

# Startup Strategies of Intermediate Goods Manufacturers in Thailand:-A Case Study of a Japanese-Affiliated Company-

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**Abstract.** Recently, Japanese supplier companies have expanded into Thailand. To expand the supply chain, it's important to pioneer and secure the emerging markets. However, for reasons such as differences in the business environment and disharmony with local partners, many Japanese companies have withdrawn from markets abroad. This paper aims to indicate choices of business development open to Japanese companies expanding into Thailand, to analyze the business strategy of the Wiser One Company (WO), intermediate goods manufacturing company. As a research method, on-site interviews were carried out two times in Thailand. The company has enhanced its standing through an approach that involves awareness of the benefits of both customers and key persons, and by carrying out customer relationship management while conducting technology development. WO collaborates with other companies and uses external resources to the fullest, by building a system that allows them to gather market information and to respond to the market flexibly. In addition, WO makes competent proposals to suppliers and builds win-win relationships with them. This leads to sustainable management by improving cash flow. WO captures related technology while retaining cold forging as a core technology and build a flexible production system that produces a variety of products.

**Keywords:** customer relationship management, open innovation, entrepreneurial spirit, flexible production systems, supply chain

## 1. INTRODUCTION

In Japan, the automotive industry is a front-runner in leading Japanese manufacturing. Recently, automobile production in Japan is on the decline. It's difficult for new enterprises to enter the Japanese market, because a pyramid-style supply chain is already established, with finished car manufacturers, such as Toyota, at the top. On the other hand, automobile production has shifted to emerging countries such as those in Southeast Asia. Among the Southeast Asian nations, Thailand is considered to be a country that is easy to do business in, because its government has encouraged a nominal GDP growth rates

an attracting measure. Thailand also has infrastructure such as industrial parks and roads. Japanese supplier companies, and in their wake, finished car manufacturers, are expanding into Thailand. The expansion of the supply chain takes advantage of the industrial clusters of Japanese companies in Thailand as the key to be a pioneer in the emerging markets in Thai suburbs in order to continue economic growth. However, decrease in production demand and conflict with local partners has caused many Japanese companies to withdraw from foreign markets. The overseas retention rate of Japanese companies is not necessarily high. There is a variety of risks when founding a company overseas, such as the global business environment and language differences.

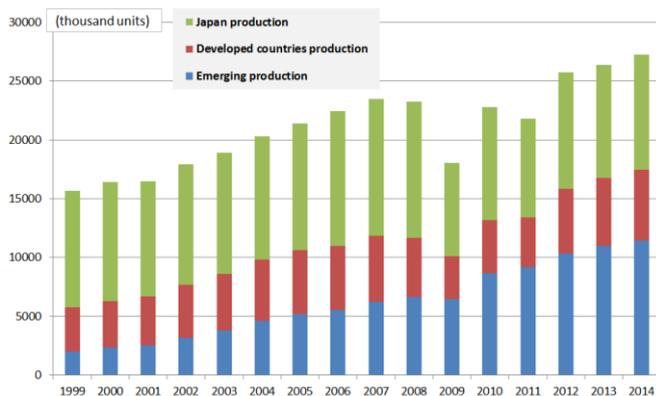


Figure 1: Globalization of the production system.

## 2. PREVIOUS RESEARCH

Hat (2009) said, “A company that has succeeded in building a strong relationship with the customer (personal relationships as well as business relationship) can secure an important and sustained superiority that is difficult for competitors to understand and imitate.” “A close partnership is formed when purchasing goods has an important meaning, and there are few alternative candidates, and high uncertainty of purchasing, such as procurement failure, and there is a need for customers to overcome it.” For a smooth progression of business, customer relationship management is important, and to make complex goods in a small supply market promote it. On the other hand, Lee et al. (2001) said, “passion is understood and instructed around, also entrepreneurial cooperation by people and companies in the social area may be the most powerful tool in order to respond to the challenges of the internal region.” Entrepreneurial spirit builds a trust relationship, and is an important factor in doing business. Previous research points out the importance of customer relationship management and entrepreneurship, but it does not mention specific business strategies. Kusunoki (2010) said, “It might be irrational at first glance, but when it is positioned in the context of the whole story, dual nature has a strong rationality, this is the essence of the critical core. Critical core adds a twist to the story; it is a “killer pass” such as extraordinary approach to create the chance. For competitors, it is irrational at first glance.’ So competitors did not imitate this element.” From the above, killer pass which seems irrational at first sight, is important to create a competitive advantage, and to discourage competitor companies.

