

The Globe



What Panasonic Learned in China

When your manufacturing base becomes your growth market, your strategy has to adjust. *by Toshiro Wakayama, Junjiro Shintaku, and Tomofumi Amano*

Multinational companies tend to insulate their headquarters from operations in emerging markets. Sure, they welcome the opportunity to save money by manufacturing in China or managing customer service out of India, and they're especially pleased when they make profits selling to customers in such markets. But regardless of their global footprints, American, European, and Japanese companies remain fundamentally American, European, and Japanese. The home country's executive offices too often have an "us" and "them" mind-set and encourage a one-way flow of ideas and directives—from us in the home country to them in emerging mar-

kets. Local initiatives are expected to stay local. Companies do this to minimize cost and risk, and because they believe that their brands already hold enough cachet to woo emerging-market consumers. Multinationals may be *in* global markets, but they're often not *of* them; therefore, they're unable to expand their products' appeal to broader audiences around the world.

It's surprising, then, when an established giant goes to an emerging market seeking the usual benefits of cheap labor and low manufacturing costs and comes back a changed company. That's what has happened to Panasonic in China over the past decade. After the Japanese company's

leaders saw growth slow in China, they realized that they needed to engage more deeply with customers there. Panasonic's desire to do that was rather remarkable because of the historical animosity between Japan and China, which can suddenly flare up. In October 2012, for instance, after Japan announced the purchase of the disputed Senkaku Islands, protests in China forced several Japanese companies, such as Canon, Toyota, and Panasonic, to suspend their China operations temporarily. Although the difficulties have subsided, they have probably created a sense of awkwardness among the Japanese and Chinese employees of multinationals.

Through its efforts in the Chinese market, Panasonic learned to bridge two strategies that are often seen as mutually exclusive: on the one hand, finding competitive advantage through expertise in integrated, worldwide operations, and on the other, focusing locally to meet consumers' particular needs. The inherent tension is well understood: Worldwide integration calls for cooperation and uniformity; local adaptation values independence and diversity. The tension is especially high in multinationals that are chasing growth in emerging markets while desperately trying to keep costs down at home.

In China, Panasonic learned to treat the two objectives as equally important. Indeed, it found a way to ensure that deeper localization invited greater worldwide integration, which in turn enabled even more localization. Over time, ideas began flowing from China to Japan. The company embarked on new initiatives to understand consumers all over the world, and Panasonic's leaders began to think of the company as a global, rather than Japanese, powerhouse. Some of the changes have been subtle—and it could be argued that they aren't as deep as they need to be—but they are real.

Panasonic's story, which we studied in collaboration with Takafumi Kikuchi, a senior manager of global consumer marketing at Panasonic, has much to teach multinationals about building competitive advantage by exploiting the tension be-

tween cross-border integration and local adaptation, rather than ignoring or simply tolerating it.

Crossing the East China Sea

The story begins with Chinese leader Deng Xiaoping's 1978 visit to Japan, during which he met with Panasonic's founder, Konosuke Matsushita, and asked for help modernizing China's industries. Panasonic began licensing technologies to China, and in 1987 established Beijing Matsushita

Color CRT, its first joint venture there. This subsidiary was a cornerstone of Panasonic's subsequent strategy and led to the establishment of more than 40 China-based manufacturing operations, making such products as washing machines, air conditioners, and TVs.

Soon China became Panasonic's global manufacturing hub. By the early 2000s, some 30% of the company's global output of "white goods" home appliances was made there. The company poured resources into the plants: manufacturing process know-how, quality management techniques, and supply chain knowledge. Panasonic's main purpose at that time was to take advantage of the lower cost of manufacturing in China, and much of the output was destined for export. Chinese consumers weren't yet recognized as an important market.

In Japan, Panasonic had long invested in detailed studies of how individuals and households used products. Panasonic's Home Appliances Company, for instance, had its own Lifestyle Research Center, which worked closely with product planning teams and helped create such offerings as compact countertop dishwashers for small kitchens and front-loading washing machines with tilted drums that improved water efficiency and made loading easier.

