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**Title:** Marketing software in Japan: Success factors in different product strategies

**Year:** 2008

**Version:**

**Please cite the original version:**

Ojala, A., & Tyrväinen, P. (2008). Marketing software in Japan: Success factors in different product strategies. *Romanian Marketing Review*, 3(4), 53-79.

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# **Marketing software in Japan: Success factors in different product strategies**

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## **ABSTRACT**

This paper investigates small and medium-sized software firms' success factors in the Japanese market. Findings of this study suggest that, due to the immaterial nature of software products, distribution and packaging has a less important role, while understanding Japanese business practices is ranked high along with customer satisfaction, honesty, and characteristics of a product. The findings also highlight the importance of distinguishing different kinds of software businesses based on their product strategies when analyzing success factors in a target country. For instance, the Japanese language assumed an important role in enterprise solution firms and in mass market software business, while its role in tailor-made software solution firms was less visible.

*Key words: International marketing, Product strategies, Japan, Software firms*

## INTRODUCTION

In Japan, the information and communication technology (ICT) industry forms the largest market sector (JETRO, 2007). The total software market size in Japan was 131,773 million U.S. dollars in 2004 (U.S. Commercial Service, 2006). This ranks Japan as the world's second largest software market after the USA. In addition, due to the limited production capacity of domestic software firms, Japan is highly dependent on imported software products (Anchordoguy, 2000). For these reasons, several government-based organizations in various countries (see e.g. Enterprise Ireland, 2005; JETRO, 2007; U.S. Commercial Service, 2006) have highlighted that the Japanese market offers good opportunities for foreign software firms to do business and significantly expand their market potential.

Due to the cultural differences between Japan and Western countries, the Japanese market is often characterized with somewhat different success factors. Although many success factors have been documented in earlier investigations, most of the previous studies lack an industry-specific focus. Instead, they have taken a cross-industrial approach focusing on success factors in the market entry phase (Shetty & Kim, 1995; Simon & Palder, 1987), success factors related to distribution channels (Czinkota & Kotabe, 2000), and success factors in consumer markets (Douglas & Craig, 1990; Reid, 1995). In addition, these earlier studies have almost exclusively examined to large multinationals, whereas very little research exists on factors which make foreign small and medium-sized software firms successful in the Japanese market.

As presented in earlier studies (Bell, 1995; Bell, Crick & Young, 2004; Coviello & Munro, 1997), there are significant differences between the internationalization behavior of software firms and firms in the low-technology and manufacturing industries. Small and medium-sized

software firms are generally internationalize their business rapidly to leading software markets (Ojala & Tyrväinen, 2007a), such as the USA and Japan, by using different routes than firms in the manufacturing and low-technology industries. The software industry also differs from other industries due to the intangible nature of the product, high knowledge intensity, innovativeness, short product life cycles, and global markets (Nambisan, 2002), to name of few. For instance, in the production phase, software has a very high initial cost, whereas reproduction costs can be nearly nonexistent. Localization of software products means translating and localizing the whole product, while in manufacturing and low-technology industries localization can be limited to translating a product manual. In addition, software products can generally be distributed electronically around the world without distribution costs. For these reasons, we can assume that the success factors which software firms have encountered in the Japanese market are somewhat different from success factors in other sectors.

Considering the importance of the Japanese ICT market for foreign software firms, and the lack of earlier literature on this field, this study aims to fill this gap by focusing on small and medium-sized software firms' success factors in the Japanese market. More specifically, this study investigates software firms' success factors in three different types of product strategies.

## **Literature review**

Success factors in the Japanese market, presented in earlier literature, can be divided into three categories: success factors related to 1) the product, 2) the marketing process, and 3) the organization.

Firstly, in earlier studies (Douglas & Craig, 1990; Shetty & Kim, 1995), the success factors related to the characteristics of products include uniqueness and high quality of a product,

packaging, and product adaptation/customization. In addition to high requirements for products, firms' capability to provide services and support related to their products is also considered critical. These factors seem to be associated with high quality requirements of Japanese customers and the highly competitive market environment (Czinkota & Kotabe, 2000). For these reasons, foreign firms in the Japanese market should generally offer higher quality products than their Japanese competitors. This requires well planned product strategies and finding the right niches, because one significant reason for Japanese success in global markets is their ability to offer competitively priced high quality products (Reid, 1995).