## 3. CASE STUDY OF Wiser One (WO), INC.

### 3.1 Overview of WO, Inc.

WO, Inc. is intermediate goods manufacturing company Japanese founded in Thailand in February, 2014. WO, Inc. is located in a semi-industrial area near Bangplee industrial park. Its main business is producing cold forged steering joints for automobiles and agricultural machinery. Its main customers are Japanese automobile manufacturers. WO, Inc. has focused on overseas markets where quality standards are high, beyond just the Thai domestic market. WO, Inc. started production 10 months after it was founded. After 19 months (in January 2016), it has achieved a monthly surplus. The group companies of WO, Inc. are Standard Auto Manufacturing Company, Ltd. (SAMCO, Inc.) which is a local company in Thailand and Orient One Company (Orient One, Inc.) which is a Japanese trading company. About 90% of the capital of WO, Inc. has come from SAMCO, Inc. This paper aims to analyze the business strategy of the intermediate goods startup manufacturer, Wiser One Company (WO, Inc.) to indicate a more general business strategy of Japanese suppliers that are planning to expand their business abroad. In conducting this research, one of authors included a three-week internship, interviewed the founder of WO, Inc. twice in Thailand and three times at Nagoya Institute of Technology. In addition, one of authors interviewed affiliate companies and Japanese companies that have expanded into Thailand, and surveyed books and research papers.

#### 3.1.1 Why WO, Inc. is considered a success case

The business of WO, Inc. was successful from the start. In 2015, the second year in business saw sales of 200 million yen, and the order volume reached 700 million yen. Currently (June 27, 2015), sales have reached 600 million yen. In addition, the company has realized a competitive advantage through a marketing strategy that can order the important safety parts (key components) and excellent customer relationship management. Furthermore, the founder has a strong entrepreneurial spirit that led him to emphasize cash flow management and to adopt an innovative strategy that appears irrational for a newly established company. Adopting WO, Inc.’s business strategy (start-up strategy) in the Thai market would appear to be helpful to the business development of Japanese intermediate goods manufacturing companies wishing to expand into Thailand.

#### 3.1.2 Life History of WO, Inc.

In order to gain business experience, from 18 to 22 years of age, the founder of WO, Inc. worked in Company K’s factory. Company K is an auto Parts

Company located at a comparatively short distance from his home. During this time, he mainly learned about production technology and quality assurance. To assist the president of K Company, founder learned technology management and formed personal connections outside of the company. Though he had only graduated from high school, he was appointed as a chief when K Company established a new factory in Thailand. From 22 to 27 years of age, he started from scratch to set up the new business, and learned about the current state of the Thailand market and the business environment. At that time, he found that he could operate on behalf of a traditional supplier company in Thailand, given a high quality product. He quickly mastered the Thai language because he considered it important to be able to understand the daily conversations of the employees in order to conduct business in Thailand. When he was 28 years old, he quit K Company, and founded WO, Inc. in partnership with SAMCO, Inc. and Orient One, Inc. He was acquainted with Mr. Y, the president of the SAMCO, Inc. when he was at K Company thanks to an introduction from A Company, a trading concern. Currently he is enrolled in an MBA course at famous Japanese University conducted by distance learning. He always strives to obtain the knowledge and to take advantage of it when conducting business.