However, little effort was made to understand the Chinese market in this way. Japanese designers would visit China for short stays to study local preferences, but most product development was done in Japan. As a consequence, the Chinese plants' localization efforts were minimal, producing mostly low-cost, stripped-down versions of home-market models. For instance, in 2001, Panasonic achieved some success with a microwave oven whose only function was to warm up food.

If Panasonic couldn't establish a stronger presence in China, it would risk falling behind in all its markets.

As the Chinese middle class began to emerge, Panasonic started to see the flaws in its strategy. Local competitors such as Haier quickly outpaced the Japanese company. Panasonic's growth in China stayed flat, while the home appliance market in China grew at 20% to 30% annually.

Around 2000, Panasonic took another series of hits when its Chinese competitors started to export their low-priced products to the United States, Europe, and Southeast Asia. In 2002, for the first time in its history, Panasonic recorded an annual loss. Its leaders sensed that if they couldn't establish a stronger presence in China, the company would risk falling behind in all its markets. Its executives also realized that to gain an advantage quickly, the company's China operations needed to make effective use of Panasonic's Japan-based central resources, such as its marketing and R&D expertise.

In response, Panasonic carried out a reorganization, streamlining its corporate structure at home and abroad to bring costs down and address market shifts caused by greater digitalization and modularization in home appliances. Some 13,000 employees took early retirement, about half the layers in the corporate structure were eliminated, and business units were consolidated to foster cross-unit innovation. In 2003 the company established the Beijing-

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based Panasonic Corporation of China to provide its manufacturing subsidiaries such services as sales channel development, R&D, logistics, legal administration, and support for human resource management. This marked a transformation in Panasonic's thinking. No longer was China a place to make goods cheaply; it was a key source of the company's future growth.

Learning About Lifestyles

The next step came two years later, when the Home Appliances Company created the Shanghai-based China Lifestyle Research Center, the first serious attempt by Panasonic to develop a deep understanding of consumer lifestyles in a market outside Japan. It would be the nerve center for the company's new approach to China and globalization.

Tetsu Miyoshi, an experienced product planner, was called on to direct the center. Miyoshi established a clear mission that went beyond simply collecting lifestyle data: The center would focus on interpreting that data.

Miyoshi searched hard for local talent, going beyond the standard interview process and asking job candidates to interpret raw marketing data so that he could assess their ability to uncover hidden needs. He then personally trained the researchers to generate consumer insights and better understand the cost ramifications of product concepts.

From the very beginning, Miyoshi embraced the tension between cross-border integration and local adaptation. Believing that product development required global technology, he strongly encouraged his staff to learn about Panasonic Japan's sophisticated technologies, including those still under development, and develop new product proposals built on them. To ensure approval from the business units, he required that the center's researchers back up their product concepts with hard data.

The center began amassing local knowledge about consumer preferences specific to various regions and income groups. For example, in thinking about how to develop

rice cookers, researchers observed that there was a preference for short-grain rice in the north, medium-grain rice in central China, and long-grain rice in the south. The data were made available to all Panasonic's business units and their subsidiaries.

In addition to conducting interviews and engaging in other forms of conventional market research, staff members visited consumers' homes and took note of such elements as floor plans and kitchen counter heights. In studying some 300 households in areas such as Beijing, Shanghai, and Guangzhou, they noticed that in Chinese kitchens, which are typically small, the space for a refrigerator is usually just 55 centimeters wide. Panasonic's standard refrigerator width was 65 centimeters. Working with the R&D team in Hangzhou and Panasonic's researchers in Kusatsu, Japan, the lifestyle center developed slimmer refrigerators for the Chinese market. Consumers reacted enthusiastically. At one point, Panasonic's sales in the most popular category of refrigerators increased 10-fold over the previous year.

Throughout the process, staff members held regular meetings and established informal networks with engineers from various business units. These relationships allowed the lifestyle center staff to gain new technological knowledge and engineers to develop a deep understanding of the needs and preferences of the Chinese market.

By fostering formal and informal relationships among market-research staff members in China and engineers in Japan, Miyoshi ensured that the center's staff could address both local adaptation and worldwide integration. Knowledge flowed in both directions: from China to the rest of the company and from various business units into the China center. The more deeply the company adapted to local conditions, the more extensive was the worldwide integration of knowledge.

