

# Local Leaders' Insights - Technology Sector: Critical Successful Factors for Business in Japan



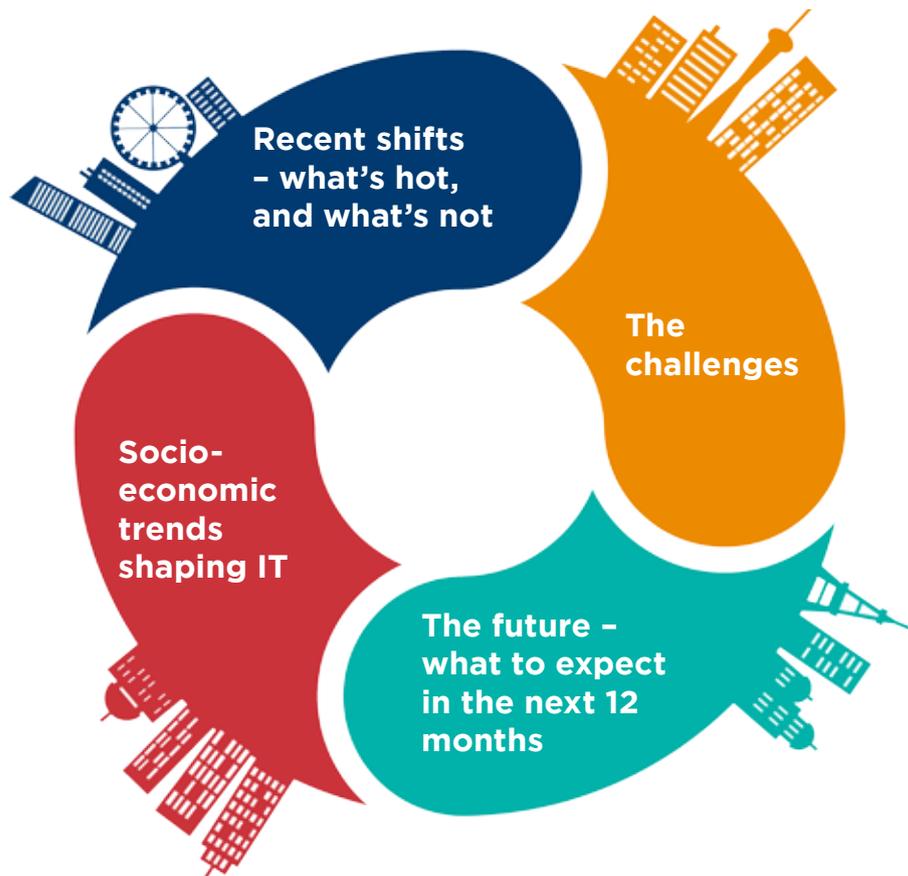
## CONTENT

- 3 A Mirror to an industry**
- 4 Socio-Economic trends**
- 6 Trends in enterprise IT**
- 9 The major challenges**
- 12 Looking ahead**
- 13 Lessons learned**

# A mirror to an industry

For this white paper we interviewed twenty-one country heads at Western IT companies with established operations in Japan. Our aim was to understand how IT leaders see the status, trends and challenges of the IT sector in this unique market.

**We probed them on the following areas:**



The leaders we interviewed operate businesses of every size, from five or six employees to over 1000; their industries spanned cybersecurity, cloud and on-premise services, infrastructure software and hardware, storage, and IT services. Interviews were conducted either face-to-face or on the phone during August and September 2017.

We found the mood positive and optimistic, despite demographic shifts and the rising giant that is China. There is a slow, steady migration to cloud, the IT function is gradually moving to centre stage, and exciting opportunities have been opened by new business models. Challenges remain, calling for innovation, determination and strong support from regional and global leaders.

# Socio-Economic trends

## DECLINING NUMBERS

Almost everyone we spoke to identified declining population as the biggest worry about Japan; specifically, a decline in the number of working people.