Secondly, several studies (Douglas & Craig, 1990; Shetty & Kim, 1995; Simon & Palder, 1987) have stressed that the most important issues related to the marketing process are good personal contacts, advertisement and promotion, good distribution strategy, well conducted market research, and understanding Japanese business practices. In contrast, pricing issues have not been considered essential success factors in the Japanese market because Japanese consumers pay more attention to quality and services than to product prices (Douglas & Craig, 1990). Studies of Graham (1996) and Lohtia, Bello, Yamada and Gilliland (2004) suggest that without understanding the Japanese market structure, it is extremely difficult to do successful business in Japan. Japanese organization and management practices are an idiosyncrasy, and they differ significantly from their Western counterparts. However, Lohtia et al. (2004) recommended that companies adapt their management practices to correspond with local practices. Otherwise dealing with customers in the Japanese market may be very difficult.

Thirdly, the study of Shetty and Kim (1995) found that firms' capability to recruit qualified employees, good relationships with headquarters, perseverance in business, and good image were important organization-related success factors in the Japanese market. However, as mentioned in Weinstein (1996), recruiting competent employees has been difficult for foreign firms in the

Japanese market due to differences in training methods, foreign companies' inability to commit to long-term employments, and the salary system of Japanese firms that favors long-lasting employment. Graham (1996) and Shetty and Kim (1995) have emphasized that foreign firms should be able to integrate their international operations efficiently with operations in Japan and provide support for their units in Japan from the headquarters without excessive control. Mason (1996) pointed out that perseverance in business is also important because numerous foreign companies only focus on short-term profitability in the Japanese market. This kind of strategies are dissimilar with Japanese firms' preference for long-term contracts, which take more time to arrange but are not easily broken once established (Wakasugi, 1996).

### **Product strategies of software firms**

Earlier studies (see e.g. Bell, 1995; Coviello & Munro, 1997) related to international operations of software firms have generally described these firms as a homogeneous group, whereas very little attention has been paid to differences between various types of software firms (Ojala & Tyrväinen, 2006). However, several studies have recognized and analyzed differences between software firms types based on how these firms apply their business models (see e.g. Hoch, Roeding, Purkert, Lindner & Müller, 2000; Rajala, Rossi & Tuunainen, 2003). The concept of business model has been widely used in literature on management, business, and e-commerce since last decade, and it has a number of definitions. In the high technology sector, the term business model has been used to describe how various types of firms execute their business activities and product strategies (Hoch et al., 2000; Rajala et al., 2003). The term 'product strategy' is used to illustrate a firm's core product offering. It focuses on product development and the way how this work is organized. The product strategy can vary from customer specific

software solutions to the development of highly standardized software products. In their book, Hoch et al. (2000) divided software firms into three groups depending on product strategy. The first category included professional service firms, which have the lowest level of productization and their product offering consists of tailor-made software solutions for each customer. The second group was comprised of enterprise solution firms which offer software products for business users. These products have core software that is customized for various customer segments. The third group consisted of mass-market software firms, which have the highest level of productization and their products are mainly targeted at consumer markets. In this study, the framework of Hoch et al. (2000) is used to categorize software firms into tailor-made software solutions firms, enterprise solutions firms, and mass-market firms, based on their product offering.

## **METHODOLOGY**

The sample of this study includes nine small and medium-sized Finnish software firms. Finland was chosen as the country of origin due to its small and open economy with a very limited domestic market, which makes internationalization the most important growth strategy for Finnish software firms. Japan was chosen as the target country for the study due to the large size and attractiveness of the market for foreign software firms. In addition, Japan is commonly cited as a very challenging country to enter and in which to conduct successful business (Reid, 1995; Shetty & Kim, 1995). Although the case firms selected for this study originate from Finland, the sample can, to a large extent, be generalized to small and medium-sized software firms globally due to the use of global industry standards and platforms for products and services. In addition, research results related to the internationalization of small and medium-sized software firms from

different countries imply that these firms use similar routes, networks, and strategies in their internationalization process (see e.g. Bell, 1995; Loane, McNaughton & Bell, 2004). Suitable firms for this study were identified by using websites of the Finnish Chamber of Commerce in Japan and Finnish Software Business Clusters, as well as a list of firms in the publication “Software Product Business Cluster in Finland 2005”. Altogether nine firms were identified and contacted with an e-mail request to attend the research. All nine firms answered and were willing to share their knowledge and experience of the Japanese market.