### 3.2 RELATIONSHIP WITH GROUP COMPANIES

SAMCO, Inc. is a local Thai company founded in 1978. Its main business is manufacturing and selling auto parts to the Thai domestic market (100%). The final users of SAMCO, Inc. products are a few companies whose performance depends on the domestic economy and whose management is not stable, so Mr. Y was considering overseas expansion. But while SAMCO, Inc.'s product quality is suitable for Thai domestic markets, it did not meet the needs of overseas markets. For this reason, SAMCO, Inc. aims to expand its product range through a capital investment in WO, Inc. (about 90%) and partnering with them. By performing the WO, Inc.'s cold forging process after SAMCO, Inc.'s hot forging operations, both companies add value to their product and therefore enhance their competitiveness. WO, Inc. deals with a local Thai company because Thai capital amounts to more than 51%. Thus WO, Inc. avoids risks such as high bank borrowing rates and special business laws that foreign firms are subject to. In addition, by sharing a platform such as SAMCO, Inc.'s manufacturing facility, they saved the need for capital investment. SAMCO, Inc. and WO, Inc. complement one another's production capacity and quality standards, and they create a system to do business in

Thailand. WO, Inc. has more advantages in market strategy and technology than SAMCO, Inc. because they belong to a network of Japanese companies and have wide technology area including cold forging.



Figure 2: Product photos (cold forging, hot forging).



Figure 3: Product photos (cold forging, hot forging).

### 3.3 CUSTOMER RELATIONSHIP MANAGEMENT (CRM)

#### 3.3.1 Core Technology

WO, Inc.'s core technology is cold forging. Cold forging is cheap and can produce high-precision results. Cold forging can produce cost savings by introducing mold production and pressing. WO, Inc. can do local development of products can manufacture joints by assembling the forged parts by themselves. As the technology matures, multiple processes are highly competitive in emerging countries where the number of suppliers is limited. In addition, WO, Inc. has a wide variety of products: in addition to cold forging they also conduct metal cutting operations. It can be said that a flexible specialization company is able to respond to a wide

variety of customer demands.



Figure 4: Equipment of cold forging.

### 3.3.2 Quality Assurance

WO, Inc. not only has the core technology, they have established a trust relationship with customers by performing quality assurance. They have achieved the ISO9001 quality standard. As for manufacturing equipment and molds, they import reliable Japan-made products and also do mold polishing themselves. Although they are a newly established company, they invested in expensive measurement equipment. When a customer visits the factory, they are shown WO Inc.'s high-level capacity for product evaluation. They have also introduced FMEA analysis and strive to avoid defects in the product and process. It is also to secure the traceability. Thanks to these quality assurances, they can approach customers with an already-established basis of trust in their products.

### 3.3.3 Approach to the Key Person

WO, Inc. consolidates material procurement for A Company. For B Company, a heavy industry manufacturer, they negotiate and lend an equipment disposal plan at no charge. While reducing the cost, they are building a relationship with multiple departments, all the while keeping in mind benefits to the customer. Large companies are divided along e.g. design, quality, purchasing lines, so WO, Inc. has taken measures make their value clear to multiple departments. Then, they search for the key person who is likely to be the core customer in the future; they actively approach this person. For example, the founder encourages creating documents for the key person at customer companies. By doing this, they help the key person achieve success and build a win-win relationship with him or her. They are aware that this enhances their position. By building a

trust relationship, they create a system that allows them to receive market information from the key person.

### 3.3.4 Marketing Strategy to Suppliers

For the stock of leading general trading company, A Company, the founder proposes a process that makes use of a warehouse that A Company already has. Although A Company conventionally sells products in kilogram units, the founder proposed sales methods that add value and sell in individual units. The founder belongs to multiple societies such as a plastic working society. The founder has always paid attention to state-of-the-art processing technology. As this proposal is accepted, it's planned to do warehouse processing business with A Company. A Company bears the warehouse fee, research and development fee, and WO, Inc. teaches processing techniques to A Company's employees. In this way, by enhancing the standing of each partner, they make it possible to offer a variety of competent proposals to potential customers.