Embracing the Tension

Panasonic's efforts to tailor products to the Chinese market led to greater global collaboration. Consider what happened with its

Creating a Virtuous Circle of Localization and Integration

Most leaders understand that there is a tension inherent in meeting local customers' needs while seeking advantage through integrated global operations. Here's how to make that tension work for your company.

Establish a dedicated unit. One organization should be devoted to embracing the tension. The aim of Panasonic's China Lifestyle Research Center was to both understand Chinese consumers and draw on Panasonic Japan's R&D capacity.

Create an on-the-ground mission. The unit's mission should state explicitly how local adaptation and cross-border integration support company strategy. The lifestyle center's mission was "data

interpretation," not just data collection, to ensure that insights led to viable product proposals that leveraged Panasonic's global technology assets.

Develop core local staff. The unit should develop local staff who can engage in both localization and cross-border integration activities. At the lifestyle center, each staff member spent a year getting training and extensive coaching in field-work and proposal writing.

washing machines. In its household studies, the Shanghai lifestyle center uncovered something unusual happening. Researchers found that in more than 90% of Chinese homes with washers, consumers were still laundering their underwear by hand. Customer interviews turned up a pervasive fear that bacteria picked up by outerwear would spread to underwear in the wash, leading to infections.

The solution was clearly a means for sterilizing clothes in the wash. Machines that used silver ions to sterilize clothing were already being produced by local companies, but they hadn't sold well, perhaps because consumers hadn't seen their makers as trustworthy. The lifestyle center's staff recognized an opportunity there for Panasonic, a highly trusted brand.

The researchers presented the concept of a sterilizing washer during a regular meeting with managers of the Home Appliances Company's Technology Center in Japan, and a plan was soon developed to act on the idea. Working in collaboration with engineers at Shanghai Jiao Tong University, one of China's premier academic institutions, Panasonic researchers in Japan were able to improve on the silver ion technology.

When Panasonic introduced its sterilizing washers in China, in 2007, it was the first major multinational to do so in that market. To boost consumer trust, Panasonic publicized the collaboration with the university and released data showing the technology's effectiveness. In less than a year, Panasonic's market share for front-loading washing machines jumped from 3% to 15% in China.

In a break from the conventional flow of innovation from the home country to emerging markets, Panasonic brought the sterilization idea back to Japan, where consumers are typically not concerned about bacteria in clothing but worry about contamination in food. So for the Japanese market, Panasonic now routinely uses the sterilization feature in refrigerators.

As companywide collaboration sparked by the lifestyle center's work began to yield successful products in China, the level of trust rose among all participants, from market researchers in Shanghai to engineers in Hangzhou to business unit managers in Japan. Higher levels of trust altered the balance of authority, and China operations were given increased autonomy—a rarity among multinationals in general and Japanese companies in particular. Japanese firms tend to develop managers internally through years of in-house experience and training, and when the companies go abroad, they transplant that practice. Thus it often takes a long time for Japanese companies to develop local managers who are ready for autonomy.

Since 2008, the China home-appliances subsidiary has had almost complete authority to make decisions on new-product introductions for local markets, although the business units in Japan retain ultimate decision rights in order to ensure global adherence to certain design elements, such as washing machine chassis specifications. Thus, the deeper integration enabled by the cooperative relationships between Panasonic's units in China and Japan has promoted local autonomy.

A Changed Company

The new relationship between the home country and China in the appliances unit represents a dramatic change, but what's more impressive is the extent to which that experience has led to transformation elsewhere in the company. Panasonic's increasingly global outlook has taken several forms. The company has placed new emphasis on studying consumer lifestyles in additional markets so that it can continue to create products that meet specific local needs. In 2009, Panasonic established a lifestyle research center in Europe (Wiesbaden, Germany) and in 2010 brought similar capacities to India (the Volume Zone Marketing Research Center in Delhi).

The company has also expanded its research to cover other product segments. The China lifestyle center now works with units making such product lines as TVs, computers, DVD players, building interiors, and personal care and health care products. For example, the center has been studying alternative ways of positioning TV screens in homes to adapt to local consumers' preferences: Should they be affixed to walls? Should they stand alone as pieces of furniture?