The data collection for this study was carried out in two phases. The first phase was conducted by using a case study method, which enables discovering the cause-and-effect relationships of phenomena under investigation (Yin, 1994) that it would not be possible to discover with quantitative research approaches. Open-ended interviews were conducted with a total of nine managers who had the most in-depth knowledge of their firms’ operations in the Japanese market. In the interviews, the executives were asked to name the three most critical success factors in the Japanese market in their own words and to explain how these factors had been taken into consideration in their own business. The 60-90 minute-long interviews were digitally recorded, carefully listened to, and transcribed verbatim by using a word processor. A second listening was performed to ensure correspondence between recorded and transcribed data. Complete case reports were sent back to the interviewees to ensure the validity and authenticity of the collected data. If the interviewees found inaccuracies in the text, these were corrected based on their comments. In the second phase, the list of all eleven success factors found in the first round was sent back to the interviewees and the interviewees were asked to rank these success factors by using a scale from zero to seven. Based on their answers, success factors in the Japanese software market were ranked by using the ordinal scale data analysis method following the suggestions of Babbie (1989).



## FINDINGS

Table 1 gives an overview of the case firms. All firms were established between 1988 and 2000, except for Firm C which was established already in 1966. The average number of employees in the case firms was 156 and firms' experience in the market varied between three and seven years. Their units in Japan were rather small, containing only 1 to 25 employees, because the units were established mainly for sales, marketing, and customer support purposes, which corresponded to similar findings of Bell (1995). Firm H diverged from this pattern with a greater number of employees in their unit in Japan than in Finland, as Japan was the main market area for their products. Firms A and B focused on tailor-made software solutions, and Firms C, D, E, and F concentrated on enterprise solutions, whereas Firms G, H, and I developed mass-market products for consumer markets in Japan. It should be noted that prior to targeting mass markets in Japan, Firm I had focused on enterprise solutions. However, based on the contemporary focus, Firm I is categorized as a mass market firm. Firms used four different types of entry modes into the market. Four of the firms used sales subsidiaries as their current entry mode in the Japanese market. Firm B had a representative who worked within their Japanese distributor and Firm A had a representative office in the market. Firm H penetrated into the Japanese market by selling their shareholding to a Japanese corporation; they were still headquartered in Finland and operated as an independent unit. Firm G used a joint venture with its Japanese partners.

Table 1. Key information of the case firms

	Year of foundation	Years of operation in Japan	Number of employees worldwide	Number of employees in Japan	Product Strategy	Operation mode in the Japanese market
Firm A	1998	4	30	1	Tailor-made software solutions	Representative
Firm B	1992	4	90	1	Tailor-made software solutions	Representative
Firm C	1966	6	300	6	Enterprise solutions	Subsidiary
Firm D	1990	6	240	9	Enterprise solutions	Subsidiary
Firm E	1995	6	100	5	Enterprise solutions	Subsidiary
Firm F	1991	5	210	5	Enterprise solutions	Subsidiary
Firm G	1998	7	12	2	Mass market	Joint venture
Firm H	2000	3	35	25	Mass market	Corporate
Firm I	1988	7	390	14	Mass market	Subsidiary

Table 2 lists the recognized success factors for each type of product strategy in the Japanese software market. The factors are presented in the order of importance based on the ordinal scale data analysis following the suggestions of Babbie (1989) (total score = average \* frequency, where average = sum / number of cases). Next, the five most important success factors in each product strategy are presented and discussed.