*'The Japanese economy has traditionally grown because of mass production. The more working hours available, the more money was made. No longer. It will be critical to ensure that older people and women get back into the workforce. This might be through creating special provisions for day care, etc., but also by making it attractive for older people to stay working.'*

*'Recently the economy has picked up in major areas, led by Greater Tokyo metropolitan area, followed by Nagoya and Osaka. The issue is that the rest of the country is regressing - it is a demographic time bomb.'*

The declining working population and a massive national debt are a threat not only to companies, but to the individuals working within them. One commentator felt that there was little hope for the future 'salaryman' generation because of the costs associated with an ageing population:

*'With booming costs in social welfare because of the greying of society, most companies will not be able to pay significant compensation. It will be hard for the current generation entering the workforce to make decent money during their lifetime.'*

## THE CHINESE THREAT

Japanese companies are feeling the effects of Chinese expertise and muscle, with some, such as Sharp and Toshiba, particularly hard hit by Chinese competition amongst others. Many said their market position had slipped, and was likely to slip further:

*'Japanese hi-tech companies have recently realised that it is not Japanese or Korean competitors that are the real competition - it is the Chinese. There is greater innovation there, a strong entrepreneurial mindset, a vast local market and still relatively cheap labour.'*

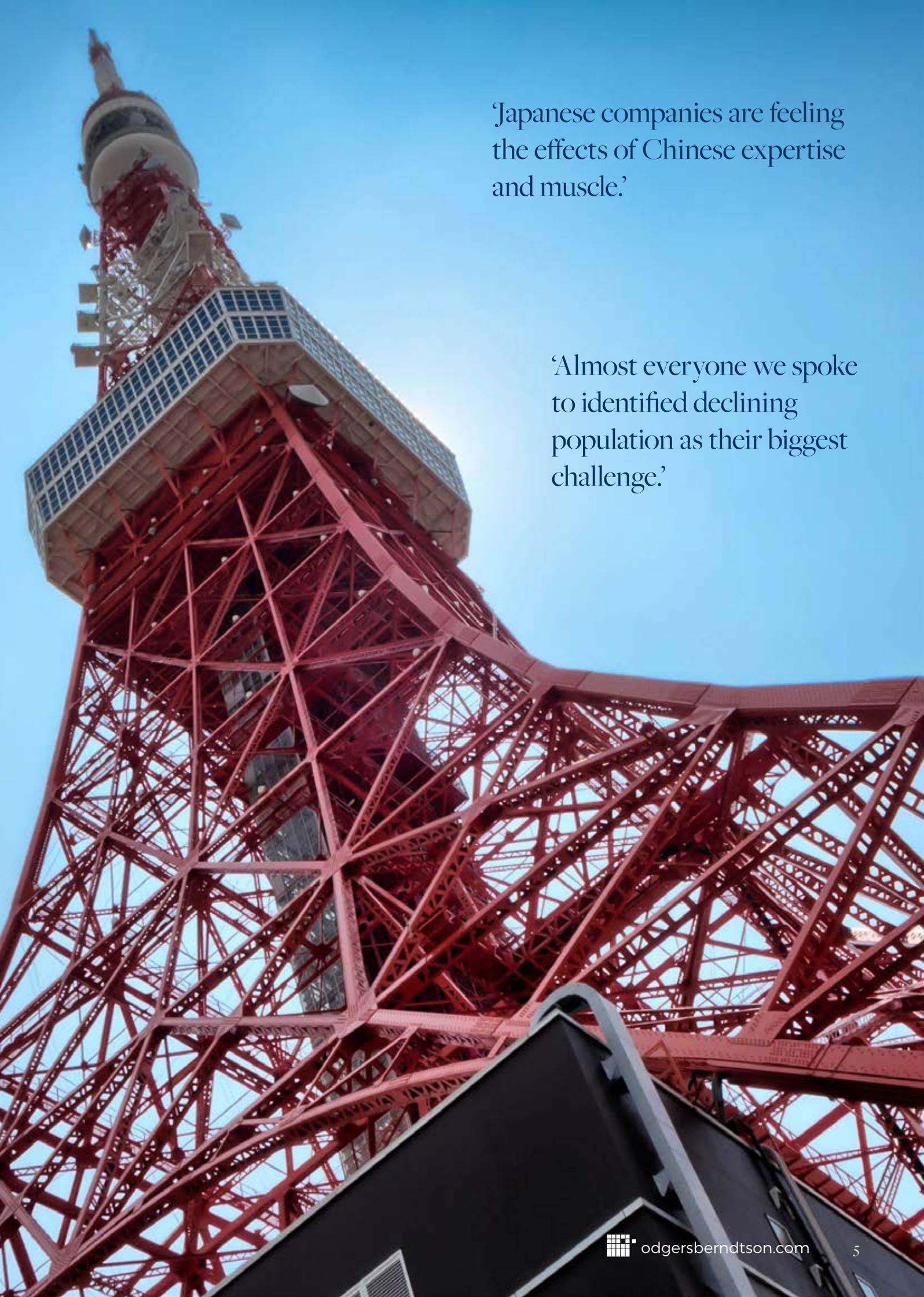
The automotive sector, commented one leader, is still in better shape than the hi-tech sector, but if they are not able to innovate, and do this quickly, they will suffer setbacks.

