niche medical devices in japan: image is critical

By Walt Ames

Japan's medical devices market is huge, second only to the United States. A presentation given by a U.S. Department of Commerce official in April 2008 set the market size in the region of US$19 billion, with imports comprising between US$8-9 billion. Considering Japan's rapidly aging population, where 1 in 4 Japanese will be over 65 in 2015, the outlook is indeed bright for device makers. Unfortunately small, niche device makers have found Japan to be an immensely challenging endeavor.

The problems are many according to the managing director of one western device firm that makes an implant used for a chronic condition in children. First, there are few key opinion leaders who can help him promote products in the medical community. "Myself and my head of sales are the only two guys in the country talking about our product," he says. "And when we do find someone who is considered a KOL in our area, often it is like talking to a brick wall because they have limited knowledge or their own opinion on how to promote a product."

The general challenges faced by niche medical players are, of course, as varied as the products the niche players make. A maker of an advanced cardiovascular device will have far different challenges than a company that makes low cost disposable products. That said, virtually all foreign niche medical devices in Japan face an uphill struggle when it comes to building a solid leadership team.

The Vanishing GM

Take the extreme case of one device firm from a western country. Last year it attempted to enter Japan with a revolutionary cardio-related device that had enjoyed tremendous success at home. Deciding to wade into the market carefully, the firm offered a low base salary for the General Manager's role. Before long they found a somewhat desperate person to be GM, but after a few months the individual they hired vanished, dashing (for now) the firm's hopes of success in this key market.

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Because Japanese managers almost always focus more on cash compensation than on equity, the temptation to low-ball salary can be a costly false economy. Foreign niche medical device makers suffer a number of other impediments when it comes to finding serious, quality leadership to lead and grow their Japan business.

One issue is image. Japanese are notoriously brand-conscious, and aside from having no brand identity in the country, many niche medical players have found the door to Japan to be a revolving one. They enter, find the going difficult (usually because they don't have the right leadership team), and then exit within a few years, damaging whatever brand equity they developed. One prominent niche player has entered and exited the market three times in the last twenty years, making it virtually impossible to be taken seriously by the market. Smaller companies especially entering the Japan market need to do their due diligence and be prepared to make the proper investment in order to be successful.

"Small devices companies that enter Japan have a bad reputation," says the Japanese managing director of a western niche dental products firm. "There is a lingering image that they will disappear quickly. What's more, Japanese executives are wary that they will be bought out or go through a merger. They see the larger devices firms as being much safer bets." While not unique to Japan, such thinking is widespread.

Formerly from a larger, brand name devices firm, he says he knew nothing about his current firm before it approached him with the opportunity to lead its Japan growth. Aside from not knowing the company or its products, he also knew nothing about the size of its potential market.

Over the long haul, those that are patient and build the right leadership team will enjoy the fruits of this market, while also seeing their products benefit Japan's aging population.

Big Challenge, Big Risk

"To many Japanese medical executives, joining a small firm is a big challenge and a big risk. Before joining this firm, I was aware that there is a huge market for major devices such as pacemakers and the like, but I had no sense of the dental market. It was only after I joined that I realized the sheer potential of the market."

For niche firms entering Japan he has several tips. The first is making a compelling, detailed case about the size of the firm globally and the quality and competitiveness of the products. It is also key to discuss the company's growth strategy and the size of the future market. Only if a quality executive feels he is entering a good opportunity at the ground floor will he be tempted to make the jump.

Niche medical devices firms can succeed in Japan, but first they must clearly assess the immense challenges of entering the world's second biggest device market. Over the long haul, those that are patient and build the right leadership team will enjoy the fruits of this market, while also seeing their products benefit Japan's aging population. The trick to success is showing candidates that the firm has strong potential, and is committed to Japan for the long haul.

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