2,000 dollars for us and then and GDP per capita is 42,000 dollars, their 42,920 dollars. The reason behind that is our GDP is low per capita, first of all absolute GDP is lower and then we do have a large population compared to the Japan.

So, our per capita GDP is much lower compared to Japan. But the main emphasis which I will tell you here is the GDP growth and absolute value of the growth, both the figures should

important. Do not run only on the growth, do not run only on the absolute, look at both that information and both the information are extremely crucial for you.

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Then you study that how many hospitals are there because you are now starting your direct operation. You should have a thorough information about the market. So, I have tried to collect some of the information regarding Japanese market. The number of general hospitals are around 6700 general hospitals and with surgery departments around 4500 hospitals. So 4500 is your real customer who has a surgery department.

Because you know as I told you that you will be selling the washer disinfectant which is required for washing and disinfecting the surgical instruments. So that means you will not really target the hospitals with internal medicine department, you will target the hospitals with the surgery departments what which is 4500, a large number of hospitals. And number of general hospitals with emergency department is around 764.

It not maybe your direct customer, but maybe some of them may need a small washer disinfectant there so that can be a possible segment of your customers. And the first one the general hospital to the internal medicine department may not have been your really a customer but maybe possible some of the products used in the internal medicine department might require some level of washing and disinfection for reusing that may be a segment of customer.

But typically, not really a large segment of customers. So, your large segment of customer is the hospitals with the surgery department. And hospital beds per 1000 is around 129 in Japan, which is very important for you to know.

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Japan has one of the highest total numbers as well as density of hospitals in the world. In Japan, the term "hospitals" generally refers to health care facilities with more than 20 beds for patient admissions. Medical facilities with fewer beds or only outpatient services are classified as medical clinics. Hospitals in Japan fundamentally operate as non-profit organizations and are normally owned and managed by physicians. The Japanese government oversees and strictly regulates medical fees to keep treatments affordable for the public.

Health care system

Most Japanese citizens have public health insurance which covers a minimum of 70 percent of medical costs. Citizens pay between 10 and 30 percent of the medical fees depending on their income with the government subsidizing the remaining costs for low-income households. Japanese citizens can freely choose from any medical care institutions in the country for their treatments and services. Close to 70 percent of the hospitals in Japan are private and governed by medical corporations. Japan's care system is therefore unique because on one hand it is publicly financed, and the fees are heavily regulated. On the other hand, hospitals are mainly privately owned and need to 'compete' for patients to financially break even or make a profit to survive long term.

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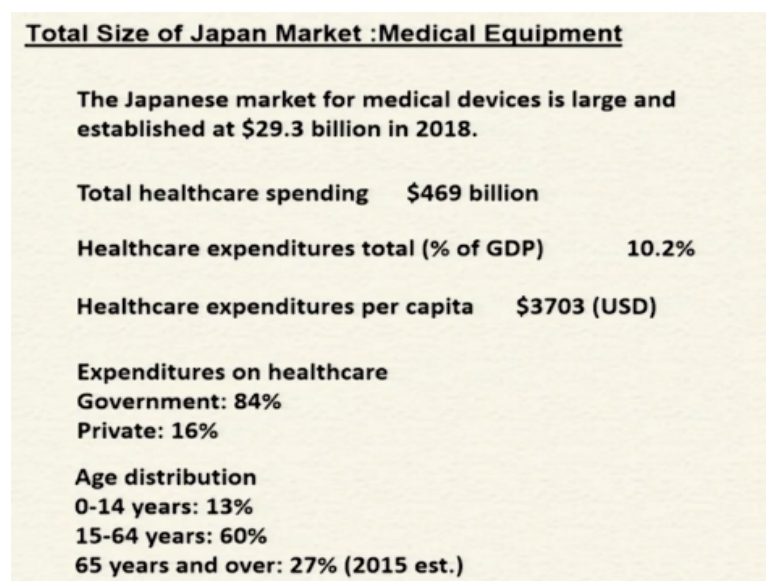
The Japanese government oversees and strictly regulates the medical fees to keep the treatments affordable to the public. Healthcare system: Most of the Japanese citizens have public health insurance which covers more than 70% of the medical costs. So, they have their insurance system. So, you must know what is currently the insurance system in that country. Citizens pay around 10 to 30% of the medical fees depending on their income with the government subsidizing the remaining costs for low-income households.

Japanese citizens can freely choose from any medical care institutions in the country for their treatment and services. So that means I can choose any hospital the way I want. Close to 70% of the hospitals in Japan are privately governed by the medical corporations. Japan care system is therefore unique because one hand it is publicly financed and the fees are heavily

regulated, on the other hand hospitals are mainly privately owned and need to compete for patients to financially break even and make a profit to survive long term.

