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GENERAL COMMENTS AND STRATEGIES FOR JAPANESE COMPANIES WISHING TO ENTER THE US SPACE AND AEROSPACE MARKET

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There are many opportunities for Japanese companies wishing to enter the US aerospace, space and defense market.

- It should be noted, however, that every Japanese company that is considering entry into the US space and aerospace market is different. They each require specific guidance and recommendations based on their individual company capabilities, goals, and circumstances.
- Moreover, much depends upon the specific area of interest for the Japanese company and the US market that it wants to sell into or invest in. One pathway for entry into the US market that may be successful for one Japanese company may not be so for another.
- In short, **success depends upon a number of factors and there is no one single path for successful entry into the US space and aerospace market.**

The following three sections, each representing different levels of activity, provide General Comments and Market Entry Strategies/Considerations for Japanese companies wishing to enter the US space and aerospace market. Consulting companies in the US can work with Japanese companies to help with each and every one of these levels of activity/strategies to provide more detail and/or advice, as appropriate.

1. Initial Consideration for Entry into the US Space and Aerospace Markets – Market Intelligence

Generally, new, relatively young Japanese space companies built around a single, “cutting-edge” technology, or ones with little international experience and are just beginning to research and understand the opportunities and issues in the US space market may first take a **Market Intelligence** approach to the US.

- Many Japanese companies have been successful in working in the Japanese market, selling to both the space and aerospace sectors, but also to the commercial area (e.g., the automotive sector or the medical sector).
- As such, they recognize that the US space and aerospace market may offer opportunities to a Japanese company and should consider this first level of strategy.

- Indeed, Japanese company may be unsure or uncertain about US business rules and regulations in the space and aerospace sectors, how competitive their product might be in the US, or whether there might be US partners to whom the Japanese company might turn.
- Some key Market Intelligence actions for Japanese companies to consider in entering the US market at this first level include:

→ **Conference Attendance and Network Growth** – It is important for Japanese companies to attend US space and aerospace conferences, especially those that pertain to their specific technology.

- It is through conference attendance that Japanese companies can meet their US counterparts, as well as learn about potential partners. By doing so, Japanese companies can expand their network of contacts and begin to learn about opportunities that may be available to them.
- Even if no direct business results in Conference Attendance, it is always helpful for Japanese companies to form and maintain informal relationships with US companies and to keep lines of communication open with potential US partners.
- The following are overall considerations regarding how a Japanese company may wish to choose whether or not to attend a specific US conference:
 - a. What is the usual attendance by US companies at a specific annual conference;
 - b. What potential US partners or customers plan to attend a particular conference;
 - c. How much does a particular conference cost, including expenses;
 - d. What is the timing or location of the conference, which may relate to other reasons a Japanese company may wish to meet and make connections in the US.

Overall, each Japanese company must look at potential participation of a US conference based on what business opportunity there may be through attendance against the cost of attending a particular conference (as opposed to investing time and energy in another company endeavor).

- With respect to examples of conference that Japanese space companies should consider attending, it should be noted that the largest conferences in the US would likely attract the widest possible Japanese company audience. For example, the Space Symposium, the annual Satellite Conference in Washington, DC, and the American Aerospace and Defense Summit are well

attended conferences with strong participation of both US private companies (especially at the prime and first tier contractor levels) and US government officials.

- The Aerospace Defense Chain Conference and the Aerospace & Defense Supplier Summit are likely to be more suitable for Japanese small and middle sized companies that wish to focus on entering the US supply chain for space, aerospace and defense at the parts and components levels.

→ **Market Study for Company Products and Understanding US Technology Standards** – From Japan, Japanese companies can also learn about the US market. There are many US consulting companies which support Japanese companies in understanding the US market conditions for specific systems, technologies, components and parts.

- Understanding the US market is critical to any successful market entry strategy – no matter how small or large of an investment in time and resources the Japanese company wishes to make.
- Moreover, it is critical for Japanese companies to be familiar with all of the Technology Standards involved in potentially becoming a trusted supplier in the US space and aerospace market. Again, US consulting companies can be helpful in working with Japanese companies to help them understand the variety of Technical Standards required by the US space and aerospace industrial sectors.

2. Further Steps for Japanese Companies – Market Engagement

While Market Intelligence provides Japanese companies with an ‘introduction’ regarding the key issues of the US space and aerospace market, and allows for the development of a business network and understanding of US market conditions that pertains to their specific products or technologies, a Japanese company may then consider greater **Market Engagement** in the US.

