



# The Changing Japanese Housing Market: US Export Strategies for Prefabricated Housing and Wooden Building Materials

*The Japanese market for prefabricated homes and wooden building materials has tremendous potential for US firms, particularly those located in the Pacific Northwest. For example, exports of prefabricated housing to Japan increased by 51 percent from 1994 to 1995, with 81 percent of these exports originating from the Pacific Northwest. Despite this success, Japan is a relatively new market to most US firms and more information is required before US firms can fully take advantage of the opportunities that exist.*

The results of this study were derived from a census of prefabricated housing manufacturers, export consolidators, and Japanese trading companies located in the Pacific Northwest who export to Japan. The sample frame included sixty-six firms: fifty-one in Washington and fifteen in Oregon. Sixteen companies manufactured prefabricated housing, thirty-four were export consolidators, and sixteen were subsidiaries of Japanese trading companies.

## Results

Prefabricated housing exporters in Washington and Oregon are predominately small to medium-sized firms with less than 25 employees and annual sales of less than \$10 million. Most of these firms have been exporting to Japan for less than five years. Despite the small size of these firms, they appear to be highly involved in the Japanese market. Approximately half of the respondents generated more than half of their annual sales revenue from exports to Japan.

Table 1. Mean importance ratings of marketing factors with respect to their influence on succeeding in the Japanese market.

Marketing Factors	Mean Importance Rating
Personal relationships	6.5
After-sales service	5.4
Rapid delivery	5.4
Technical assistance	5.3
Translated product information	5.1
Increase product quality	5.1
Translated technical information	5.0
Customized product	4.9
Low price	4.3
Product warranty	4.1
Provide credit	2.9
Exclusive distributorships	2.6
Joint ventures	1.9

The promotional strategies used by the survey respondents were fairly limited, a fact which might be attributed to the small firm size of the respondents and their limited financial resources. A majority of the respondents indicated that they relied on product brochures, word-of-mouth referrals, and trade shows to promote their products. Promotional strategies that required a higher commitment of financial resources, such as establishing a model home or a product showroom in Japan, were used less frequently.

The distribution channels for imported wood products in Japan are complex, consisting of several layers of intermediaries. However, the results of this research indicate that many prefabricated housing manufacturers and export consolidators have bypassed the traditional Japanese distribution channels. Approximately half of the respondents indicated that their primary channel of

distribution involves selling their products directly to Japanese home builders. This strategy provides these firms with substantial cost savings, while increasing their competitiveness in the Japanese market.

Most respondents noted that building strong personal relationships with their Japanese customers is the most important factor for succeeding in the Japanese market, Table 1. Interestingly, the five marketing factors that received the highest importance ratings can all be considered to be service components of a marketing strategy. These factors were: strong personal relationship with the customer, after-sales service, short delivery times, providing technical assistance, and translating product information.

Product adaption is also important to succeeding in the Japanese market. In fact, all of the prefabricated housing manufacturers and almost 90 percent of the export consolidators reported that they modify their product to some extent to suit their Japanese customers. The most common types of product adaptation include changing the design of the home to include a tatami room and/or a genkan (Japanese-style entryway), using higher quality materials in products exported to Japan, and translating product brochures, installation instructions, and technical information into Japanese.

Respondents perceive JAS (Japan Agricultural Standards) and JIS (Japan Industrial Standards) building materials certification and the Japanese building code as non-tariff trade barriers that have a substantial negative impact on the competitiveness of US prefabricated houses and building materials in Japan. Two other factors, the difference between US/Japan construction technology and the inefficient transfer of US construction technology, were also perceived to be non-tariff barriers that restricted the competitiveness of US firms in Japan. It is interesting that in many cases US subsidiaries of Japanese trading companies perceived that trade barriers had a greater impact on their competitiveness than did US firms. This was particularly true with respect to the complexity of the distribution channels in Japan and import tariffs.

The majority of the prefabricated housing units exported from the US to Japan are manufactured using 2x4 construction technology. Most survey respondents reported that this creates a problem because Japanese architects, contractors, and carpenters do not possess a strong understanding of 2x4 technology. Many respondents also stressed that Japanese residential contractors seldom utilize the construction management techniques widely used in the US. As a result, construction costs are more than twice as high in Japan as in the US. Perhaps more important from a long-term strategic market development perspective is the fact that this lack of technological understanding can adversely impact the quality of 2x4 homes built in Japan and reduce their long-term performance. Either of these factors could potentially erode the competitive position of US prefabricated housing and wooden building materials in the event that substandard products and/or product performance adversely affects Japanese consumers' perceptions of these products.

Table 2. Types of technical assistance provided by respondents to their Japanese customers.

Type of Technical Assistance	Average
Provide written/verbal instructions	46.5%
Seminars and field training	30.2%
Provide trained US carpenters	20.9%
Provide product brochures	16.3%
Provide supervisors on-site	14.0%
Provide training videos/slides	9.3%
Provide design development	7.0%

Not surprisingly, survey respondents indicated that the efficient transfer of 2x4 construction technology is an important component of their marketing mix, with approximately 85 percent of the respondents utilizing some type of strategy to address the issue of technology transfer. The three most widely employed types of technical assistance are: providing customers with installation instructions and/or product brochures, providing customers with seminars and/or on-site technical training, and sending carpenters and/or construction site supervisors to ensure the quality of the construction work, Table 2. When asked to indicate what strategy would be most effective in

transferring 2x4 construction technology to Japan, almost half of the respondents indicated that they favor providing technical training for Japanese construction professionals.

The results of this study indicate that prefabricated housing manufacturers and export consolidators in the Pacific Northwest are strategically poised to take advantage of current housing policies in Japan that promote imported housing and building materials. Despite the fact that many of the participants in these industries are relatively new to the Japanese market, a large number are already experiencing success. In particular, these firms have demonstrated the ability to take advantage of the new competitive environment in Japan by developing strong business relationships with their customers and developing distribution channels that bypass the traditional extended and costly distribution system. Given the strengthening Japanese economy, the opportunities for imported housing and building materials in Japan appear to be bright.

*The results of this research project are presented in CINTRAFOR Working Paper No. 60*