This is the details I have taken with the help from the Statistia website, I have given the reference, so you can go through the website and I am thankful really to Statista for providing this input, very crucial input which will be very helpful for the students to understand the Japanese market.

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See Japanese market for medical device, then you have to understand you have studied about the macrolevel of the economics like the GDP, you have also let them know what is typically the healthcare system in Japan, now you will have to go little bit on the nuts and bolts level about your equipment. So, the Japanese medical device market is; what is a medical device market? So the equipment, all equipment are typically a medical device but all device cannot be a medical equipment.

So, I will explain to you like the device is a biggest subject that means in the biggest set the medical equipment is part of that and devices also some of the like you have heard about the stent in the heart and all those these are all medical devices so which cannot be reused. So, these are also called device and the equipment which can be reused that means I am constantly using it for one process and next process and third.

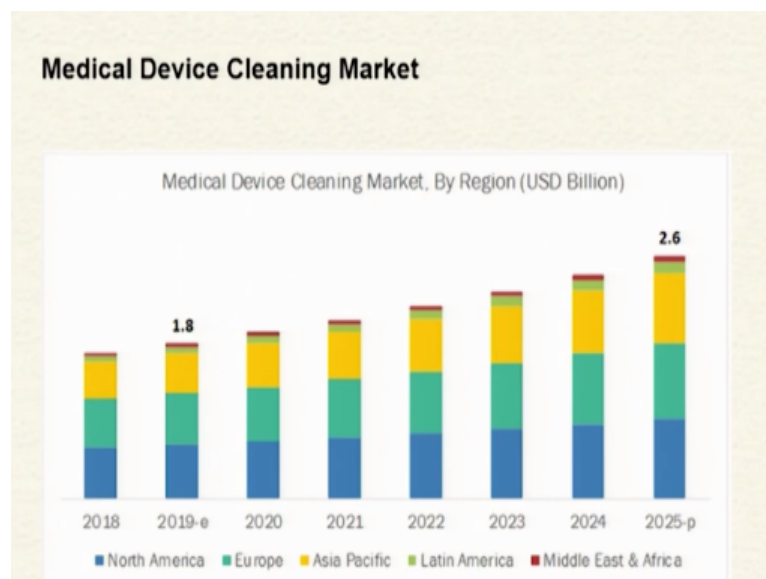
So, combining the device as well as the equipment the overall market is 29.3 billion dollars in 2018, see look how huge market. And overall healthcare spending is around 469 billion

dollars in a year. So out of 469 around 30 billion dollar is the medical equipment which is huge medical equipment and healthcare expenditure per capita is 10.2, very high. That means there is a huge investment coming.

And there are a lot of equipment coming every year because the healthcare expenditure of the percentage of GDP is also very high. Healthcare expenditure per capita is around 3703 that means also very high. Government expenditure is 84%, private expenditure is 16%. So, you have to understand government expenditure how this is critical for you to understand the purchase, the sales will be made also to the government hospitals.

And you have to understand the tendering and the procedures of procurement by the government hospitals and also private is also substantial 16%. And you also have to look at that the age distribution of the people like 0 to 14 years 13%, at 15 to 64 years is 60% of the people is there in that, 60% of the Japanese are in the 15 to 64 years bracket and then more than 65 years is around 27%. So, large population of Japan is having very old people which are more than 65 years. So, that is typically Japan healthcare statistics.

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Then, now you have the previous slide, if I go to the previous slide you have an idea that 29.3 billion dollar is the medical device market. Now, out of that 29.3 how much is your product in these regions. So, here you can see the; I do not have the numbers for Japan, there are but I cannot share those numbers because of the confidential agreement and the exact data you have to find it out the exact data.

But for the students I have taken this slide from the markets and market.com, I have given the reference, is a data from the internet which I have taken which **you** can give a rough idea that the yellow one is Asia Pacific where Japan is there. So, you can understand if 2.6 billion dollar is the market in 2025 for the washer disinfectant and then whole of Asia Pacific will be how much of that and then Japan will be how much of that and then you can do some market analysis study from there.

There are several market research companies. And also, there are two ways you can really find out what is your target market. It is not the target market in 2021, but you have to look what is the target market in 2025 or 2026. You have to find out what is a forecast given by them because you have to project your 5 years sales because your business plan is prepared based on 5 years forecast.

So, for forecasting 5 years, you need to have the information available with you how much will be the growth of the market in next 5 five years' time. So, here there can be a lot of research agencies from there you can pay and purchase this research document where they will give you the estimate forecast for your products that is washer disinfectant and also give you inside depth which are the foreign companies operating in the marketplace.

