

# Portland Cider Company: Japan

**International Business  
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## Section I: INTRODUCTION

Jeff and Lynda Parrish created Portland Cider Company back in 2012 with the intention of blending English cider traditions with micro-cidery techniques from the Northwest to create the best cider in the alcoholic beverage market (Portland Cider Co, About Us). Through Lynda's background and knowledge about English cider traditions and Jeff's interest with micro-brewery, they have successfully created a brand name for their ciders through the creation of their company. Portland Cider Company has two taprooms in Portland, OR where anyone can enjoy the twenty-eight different types of cider that they have created (Portland Cider Co, About Us). The company's signature and bestselling cider is their "Kinda Dry" which was the first flavor that they created when the business was launched. Fast forward to six years later, the company's cider can be found in grocery stores all over Oregon, Washington, Colorado, and Los Angeles (Portland Cider Co, Distributors).

The essence of this project is to develop an international business plan by assessing the set of factors in the operating environment in which we are going to market the cider to; and by selecting a set of strategic decisions for marketing cider to our target country, in this case, Japan. "Culture dimensional approach is an excellent framework for companies to integrate their businesses in foreign markets. Countries, like United States and Japan, may have the same level of dimensions of culture. Though, they will ultimately differ in context." (Michaeli). Japan is a country that strives for perfection which is why we thought Portland Cider Co. could be a great fit based on their business model. This is supported by being based on the knowledge that good cider comes from good fruit, honest practices, and attention to detail. In addition, cider has no artificial flavorings, colorings, or added sulfites which complements Japan's strict health standards.

Japan has recently (within the last couple years) been experiencing a craft brewing 'renaissance.' This at least partly due to the tax burden on craft alcohol being reduced after decades of significantly more oppressive regulations. Noticeably, Portland-based brands have been popularized in Japan. Artisan and craft goods are popular amongst Japanese people, and Portland has similar love for artisan and craft goods. This shared love of specialty items has helped birth the 'PDX Taproom' in Tokyo, Japan. This restaurant/bar serves beer on tap from you guessed it, Portland. Portland Cider Co. appears to fit the demand considering the brand awareness for the city of Portland that has already occurred in Japan. This is just one example of the many reasons Portland Cider Company has the potential to flourish in Japan with the right background knowledge and plan in place to participate in the high potential market of beer and cider in Japan.



## Section II: SOCIOCULTURAL ANALYSIS

### 1. Executive Summary

To evaluate Portland Cider Company's success in Japan we must assess the different sociocultural environments of this country. We will be analyzing Japan's education, social interactions, religious beliefs, values, manners, aesthetics, political life, communication, leisure and mental processes. By assessing these sociocultural environments, we will be able to evaluate in part how successful Portland Cider Company will be at expanding their product line to Japan's alcoholic beverage market.

The data suggested in the sociocultural analysis include information that helps the manager make business planning decisions. However, its application extends beyond product, market, industry analysis to an important source of information for someone interested in understanding business customs and other important cultural features of the country.

Japan is a high-context culture which impacts every aspect of their socio-cultural environment. In verbal and nonverbal cues, nonverbals are equally if not more important than the verbal conversation taking place. There are common Japanese phrases that denote the importance of context within conversation and this applies to business as a whole. The same can be said for social interactions as the hierarchy, which may not always be obvious to foreigners, as this plays a key role in interactions that take place in the business world and beyond that will impact Portland Cider Co.'s marketing as well as their business needs.

Japan is a traditionally religious culture, with Shintoism and Buddhism being the most common religions. However, much of the world is experiencing a younger generation that is less faithful to the traditional religions and Japan is included. Neither of these two major religions have any statement against alcohol consumption, meaning there is a lessened impact on Portland Cider Company. The impact is also reduced in part to high education levels, as Japan is one of the most educated countries in the world. Japan commonly scores in the top five performing countries in various fields including math and science.

Overall, Japan's socio-cultural factors are certainly important to the functionality of participating in international business with the country and its people. Using Hall's Cross-cultural Theory as a guide, Portland Cider can be conscious of the underlying impact of such an implicit culture.