Table 2. Critical success factor priority in different types of product strategies

Overall ranking	Success factor	Tailor-made software solutions firms	Enterprise solutions firms	Mass market software firms
1	Customer satisfaction	1	2	1
	Understanding Japanese business practices			
2		1	2	4
3	Honesty	6	5	2
4	Characteristics of a product	3	7	4
4	Perseverance in business	3	2	11
6	After-sales services	3	5	6
7	Japanese language	11	1	2
8	Personal contacts	7	8	8
9	Qualification of personnel	7	9	8
10	Market research and analysis	7	10	8
11	Image	10	11	6

### **Tailor-made software solution firms**

Firms A and B focused on tailor-made software solutions. Their product offering included a core product that was customized according to the requirements of each customer. Customizing their products required intensive cooperation with clients in order to specify requirements for software solutions. Due to the need for close cooperation with customers, these firms emphasized the importance of customer satisfaction and understanding Japanese business practices as the most

important success factors in Japan. They also valued product features, perseverance in business, and the importance of after-sales services higher than other types of software firms. In their business, product features and knowledge on how to modify them for the customer's environment were critical. Perseverance in business was needed due to the length of sales processes and development of close relationships with customers. One informant at Firm A expressed this as follows:

“It took almost two and a half years from the first contact with a customer for the transaction to happen with that customer...you just need to accept it if you want to do business in Japan”.

Implementation processes of tailor-made software solutions were also rather long: they took from a couple of days up to three months, depending on the customization level of the product. This also increased the importance of perseverance in this type of business. In addition, intensive cooperation with customers required well organized after-sales services. Both firms offered after-sales and implementation support to their customers in the market by using representatives. One informant at Firm B explained this in the following way:

“...because our customers always need support due to the nature of our products, and because this support cannot be delivered somehow through the Internet, it always requires personal contacts”.

### **Enterprise solution firms**

Firms C, D, E, and F produced enterprise solutions for other firms. They had core products which were customized with minor changes for various customer segments. Their products were highly productized, but required some minor modifications due to target industry requirements,

customers' needs, and localization of the user interface. These firms emphasized the Japanese language, customer satisfaction, perseverance in business, understanding the Japanese business practices, honesty in business, and after-sales services as the most important success factors in Japan. Enterprise solution firms ranked the importance of the Japanese language higher than other types of firms. Language was considered the most important tool due to personal marketing which was required in these firm's sales process. Japanese proficiency was also needed in networking and in maintaining regular contact with customers and distributors. The ability to provide after-sales services and documentation in Japanese was also mentioned as a key success factor. All of these firms recruited Japanese-speaking employees for marketing and technical support activities.

Customer satisfaction was considered very important for maintaining regular contact with the customers and for listening to their desires. Firms also emphasized the importance of convincing their development team in Finland to respond to customers' specific needs in Japan and to follow the delivery schedules promised to the customers. However, customer satisfaction can also be seen as a sum of other important factors. One informant at Firm F expressed this as follows:

“Customer satisfaction is important, but it can only be achieved by satisfying customers' needs. Thus, it is a result [of other important factors], not a primary requirement that can be fulfilled”.

Honesty in business was also mentioned as an important factor in this type of business due to close relationships with customers and local distributors. For instance, Firm D highlighted that if there were problems in the product, it was better to inform the distributor immediately since a distributor should have detailed information about the product and its critical parts. With this information, the distributor can react directly if a customer faces a problem with the product.

Firms also stressed the importance of keeping promises to distributors and customers, which improved reputation and gave a reliable image to their firm.

Enterprise solutions firms emphasized the importance of understanding Japanese business practices and perseverance in business due to the personal marketing approach used and the close cooperation with customers. Even a basic understanding of the Japanese business culture was mentioned to improve the reputation of the firm. One informant at Firm C explained this as follows:

“As a foreigner, you are not expected to know perfectly how to do business in the ‘Japanese way’, but it helps to show that you have put some effort into understanding how relationships and business practices work in Japan”.

After-sales services were also ranked among the most important success factors in Japan but they were not considered as crucial as in tailor-made software solutions firms. All enterprise solution firms sold software which played a critical role in their customers’ business, thus increasing the need for fast after-sales support services. The distributors gave first-line support to their own customers and firms’ subsidiaries in Japan gave secondary support to the distributors. Alternatively, the distributors supported all customers and the firms’ units in Japan provided second-line support only in problematic cases.

### **Mass market firms**

Firms G, H, and I developed mass-market products for consumer markets in Japan. Their products were highly productized and sold without any customer-specific modifications to consumers. These firms ranked customer satisfaction, honesty in business, the Japanese language,

understanding Japanese business practices, and the product and its features as the most important success factors in Japan.