That research is part of Panasonic's move into what it calls "integrated solutions"—holistic electronic systems for an entire home or building. These include networked appliances, smart kitchen and bath systems, linked electronic products, and solar-power generation and storage systems. Such solutions create opportunities for both higher margins and greater local adaptation—well beyond the possi-

Extend the reach. The unit must constantly push to expand its influence. The lifestyle center's leader ratcheted up communication and interaction between the center and engineers at Panasonic Japan to broaden the organizational scope of tension-embracing activities.

Strengthen local authority. Sufficient authority should be given to overseas subsidiaries to enhance their autonomy while ensuring sound cross-border integration. Seeing the early successes of the lifestyle center, Panasonic gave increasing authority to its China operations for deeper local adaptation while maintaining integrated cross-border working relationships between China and Japan.

bilities that individual products can offer. For instance, as part of the Tianjin Eco-city project to develop an environmentally friendly and resource-conserving city in China, Panasonic plans to introduce energy management systems for individual homes. The China Lifestyle Research Center is responsible for identifying local preferences relevant to the design of those systems. The increased need for such local adaptation is likely to push the company toward giving subsidiaries even more autonomy, positioning the company for greater success.

At the same time, holistic solutions rely on integration with headquarters and cross-business collaboration within the company. Panasonic's localization now depends largely on—and globalization is driving—cross-unit integration at home. Managing complexity of this magnitude is a daunting challenge for any multinational, but if handled well, it can be a source of lasting competitive advantage and a deterrent to smaller entrants.

In January 2012, Panasonic created an organization that it calls Global Consumer Marketing to promote and disseminate global-scale best practices throughout its regional marketing divisions. Panasonic sees the organization as a means of strengthening the company's presence outside Japan, particularly in emerging markets, through the transfer of marketing expertise, funding of local branding activities, and promotion of local product development in cooperation with regional headquarters.


It's worth noting that the Global Consumer Marketing organization is a top-

down initiative: The home company's leaders make resource allocation decisions that further the tension-embracing goal. A company can't afford to let its senior executives stand by and act as mere observers. They have to serve as drivers of the tension-embracing culture, creating "platforms," like the Global Consumer Marketing organization and the lifestyle research centers, that cultivate a global mind-set.

It remains to be seen whether Panasonic will fully realize the potential of its approach. So far, the company's appetite for local adaptation has been somewhat limited, as has the company's growth in emerging markets. Although Panasonic is the top Japanese brand in China's white-goods home-appliances market, it ranks third in washing machines after domestic makers Haier and Little Swan, with a 9% market share of washing machines in 2011.

But it is making headway: Panasonic's overseas share of sales in white goods appliances increased from 30% in 2005 to 42% in 2012, and the company has successfully introduced locally developed models such as air conditioners in India and refrigerators in Vietnam. As the company continues to expand its vision of being both efficient on a worldwide scale and local in its focus on consumer needs, its tension-embracing philosophy will be critical to improving performance in the future. ▾

HBR Reprint R1212J

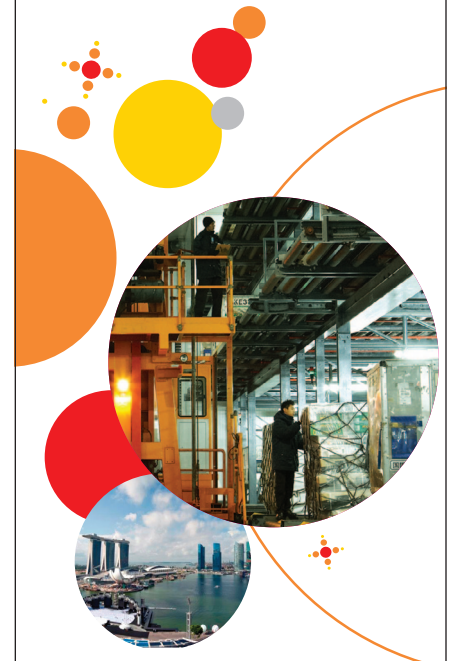
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