### 2. Brief Discussion of the Country's Relevant History

It can be said that modern Japan began following World War II in which the United States of America dropped two atomic bombs on the small country decimating large portions of its landscape, its population, and its economy (Britannica). From here forward, many decisions made by the Japanese governing body, including focusing on economic development and the relationship with the US as a trade partner fueled growth and prosperity that Japan still benefits from today and by 1955, Japan's economy had risen above pre-war levels.

Japan's historical connection to cider is miniscule if not nonexistent. The word "cider" in Japan directly translates to "sparkling apple juice" with no indication of being an alcoholic beverage. However, because of

large apple orchards in Japan, there is growth in the area that is expected to continue to grow (Japantimes). As globalization continues to propel products into international areas, cider has the capability to be seen as a fun, unique product to try.

### **3. Key Dimensions for Assessing Socio-Cultural Environment**

Key dimensions have been identified for assessing the socio-cultural forces at play when making the decision to export cider from Portland, OR to Japan. There are ten dimensions thoroughly discussed here (SC1-SC10).

#### ***A. Verbal and Nonverbal (SC1)***

According to Hall's Cross-Cultural Theory, Japan is one of the highest context cultures in the world (*see Appendix A*). This impacts all of the socio-cultural factors that will impact our company, but one of its biggest impacts is in verbal and nonverbal communication, of which Japan falls into a highly non-verbal category. The context of a situation in many different aspects are as valuable as words if not more so during a conversation. Nonverbal communication is so highly valued in Japan the term "haragei" exists. Translating to communicating "belly to belly", this word refers to the communication that exists through intuition (Kopp, Rochelle). Another common phrase that demonstrates the importance of nonverbal communication in Japan is "*ichi ieba ju wakaru*" which can be translated as "hear one, understand ten". The statement implies that for everything that is verbally stated, ten times more is happening beneath the surface and ten times more must be inferred in order to truly grasp a situation.

Acknowledging that nothing should necessarily be taken at face value asserts that doing business in Japan requires finesse, patience, and observation. Working within the existing cultural framework will lead to greater trust and understanding with Japanese business partners. All things need to be considered: the age of the people, the jobs, who is considered the foreigner in the situation, and everything in between. In terms of business in Japan it is highly valuable to know this, as politeness plays a key role in business relationship and a lack of understanding of nonverbal cues can lead to distrust and discomfort for both parties.

#### ***B. Education (SC2)***

Japan is highly regarded when it comes to their educational system. The high school graduation rate lands at nearly 97% (for comparison, the US falls around 83%) (OECD). Most students participate in after school activities known as "Shadow education" (NCEE). A key component of the Japanese school system is the test high school students are required to take that will either allow them to continue to college or attend a trade school instead. Students study for years for these exams and there is a great deal of pressure placed on them in society.

Another interesting note about the Japanese educational system is it is highly regarded as equitable across varying income distributions. While there is still wealth disparity within the nation, the schools remain equitable across classes which encourages all around growth in education rather than in specific high tax earning districts (Semuels, Alana).

Understanding the impact of a highly educated population is important for businesses to understand as it impacts the labor force as well as the interests in specific kinds of products. For a beer or cider company, it is important to market towards an educated audience. It is also valuable to note that there will be a smaller sector of unskilled labor if it is required for manufacturing purposes, as most of the labor force will be working within the service industry.

### ***C. Social Structure and Social Interactions (SC3)***

The social hierarchy and structure in Japan has evolved into different structural changes due to major differences in the modernization of Japan's social and culture since the ancient times. As seen in (*Appendix A*), the hierarchy structure of Japan is divided in three parts: Lower class which is known as the Labor Class, Middle Class, and Upper Class. From these three levels of classes, they are divided into subparts. The Middle class which is the service class is split it two subgroups made up of: low scale business men and servicemen. As for the upper class, it is divided into two different groups which is the royal family and business class. The classification for Japan's social structure is based on power, money, and the individual's social status that they have within their social society (Nong, Lilian).

The upper class is made up of the royal family whose ancestors once ruled Japan in previous centuries. Even though the people that belong to the royal family are no longer ruling Japan, they still have a high status in the society of Japan. In addition to the royal family, the upper class is also made up of the business class. The people in the business class are the ones who have the power to heavily influence the economic sector within Japan due to their resources.