- This second level of activity in the US is usually considered by more-established Japanese companies which may already have had some experience in the US market, perhaps in the commercial sector, or by medium-sized companies which are willing to make an initial commitment to enter the US.
- In this second level of strategy, Japanese companies should consider the following Market Engagement actions in the US.

→ **Finding a Representative or a Licensing Partner in the US** – When Japanese companies want to actively develop business in the US, many often turn to

finding a US representative with experience in the field of technology of interest for sale in the US.

- US representatives are usually formed around specific technologies and programs, and can vary in size from large firms to a single person operation.
 - Typically, a US representative lives near the headquarters of a major US government program (such as a military base or research lab) or a major space or aerospace contractor/company (such as Boeing or Lockheed Martin). In this way, the US representative has direct access to decision-makers who review suppliers for specific programs.
 - Moreover, US representatives cover specific territories/geographic regions around the US, and/or utilize their expertise in specific technological areas based on their prior experiences in similar areas.
 - US representatives are often former program officers or program managers from the US government or the US industrial base which supported them.
 - A licensing partner arrangement is another route Japanese companies may wish to follow, putting the focus of their effort on finding the “right” licensing partner.
 - Often, a licensing arrangement is seen as a “low-cost/low-reward option” because the responsibility for production and ongoing support rests with the US licensing partner.
 - It should be highlighted that unless a Japanese space company has a unique technology or capability to offer, the US licensing partner may not always try to sell the Japanese company’s solution to its customers.
 - Overall, the terms and conditions outlined in the licensing arrangement and the uniqueness of the product or technology that the Japanese company licenses to its US partner significantly determines how successful a licensing arrangement can be. Ultimately, the Japanese company is putting responsibility to market and sell its product or technology in the US in the hands of its US partner.
- **Research and Establishment of a US Site** – In some cases, when a Japanese company wants to maintain stronger control over its products or technology, but still wants to sell into the US market, a Japanese company will look to establish a physical presence in the US, to include a manufacturing facility.

- Such an investment in the US requires extensive network contacts and a deep understanding about the US market in which it wishes to sell.
- Indeed, at this point, a Japanese company should perform a market study that not only examines on the products or technologies it wishes to sell and the US market for them, but also determine the best location to establish its presence.
- For example, different states in the US have different laws, tax rates, and incentives to attract foreign investment. Japanese companies must consider the benefits and drawbacks to investing in one location over another.
- Often, such Japanese companies have an existing position in the US market in the commercial sector, but then determine they can add additional products or lines of business in the US space and aerospace sector. They may, for example, choose to locate near a major US company they are working with or a program office of the US government.

3. *Advanced Involvement in the US – Active Market Participation*

Beyond the Market Intelligence and Market Engagement efforts outlined above, medium- and large-sized Japanese companies can look at opportunities to enter the US space and aerospace sectors through existing US companies which are already part of the US space and aerospace industrial base. This third level of activity involves highly **Active Market Participation**.

- Specifically, this includes making a foreign investment in, or an acquisition of, a US company.
- Alternatively, a Japanese company may wish to enter into a Joint Venture partnership or another type of teaming arrangement with a US partner.

→ **Making a Foreign Investment in, or Acquisition of, a US Company** – The US aerospace, space and defense sector is currently in a period of transition as the US defense and space budgets have come under pressure and US prime contractors are looking for opportunities to consolidate or for foreign investment.

- The individual situations pertaining to entering and investing in the US market entail a certain profile based on the sales/investment objectives of the Japanese space company, the size of the company (both the Japanese and target US partner), the type of technology/capability involved, the level of security, the business objectives, and the potential growth, among other things.