International companies, which are the local companies playing in the marketplace, what is the market share of each of these companies and then all those information you can go and typically you can buy this type of market research study. There are several companies who offers this or you yourself can conduct a primary research. So primary research is a very costly affair because it takes a lot of time.

Primary research and you are not really in this type of situation, you not really spend time in doing the primary research because it takes around 6 months to 8 months of time to get data and when meeting customers and get all the information and then huge cost. So, I would suggest, it all depends on the manager, some manager might decide that no, I will go based on market data, I will do my own market research to find the size of the market.

I will do the primary research, I will find, some manager. Some manager meeting okay let me do it based on the research data which is available at the marketplace secondary research data and I will buy and pay the charges and buy that data and see that, maybe I will buy a couple

of 2-3 different market research data and take a decision based on that. Some managers may think that no I will not spend any money.

I know my distributors, all distributor's numbers are with me. I know how much the distributors sold in last 15 years. And my local manager who was managing that Japan business of the distributor he has reasonably very good idea about the market. So, let us not waste time into that. So, it all depends on a manager, he might do primary research, someone might take the data from the secondary research.

Someone might say I do not want any data, I do have my own company's own internal intelligence and based on that my forecast will be this. So now it varies from company to company. So, there is no such thumb rule. As I said, there is no such thumb rule that you can use, it will vary from company to company. And this data is very important for you because this is the data which you need to convince your headquarter people in ABC Incorporation in USA.

You have to convince them that this data is factual data because they will challenge you, they will say what is the source of the data, I do not believe this forecast growth, growth will be much more if the growth in last 4 years is this, we expect the GDP growing at this faster rate, we should expect more or there is more of COVID situation, there will be more of infection. The people will more invest in these high-level disinfection and cleaning.

So, why you are showing a very low data, so they will challenge so now you have to handle your management and convince that this can be the forecast. So how you do that is the how much knowledge in depth you have and then how much with confidence you can provide your senior management depending on the forecast you made. So, this is a very fundamental exercise what you have to convince your management because your management has told go ahead and do direct operation.

I do not want distributors because distributor in last 15 years we have not made any money. So now you stop the distribution network and start your own business that is all. Now when you go for start the business you say that I will need this much of X million dollar to start the business. They will challenge that why you need so much money? Then you say that I need

this many dollars for legal fees and blah, blah, blah, all the details you give for the expenditure.

Then you ask them how this expenditure is spent over in 6 months or 8 months' time, then you give them that this expenditure will be spent. Then you prepare typical project like part or CPM and then you use that critical path method and then you do the entire project, those things are different that is a typical execution part, but before execution part the most important is to convince your senior management.

So, senior management will always challenge because you might think your senior management, may be the CEO or maybe the international head of business will challenge because they have to challenge you. Please understand, do not get irritated, do not get nervous because it is their job, they are spending public shareholder's money. So, they will ask you, they have every right to ask you about every single dollar you spend in that country.

So, they have to, you have to go and you have to present and I can tell from my many years of experience this is not very simple, there you need to convince your management with the data and it has to be convincing mathematically. So, the more you study about the market, more it will be easy for you to give the forecast because everything depends on this forecast that this is the total size of the equipment.

And if my current share of distributor is this much percentage, I will improve from say my current market share is around 15 to 18%, I will improve to 20 to 25%. If the market grows at this rate, I will get this many additional sales on the top of the regular sales. So, that is the way how you have to give the forecast and then you have to also see that if one machine requires this much of consumables per day, then these many machines will require this much of consumables.

So, you have three revenue streams, understand properly because you have to do it of your own tomorrow, you will be of your own and you have to do it in front of your and present it to your board to get the approval. And this is not small money, these are million dollars the investment. So, you have to understand the revenue forecast, revenue line for next 5 years. So, there are top three lines.

The first line is your capital equipment sales, how year on year, what are the number of equipment's of various models what you are showing. You may have three different models of washer disinfectant, one for the entry level, one for the mid level, one for the high end level. There may be three different levels of washer disinfectant. So how you have to segregate that you have to do that analysis there.

Then comes the second revenue line which is the washer disinfectant detergents. So, then you have to do some estimate and take help in this case, the help from the service technician who are attached to the hospitals. I would suggest that you visit various hospitals in Japan, at least 4-5 different hospitals, see that typically large hospitals, how typically how many litres of detergent they need every day, and in a week, in a month and then do the calculation accordingly.

So, then you can find it out that this is typically the detergent. Then you also look at your past distributor data of the detergent how much he has purchased from your ABC Incorporation USA for in last 5 years and how much was his monthly sales that you do it. So, that is also very important for you to give a forecast. And then once you complete that then you can give the forecast for your consumables.