## OPPORTUNITIES ARISING

No threat is without its opportunities. An ageing population and stiff competition from the Chinese has forced government and business to think creatively and come up with innovative solutions. There is now a concerted push to change the way Japanese people work; specifically, to get more people to work from home.

*'Getting more white-collar employees working from home will increase the working population and strengthen the*

*economy. This idea is now being pushed from the cabinet office, the ministries, Keidanren (the Japan business federation) and Rengo (the Japanese trade union confederation). Companies are finally getting serious around this topic and it is promising to create a lot of opportunities for technology companies.'*



‘Japanese companies are feeling the effects of Chinese expertise and muscle.’

‘Almost everyone we spoke to identified declining population as their biggest challenge.’

# Trends in enterprise IT

## MANY FOLLOWERS, LITTLE INDEPENDENT THINKING

Japanese companies tend to follow trends when it comes to IT; very few have an IT strategy that is innovative or ground-breaking. The Japanese early adopters are almost always the same handful of companies, with the majority either global companies or companies with young CEOs. Globalisation is critical, but trend following seems quite limited to observing and copying what Japanese competitors do, rather than assessing global trends and moving to the front of the pack. This is an area with potential to change, as companies bring in younger, more globally experienced CEOs.

## A SLOW MIGRATION TO CLOUD

Cloud is going mainstream, but at a slower rate than many realise. A hybrid model, where on-premise business systems coexist with public cloud services, is preferred, with the ratio of public cloud (SaaS, PaaS and IaaS) to

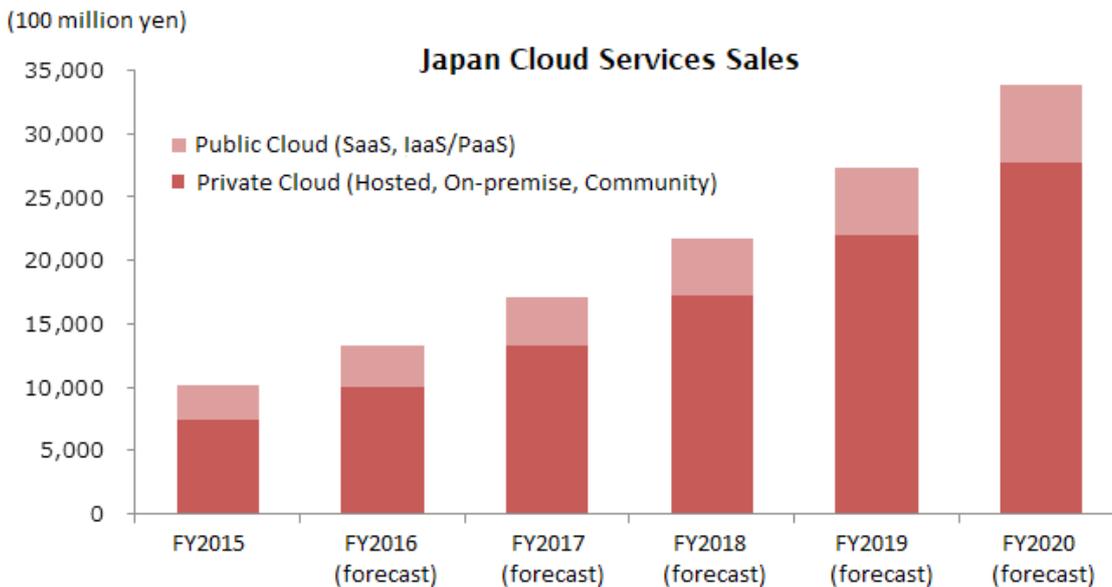
private cloud much higher than in other countries. In Japan, public cloud usage accounts for only 20 to 25% of cloud users. (\*), which is a very different split from the rest of the world.