- Given the above, some general, business-related guidelines for Japanese companies wishing to enter the US space and aerospace market through an investment or acquisition include the following key points:
 1. A Japanese space company may wish to first consider a minority ownership position in the US space and aerospace market (as first step for Active Market Participation).
 2. In cases where a Japanese company would like to invest in a US company which performs classified work, or works on advanced/sensitive technologies, it may not wish to seek sole or even majority ownership. Rather, a minority position in partnership with a selected US company could prove to be a positive first step as a means to minimize the public/political exposure of the Japanese company to various US regulatory processes, while still being able to share in some of the benefits of the investment.
 3. Over time, this could be used as a “springboard” for expanding the Japanese company’s investment portfolio in the US.
 4. Indeed, a Japanese company may eventually consider a majority ownership position depending on the profile of the targeted US company, the products made by the US company, the level of security required to continue the existing US classified contracts, and the US political and public environment.
 5. It must be emphasized that every foreign investment transaction is in many ways unique and must be considered on its own merits, both from the perspective of the Japanese space and aerospace company, as well as the market conditions within the US.
- **Entering Into a Joint Venture or Other Type of Teaming Arrangement** – Often, US companies in the space and aerospace sector enter into Joint Venture partnerships (JVs) with a non-US company.
- A Japanese space company may wish to consider a JV to bring the technologies, backgrounds, experiences, and people of two companies to work in the co-development and/or co-production of new capabilities that can be marketed and sold into both the US market and into the Japanese market.
 - Generally, this involves a great deal of negotiation and planning between the Japanese company and the US partner.

- Finding the right technologies and terms for the JV can sometimes be challenging.
- Indeed, one of the major obstacles to JVs is the amount of time it takes to find the right partner and negotiate terms between the two companies. Past experiences have shown that company-to-company negotiations may also require input from both the US government and the non-US government of the foreign JV partner.
- However, when the right balance is found between the Japanese and US partner regarding what the two companies plan to develop and sell in both countries' markets, JV can be particularly profitable.

General Comments:

Overall, the chart on the following page would highlight the various ways in which Japanese companies can approach the US space and aerospace market.

The various pathways to the US market for Japanese companies can be viewed on the left-hand side of the chart, followed by factors for considerations, and some specific key questions Japanese space and aerospace companies can utilize to determine which “level of activity” they are at:

- Whether they at the beginning stage and require Market Intelligence;
- Whether they already have this and can therefore begin engaging the US market; or
- Whether they should consider more advanced, Active Market Participation, such as through investment, acquisition or a joint venture.

The bidirectional arrow provides a notional description of the level of commitment involved for Japanese companies considering how they might wish to begin, or become more active, in the US space and aerospace market. Generally:

- The lower the level of involvement/commitment to participate in the US space and aerospace market, the lower the cost and risk involved to the Japanese company – but also the lower probability of success.
- On the other hand, the higher the level of involvement/commitment to participate in the US space and aerospace market, the higher the cost and risk involved to the Japanese company – but also the higher probability of success.

Again, there is no single path to success for entry into the US space and aerospace market. However, generally, in this highly regulated and highly competitive market, there are many

examples of non-US companies which attempted a lower level of involvement/commitment to participate and resulted in failure. Overall, this has happened to several non-US space, aerospace and defense companies which tried to sell their products directly to NASA or the US DOD (as an export from the foreign country).

Key Issues Related to this Strategy:

- One of the key issues that is usually raised is that although a non-US company's product might by many measures considered to be superior to that of an existing US supplier, purchasing a non-US replacement in any significant quantities would have meant that the US prime contractors would have to remove the existing equipment and install them on existing platforms.
- This would entail a great deal of uncertainty for the prime contractors. This would also mean breaking an existing contractual relationship between the US prime contractor and a US component supplier.
- Moreover, before any system or component for a system can be provided to NASA or DOD, the system, component or product must undergo rigorous military testing and be built to military and/or space specifications. Indeed, there is not only the required certification and testing of non-US equipment to ensure the equipment meets US military and space standards, but this equipment may also need to be tested under the DOD's Foreign Competitive Testing program.

Overall, it should be noted that Japanese companies which may be inflexible or may be unwilling to work with a US partner or invest in a relationship with a US supplier may find it challenging to compete in the US marketplace.

- As highlighted above, looking for direct sales is the most difficult route – even if the Japanese-manufactured technology might be considered superior. The rules and practices within the US aerospace, space and defense markets generally favor US companies (and even US companies that have non-US investors, owners, or partners).
- A Japanese company must be willing to compete its product in the US market against incumbent US manufacturers. Often, it is not enough for a Japanese manufacturer to come to the US and expect to displace an existing US supplier – even if there is significant improvement in capability or a significant reduction in cost.
- Therefore, the main way to “level the competitive playing field” in the US marketplace is to form a business arrangement with a small or medium sized US company or by investing in a small or medium-sized company in the US as a way to introduce a Japanese product through an existing US supplier or as a foreign-owned US-based company. This is the most likely pathway to success given the highly regulated and highly competitive US aerospace, space and defense markets.

We hope you find this information helpful, and please do not hesitate to contact us with any further comments or questions.