And the third one, the last one is your number of units in the annual maintenance contract and number of units in service contract either AMC or CMC and also you forecast what is your service contracts. So, all these top lines are your revenue lines, clear. And you have to then show that this operation will generate this much of revenue on three different heads, capital equipment's, consumables and the service revenue.

These are the three different revenues are coming and there may be another revenue sale of spares because the customers who are also in AMC, the spares will be sold to them because they are having annual maintenance contract without the spares. So, there you can get the revenue for the spares. So, that may be the fourth line of the revenue. So, I just repeat. First line of revenue is the capital equipment. Second line of revenue is the consumables.

Third line of revenue is the annual maintenance contract and comprehensive maintenance contract revenue for each of these hospitals and the total revenue and then also the spares

sales where the customers are having annual maintenance contract, not CMC. clear. So that is the way you forecast.

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Installed Base Data				
Equipment Wise	No of units under installation	No of units under Warranty	No of units under AMC	No of units under CMC
Model A				
Model B				
Model C				
Model D				

Hospital	Model Installed	Date of Installation	Expiry of Warranty	Expiry of AMC/CMC
The University of Tokyo Hospital Tokyo				
Kyoto University Hospital Kyoto				
Kurashiki Central Hospital Kurashiki				

Then you get the installation database of your hospitals, all your models, put it like model A, model B, Model C, model D of your product by that is up to and how many units under installation, how many units under warranty, how many units under AMC that is annual maintenance contract without spares, and how many units are under CMC that means how many equipment's are under comprehensive maintenance contract.

So, you collect that install database and I am sure you can get this database from your company ABC Incorporation because distributors or you can approach the distributor, distributor has to share this data with you so you can get the data, and the Japanese manager who is already there for last so many years supporting the distributor should have this data available within. Then the second chart which you have to make the hospital wise.

Then you put on the left I have just put some name of the hospitals in the left, some ABC hospitals have put in, the University of Tokyo Hospital Tokyo and all those, which model you have installed there, date of installation, expiry for warranty, expiry of AMC, CMC all these data should be captured there, clear. So that is very important.

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Road Blocks!

1. Regulatory clearance's & Licenses for Import
2. Recruitment process – search cost , notice period with previous employer
3. Availability of Training slots at HQ
4. Hands on exposure to technicians at neighboring countries /Entry Visa formalities
5. Timing of submitting termination notice to Distributor
6. Importing Washer Disinfector Equipment based on forecast from Sales Manager
7. Importing of critical spares based on installation base –Service Manager
8. Legally drafted letter to customers regarding termination of agreement with Distributor & legal transfer of all AMC (Annual Maintenance Contract) / CMC (Comprehensive Maintenance Contract) contracts from Distributor to Company directly.
9. Visit by Company Senior officials to large installed base & meeting with Hospital Administration to provide confidence regarding uninterrupted service.
10. Managing Service Revenue
11. Installation of equipment's sold by Distributor during transition
12. Import of Consumables & storage license if any for Chemicals – Logistics for consumables
13. Migration of all customers to ERP system of ABC Inc USA
14. All sales & service invoices through ERP system of ABC Inc USA

And so regulatory clearance and all those these are the bottlenecks. These are the road blocks you have. So, what are the road blocks? As I have explained to you that means the recruitment process is a road block, you have to ensure that, I should not say road block basically but that are the blocks which you have to remove as a manager. Hands on exposure to technicians at the neighbouring countries.

Timing and submitting the termination notice to the distributor, importing washer disinfector and forecast from the sales manager, importing critical spares, legally drafted **letter** as I have told you which you have to give it to the distributor and also to your customers and you have to get all the existing AMC and CMC in your name in the name of ABC Incorporation Japan. Visit by the company senior official to the installed base which I have said already previously.

Managing service revenue. Installation of the equipment's sold by the distributor during transition because in the last moment last one or two months whatever the distributor has sold you have to install that, so you have to take the responsibility and liability of those. And import of the consumable storage and migration of your customers. So now you have to migrate all these customers in your ERP say maybe SAP or Oracle whatever your ABC Incorporation uses.

You have to use those databases to your ERP in US that is not very simple, that I am sure the IT guy whom you will recruit, he will help you to do that. And all sales service invoices what you will do in future has to be through ERP system of your company's corporate ERP system.

So, this way you start the whole way. So that is about overall the process. So, I have discussed what are the road blocks.

What is the problem and what are the solutions, how you move forward and then what are the road blocks how you do that and this is the way typically an international manager, is a life example basically. You can use this as one of the life examples to enter in a market which was previously by a distributor and now you are converting it to a direct operation. I hope you understand that. If you have any questions, we will definitely discuss it, right. Thank you very much.