*‘Japanese companies want cloud to behave like normal computer hardware. They want the dynamics of cloud, but also want to control the dials.’*

Most still use an ad-hoc approach, turning to cloud to solve immediate needs and provide short-term solutions, rather than adopting repeatable, standardised best practices. This of course, is likely to change as cloud use matures.

In public cloud AWS leads the pack; together with Azure they control over 50% of the public cloud market for IaaS and PaaS. (\*)

Inevitably migration to cloud will pick up speed as companies seek more comprehensive solutions and allocate IT budgets more strategically. Concerns about security are decreasing, with around 20% of companies expressing



Source: [www.m2ri.jp/news/detail.html?id=212](http://www.m2ri.jp/news/detail.html?id=212) MM Research Institute, Ltd

cloud-related security fears in 2016 compared to more than 26% in 2015.(\*)

## SYSTEMS INTEGRATORS REMAIN STRONG

Cloud adoption faces some resistance, with systems integrators maintaining a strong position in Japan.

*'Companies are trying to spend less on services, but the reality is that the major systems integrators like NTT DATA, NRI, etc. are so deeply entrenched that it has become almost impossible for companies to do so.'*

*'There is a lot of talk of going to the cloud. However, most of the large enterprises are using solutions that are almost exact copies of what was in place, but just with the applications and data on a "private cloud" or "hosted" solution provided by the same systems integrator they have been using for decades.'*

These sentiments were echoed by many. Cloud, it seems, is being sold as an idea but is not yet functioning maturely:

**'High-end systems integrators will still be able to do strong business.'**

*'The major Japanese systems integrators are selling cloud solutions to their clients who are then forced by boards and CEOs to "adopt the cloud". The reality is that under the name of cloud services, they are using the same vendors and the same systems, with the same support structures, only occasionally hosting it at a different location.'*

*'Japanese companies are still interested in business consulting and the high-end system integrators will probably still be able to do strong business.'*

*'Companies like Fujitsu are developing teams that can offer very high-level*

*services in areas like AI. They are starting to look more like Western consultancies.'*

## IT MOVING TO CENTRE STAGE

Very slowly, we are seeing greater professionalism and status within IT departments, with CIOs beginning to attain more respect. However, very few CIOs hold positions on company boards, an indication that the role is not yet fully integrated into company strategy.

*'The traditional position of the CIO is that it is a role one rotates into, as part of the general affairs department (the somu-bu). The position of CISO often does not exist or is taken by a generalist without specific know-how of IT and security. The role of CISO is hardly known and if it is, it remains in hiding. It is very rare to see any celebrity CIOs in Japan.'*

IT departments have always been small in Japan and IT expertise has been hired externally – an anomaly quite unique to Japan. The in-house systems integrator is often part of a loosely connected business group or keiretsu, and can, despite low status, typically be an important decision maker or influencer on IT investment.

The system generally favours external vendors. Companies are starting to look very critically at the added value that the system integrator brings, and have difficulty justifying its costs.

**Very few CIOs hold positions on company boards, an indication that the role is not yet fully integrated into company strategy.**

*'The cost of systems delivery has changed. Companies are now looking at package-based solutions instead of custom-made solutions. The concept of "our business is unique" is become less prevalent in business thinking in Japanese companies.'*

Supporting the move to external IT vendors is a particular aspect of Japanese culture in which accountability is deliberately diffused to save face. IT personnel do not want to admit they lack knowledge in specific areas and do not wish to be accountable. The ability to out- or in-source IT responsibilities to a big-name vendor serves this purpose well.

### **SPEED ABOVE PERFECTION**

Several IT leaders noted a shift away from a typically Japanese concern with perfection of product towards speed of roll-out:

*'Business line managers do not understand why it should take over a year to roll out an application. They want to try out a proof of concept - a PoC - and if it works, they want it fully fledged the next day - as if they are downloading an app on their phone.'*

Key elements for managers are user experience, increased efficiency, cost efficiency and speed of deployment.