In mass market firms, customer satisfaction was more related to product features than services unlike in tailor-made software solution firms or enterprise solution firms. All mass market firms highlighted the importance of focusing on characteristics of their products to meet the requirements of specific market niches in the highly competitive and saturated Japanese consumer markets. Honesty was regarded critical for maintaining a good and reliable reputation among consumers and partners which was achieved mainly by keeping promises and schedules to distributors and end users. Firms also reported the Japanese language as a very important success factor in their business, because in Japanese consumer markets all software products have to be localized in Japanese. All of these firms had native Japanese speakers in their units in Japan, which helped them localize their software products. One informant at Firm H underlined this by stating the following:

“...some of our games [those that are not originally from Japan] have to be localized and the localization is done in Japan. We do not have such knowledge on the Japanese language or culture that we could do it here [in Finland]”.

Japanese employees also facilitated the firms' marketing activities since these employees were familiar with Japanese business practices and knew how to market mass market products and develop business relationships with partners. It should also be noted that mass market firms valued image/brand name higher than other types of firms.

## **DISCUSSION AND IMPLICATIONS**

The success factors recognized in this study seem to differ somewhat from the findings of earlier investigations (Douglas & Craig, 1990; Shetty & Kim, 1995; Simon & Palder, 1987). The case firms in this study did not report success factors related to distribution strategy, packaging, advertising/promoting, good relationships with headquarters, and global networks, which were reported in other studies. This might be due to a different type of products and niche market segments of the case firms in this study. Software products are immaterial goods and in many cases software can be delivered in an electronic form, reducing the importance of physical distribution and packaging. Except for mass market firms, advertising/promoting was not reported to have an important role due to the narrow market segments. Tailor-made software solution and enterprise solution firms usually knew their potential customers in the market and used personal marketing more than advertising in the media. The Japanese units of the case firms were quite small and, thus, had close contacts to the headquarters and other units of the firm.

As new findings, the case firms reported the following three success factors: the Japanese language, customer satisfaction, and honesty. In previous studies (Karppinen, 2006; Ojala & Tyrväinen, 2007b), the Japanese language has also been seen from another perspective, as barring entry rather than enabling success. The Japanese language played an important role in enterprise solution and mass market firms in enabling negotiations with customers and distributors in the market, where the English language does not have such a strong role. In contrast, among the tailor-made software solution firms, the Japanese language was referred to as the least important success factor. These firms did not need the Japanese language in their marketing activities due to the English proficiency of their multinational customers. Customer satisfaction and honesty were



important for all types of software firms for further business due to the low amount of customers in the niche market segments.

Another interesting observation was that the case companies referred to a success factors related to characteristics of a product while previous studies (Douglas & Craig, 1990; Shetty & Kim, 1995) divided this into various dimensions of a product, e.g. uniqueness of the product, quality of the product, packaging, and product adaptation/customization. This phenomenon may be related to the tendency of software business models to view the various aspects of a product offering as a tightly integrated entity, referred to as a “whole product” in the contemporary literature of practitioners (Moore, 1991), rather than as orthogonal dimensions which can be optimized separately, as in traditionally businesses.

The practical implications these findings bring about to the managers start from the general importance of customer satisfaction, understanding Japanese business practices, and honesty in Japanese markets, honesty being emphasized especially in the mass market software segment. When operating a software business in the Japanese market, emphasis should be put on harmonizing all aspects of the product dimensions, which should be conceptualized as a whole. This means that responsibility of the firm’s product development should not be scattered around the organization causing possible communication problems and inconsistencies. It is also very important to distinguish different kinds of software businesses based on product strategy - tailor-made and enterprise solution firms from mass market software firms. The Japanese language is important in enterprise solution firms and in mass market software business, while tailor-made software solution firms can mostly rely on the English language proficiency of their customers. Tailor-made software business and enterprise solutions firms need to maintain customer relationships and perseverance in business paying less attention to company image, while in mass market software business the priority of these two is reversed.

The findings also propose that managers should actively search for potential niches and develop their products for these niches in the highly competitive Japanese markets. In the marketing process, niche products require intensive personal marketing instead of mass marketing. Managers should also pay attention to personal sales competence and recruit persons capable of selling their products in Japan. Personal marketing in Japan requires perseverance, capability to establish and maintain good contacts with customers, and at least a basic knowledge of the Japanese language and business practices.

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