## 3.4 ENTRY STRATEGY TO THE THAI MARKET (INTERMEDIATE GOODS MARKETING)

### 3.4.1 Financial Strategy

WO, Inc. can't take the budget principle because it is a newly established company and has few cash reserves. In the management aspects, they are aware of the relationship with suppliers. It negotiates directly with the president of the partner company and asks for an advantageous cash flow. For example, by negotiating an arrangement wherein the recovery site is fast and the payment site is late, they avoided the need to borrow. In addition, they save on inventory management costs by maintaining a balance between orders and production. If a project can't be delivered on time, they don't accept orders. As to practical aspects, facility capacity utilization is not so much a burden. They give more thought to effective utilization of equipment. In order to reduce capital investment cost, they purchase inexpensive equipment from a second-hand goods handling company, who inform of their equipment needs in advance. Alternatively, when they participate in events such as exhibitions, they negotiate a discount on exhibition liquidation goods that they are likely to use. By purchasing the equipment and materials, they keep product cost as low as possible. In addition, the founder handles both management and technology, which helps to generate efficiencies through synergy.

### 3.4.2 Marketing Strategy to Customer

The founder is aware of the value of entering the business of supplying such things as mission-critical components and safety parts rather than general parts. This is a difficult business to enter, but once WO, Inc. has established itself in that market, it's not easily dislodged, and management can be stable. For example, the founder sensed from a key person that C Company was looking for a supplier of key components of a gear in Thailand, he took on the challenge. Although large companies emphasize past performance, when evaluating a new supplier WO, Inc. doesn't have performance experience with this gear. The founder judged immediately that the timing was now or never, and again attempted to meet performance standards for the gear by approaching a Thai local small and medium-sized lawnmower company. As their performance and sincerity were known to the customer, WO, Inc. could trade directly with C Company and could enter the key components business.

### 3.4.3 Open Innovation with Japanese Companies

The founder has interacted with Professor Z of Nagoya Institute of Technology. In 2015 WO, Inc. accepted three interns from Nagoya Institute of Technology. The interns were introduced by Professor Z to a number of Japanese companies such as a heat treatment board company D and a casting company and did a business match. WO, Inc. is interested in various fields other than forging, and they advance the business with Company D in Thailand. At that time, the founder consistently studied new fields and accumulated knowledge. He considers the reasons for past failures cause seriously, and applies this knowledge to subsequent projects.

## 4. CONSIDERATION

WO, Inc. integrates management and technology and takes a flexible and rapid approach to meeting customer requirements. It entered the Thai market by using open innovation that utilizes external resources to the fullest. Cash flow management allows it to proceed with secondary and tertiary procurement advantageously. By lowering the fixed costs such as equipment and materials, it can compete against the finished equipment depreciation company. In addition, by diversifying its business into new areas, it expands the technology accumulation and network of multiple fields. The founder accumulates knowledge of business and suggests plans of merit by understanding customer needs. Therefore WO, Inc. can take advantage of the Thai market where a stable supply is difficult due to the small number of suppliers. It is a customer relationship management policy to approach a

key person after obtaining the trust of customers. WO, Inc.'s high level of quality assurance appears to be an irrational strategy for newly established companies with limited management resources, but this quality assurance reinforces a trust relationship with customers. The founder has an entrepreneurial spirit. It's learning by doing that inspires the growth throughout each project. In addition, although WO, Inc. is a company that Japanese founded, they built a business ecosystem to do business in Thailand, partnering with group companies and trading companies. It can be said that the results are due to taking advantage of the network and technical capabilities of Japanese companies to the fullest.

## 5. CONCLUSION

This research revealed the elements required for Japanese company to start up successfully. An intermediate goods marketing dialogue with customer enables the company to manage cash flow and to take advantage of external resources to the fullest. That enables it to use a customer relationship management approach that involves locating a key person after obtaining the customer's trust. Research shows this to be a concrete strategy. In order to perform excellent customer relationship management, it is important to understand a Thai market where it is difficult to find a stable supply of intermediate goods because there are a few Japanese supplier companies.

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