*'There is a lot more acceptance of product that might technically not be perfect, a big departure from the traditional focus on perfection.'*

### **CHANGING BUSINESS MODELS**

Business models are changing, posing challenges to the larger system integrators and distributors:

- Companies are moving from licensing to subscription-based services; this means that internal reward systems for the salesforce will need to be revamped.
- New players have entered the SME segment, offering cloud-based solutions combining the best of AWS and Azure, and posing a threat to traditional systems integrators.
- Companies are more receptive to direct contact initiated by vendors; some are approaching vendors themselves, rather than using the system integrators and resellers.



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# The major challenges

Our interviewees identified three major challenges facing Western IT companies in Japan:



## EMPLOYEE CHALLENGES

*'From the beginning, I knew I'd need flexibility regarding my hiring requirements, but even then it has been enormously hard to get someone who comes even remotely close to what I really would like to hire. And we are a "hot" company.'*

It is even tougher for companies with a lower profile.

*'Hiring sales engineers has been a struggle for us for years. After taking on the Japan country manager, we now hire talented engineers with the right mentality, even though they have never worked in the cybersecurity industry. We basically train them from scratch. This is a major challenge for a small company like ours.'*

*'The quality of sales people is much lower than I have seen in other countries.'*

The pool of bilingual talent has always been small in Japan, and recently Japanese companies have been proactively recruiting from this pool. They pay exceedingly well, particularly at top executive level, at rates most non-Japanese companies cannot afford.

## STIFF LOCAL COMPETITION

Western companies sharing markets with major domestic competitors are at a disadvantage. Japanese companies keep their technical resources close, employ large sales forces and design products

tailor-made for the Japan market.

The only way around this competition, it seems, is to work with it strategically:

*'Our biggest competitors are major Japanese vendors. Although our product is better and very price competitive, trying to replace this competitor is a battle we are unlikely to win. We decided to focus on a product that is not a major one for us globally. Here in Japan, we have been able to integrate it very well with the solutions our major distributors are marketing.'*

## GLOBAL STRATEGIES VS LOCAL REALITIES

It is said that understanding Japanese culture takes years. For regional and global leaders who know little of Japan, the business culture is daunting and the differences almost always underestimated.

This has implications for strategy. What works in the US or the UK will not necessarily work in conservative, loyal and deceptively polite Japan. Most Japan-based leaders lament that their company's global strategy is US-based and does not take the rest of the world into account, let alone Japan specifically.

*'HQ does not understand or they do not want to understand some of the peculiarities of the Japan market. As the country leader, I have to stay as close as possible to the global strategy but have enough freedom to execute differently, if*

*needed. With the right level of transparency, this need not be a problem.'*

*'HQ doesn't have a lot of international business people; there are very few people with global experience, apart from our CEO. The US is such a strong market that we in Japan don't get the attention required. Our success in the US is actually damaging our global expansion.'*

This is a strong word of caution for Western companies, who often assume that because they have grown rapidly in their home market, the same will quite easily apply in Japan. They may be in for a shock, as the realities of Japanese business culture begin to sink in.

An area where global and Japanese strategies can experience mismatch is services:

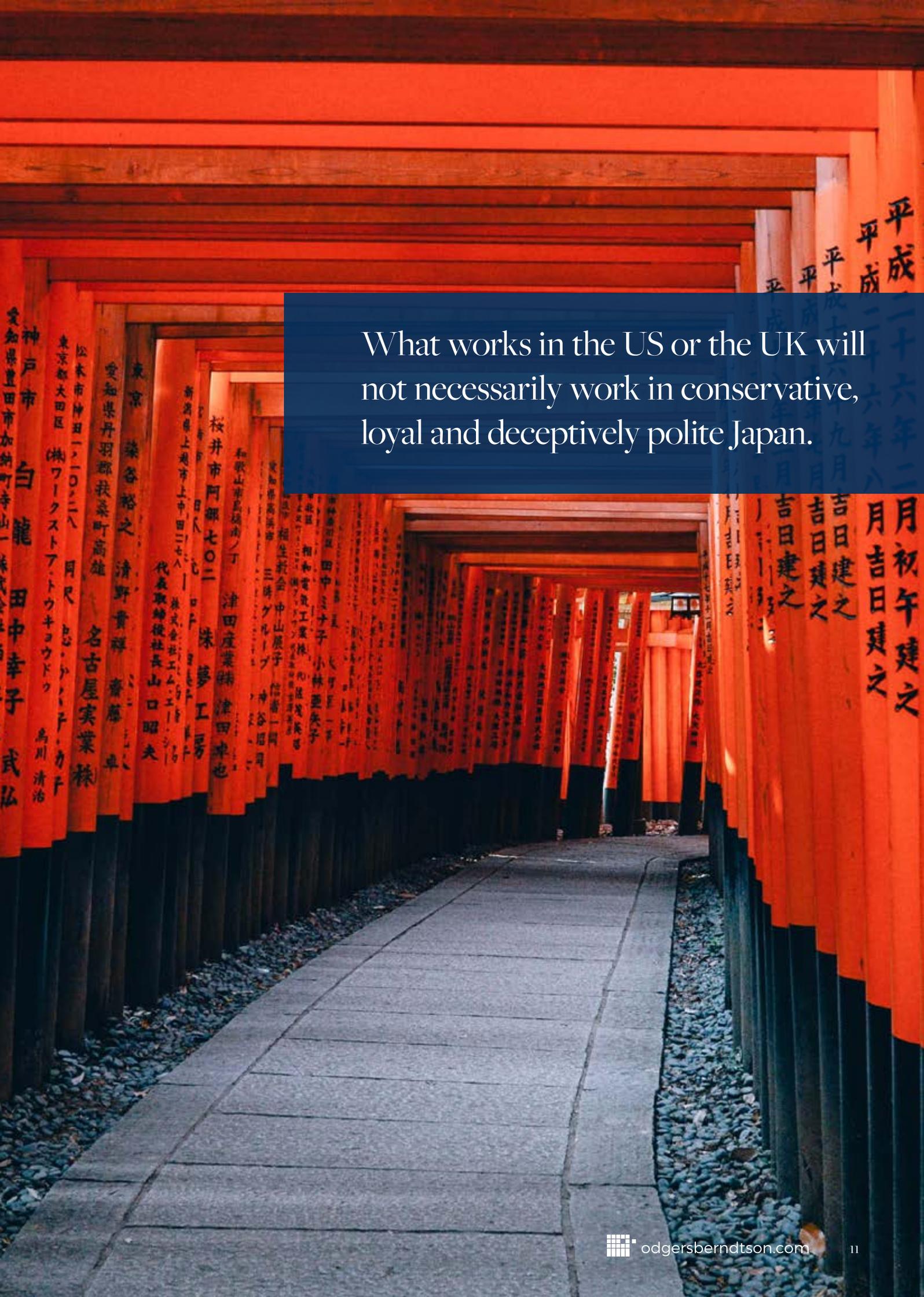
*'Corporate wants to implement global service models which do not work well in the Japanese market, with the many different roles of system integrators. The competition has adopted a local approach to this, and this will hurt us if we do not get a more Japan-friendly solution.'*

*'About zero of what comes from HQ is relevant for Japan. We need to do a complete rethink of all product and solution marketing initiatives. Obviously this doesn't sit well with the marketing team at HQ!'*

Some experience the mismatch as being product based rather than strategy based:

*'We have a great vision and strategy and I am completely behind it. The issue is that our product quality is not strong, and headquarters is not interested enough to do something about it. It is hurting our reputation, as well as my personal reputation in the market.'*





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# Looking ahead

When asked about their market forecasts for the next 12 months, IT leaders were upbeat and optimistic. Forecasts for IT companies were uniformly positive:

## CYBER SECURITY

The cybersecurity market is expected to grow by 5 to 10% in Japan in 2017, with leaders confident that this figure will keep growing in the next few years.

According to a number of interviewees new players in the cybersecurity market expect this figure to move into the double digits, while established players expect growth of 20 to 30%.

**‘We expect to grow faster in Japan than we do in the rest of the world – we’re already growing at a better pace than our peers.’**

## INFRASTRUCTURE SOFTWARE

Growth in infrastructure software is expected to be positive, with figures moving well into the double digits.

*‘The expectation is that business will grow quarter on quarter for the next few years. No rapid growth but faster than global.’*

## BIG DATA

Companies operating in the big data space see a bright future. Solutions around Hadoop, data integration and some areas around storage are growing rapidly in response to market demand.

**‘I expect us to grow over 50% this year and probably more than 75% again next year. Corporate is providing the right level of support and resources to make this happen. We’re in a great spot!’**

## SAAS

Most SaaS providers were optimistic, particularly when they focused on larger, late-adopting enterprises. Growth numbers against last year were all in double digits.

## PLATFORM AND INFRASTRUCTURE

More growth is expected here. End-customer mindset is changing and we can expect more companies to recognise the benefits of cloud.

## PARTNER ECOSYSTEM

Forecasts for partner companies provided some interesting insights:

*‘NEC is going to face very tough times. They are slow to adapt to new trends, do not have a proactive salesforce and have traditionally not been open to partner with external development teams.’*

*‘NEC’s Nifty Cloud is poor – they don’t have a good customer base.’*

Opinions were divided on Fujitsu:

*‘They completely lack global sense.’*

*‘Fujitsu are doing extremely well, and are will continue to do so.’*

NTT Data is expected to be a solid performer for the next few years, as they do a significant amount of government business where budgets are likely to be strong.

Some respondents felt that companies like TIS, CTC and NS Solutions might not be able to survive the next few years:

**‘We can expect mergers of some of the tier-2 partners. Most distributors will either disappear in the next five to ten years, or will be merged.’**

# Lessons learned

## End-user is king

Changes in the IT industry are being driven by end-users, who expect a high level of engagement from technology suppliers in Japan. Forces within end-user companies are becoming more involved and vocal about their expectations, requiring a more agile approach from vendors and integrators. Cloud, in particular, is giving end-users an opportunity to rethink strategy from the ground up.

## Systems integrators still strong

Because most Japanese companies lack a focused IT strategy and undervalue the role of the CIO and CISO, systems integrators and IT consultants play a far more dominant role in Japan than elsewhere. SMEs are especially dependent on external vendors, lacking capabilities and budgets to set up strong IT functions. For technology vendors, Japan is a market where traditional distribution channels continue to make sense.

## Stay responsive, stay nimble

Businesses are demanding greater agility and flexibility from cloud integrators and technology vendors, and Western IT companies need to constantly adapt in response. Many fail to read the market and run their partner businesses as they did ten years ago. Traditional partner management teams don't cut it; a far nimbler approach is called for.

## Go for leadership in partner management

Traditional relationship-based partnerships are diminishing, and far stronger partner management leadership is expected. Those who have built careers on strong relationships with the Fujitsus, NECs and NTT DATAs of the world will find it increasingly difficult to replicate their traditional business approach.

## AND IN CONCLUSION ...

Despite challenges, the mood in IT is upbeat. The Tokyo 2020 Olympic and Paralympic Games will open some market for new products and services, new tools for big data analysis are shaping intriguing business models, and developments such as automated driving, IoT and AI are constantly renewing the industry. Growth forecasts are clearly high for companies that read the signs, tailor their offerings and adapt.

In the end, it is always leadership and a great team that carry a company forward. Conditions fluctuate, but a well put-together team remains proactive, responsive and relevant. Odgers Berndtson has been closely associated with the hiring decisions for many of western IT companies in Japan - many of which have seen fortunes turn, thanks to the people who run them.



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## ABOUT THE AUTHOR

Johan is the Managing Partner of Odgers Berndtson in Tokyo.

He has an extensive track-record of recruiting executives in key leadership roles for the local Japan operations of mainly US and European clients. He has worked in executive search in Japan since 2001 and founded the Japan office of Braithwaite Steiner Pretty (BSP). Earlier, as a Partner in a Japanese search firm, he managed the technology, consumer, industrial and financial services practice.

His career began in Japan with a Dutch consumer company, followed by a Toyota Group global trading firm, where he developed new markets in Europe and the Middle East.

Johan graduated with an MA from Leiden University in Japanese Language and Culture and has been living in Japan since the mid-90s. He is fluent in Japanese.

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