The middle class, also known as the service class, consists of servicemen who make up a majority of Japan's population and businessmen who do not have a conglomerate business like the businessmen in the upper class but they own small scale businesses which qualifies them to be a part of this class. Lastly, the lower class comprises of the people who earn the lowest wages in Japan and need government assistance because they face financial instability. The people in the lower class do not have a great reputation in Japan's society because they are often referred to as homeless.

In Japanese culture, the most minimal transitions such as the arrival or departure of a guest provide a legitimate excuse for a feast, which involves large amounts of both alcohol and food. Drinking is regulated by toasting throughout an event. Home transitions call for rituals of consuming large quantities of alcohol. Even renovating a house can call for a party. The graduation of a student is a big event since schooling is very competitive and may call for drinking, as the goal of drinking culture here is to facilitate team-building and bonding.

### ***D. Religion and Faith (SC4)***

Confucianism and Taoism are the two major philosophies in Japan while Shinto and Buddhism are the two main religions (Sawitri Assanangkornchai, Katherine M. Conigrave, John B. Saunders; *Religious Beliefs and Practice, and alcohol use in Japan.*) The philosophies and religion that Japanese people follow and believe in promotes conformity and harmony. For this reason, Japanese people tend to sway away from disagreeing with their co-workers because they do not want to cause conflict within the workplace.

Another way that Japanese people are influenced by their religion and philosophy is through their drinking habits. Japanese people believe that individuals should only drink in social situations and not for pleasure. (Japan Times "Less Than Ever") They also believe in the fact that when you drink too much and become drunk then you are inconveniencing others within the society therefore you should only consume the amount of alcohol intake that you know your body can uphold (Sawitri Assanangkornchai, Katherine M. Conigrave, John B. Saunders; *Religious Beliefs and Practice, and alcohol use in Japan.*) Since Japanese people strongly believe in the fact that drinking should only occur in social events, (Sawitri Assanangkornchai, Katherine M. Conigrave, John B. Saunders; *Religious Beliefs and Practice, and alcohol use in Japan.*) they do not view alcohol as a drug that people can become addicted to and therefore the government does not have many programs to support those who are alcoholics.

### ***E. Attitudes and Values (SC 5)***

In Japanese culture, people tend to be formal with one another on a daily basis, therefore individuals do not show or express any emotions openly. For this reason, many work cultures promote the idea of going out for drinks to unwind and relax with their fellow co-workers and even with their boss. This idea got adopted by so many different workplaces that the Japanese created a name for it called *nomination*, which is the combination of the word *nomu*, which means “to drink” in Japanese with communication. Through this socializing event, individuals within the workplace can discuss anything they like since they would feel more relaxed in a drinking environment. In addition to discussing topics, individuals also use this time to know their co-workers better which is difficult within the Japanese culture because everyone likes to keep to themselves. Through drinking, individuals will see another side of their co-workers that they potentially might not see during work.

### ***F. Manners and Customs (SC6)***

As previously mentioned, Japan is a high-context culture, which means that appreciating and understanding the manners and customs of the Japanese people is required for healthy and functional relationships within the country.

The most visible and possibly the most important aspect of manners to understand in Japan is that of bowing. The bow demonstrates mutual respect and appreciation. Many aspects of bowing may appear minor, but most Japanese individuals have been raised with these customs since childhood and they are ingrained into their understanding of social interactions. Because so many factors play into who bows first, for how long and how deep a bow is, it is acceptable for foreigners to simply bow their head in recognition of another bow, but not responding at all is considered highly rude. A bow will often take place instead of a handshake, as a handshake is a Western custom rather than one typically associated with traditional Japanese culture (Kwintessential).

One custom that is important for foreign business to be familiar with is the act of gift giving. Gifts in Japanese culture carry a great deal of weight and are common to give and receive. There are two gift giving seasons -- one in the Summer and one in Winter. The most important thing to note about the gift giving culture of Japan is reciprocation is required. When one person gives a gift or hosts an event, it is custom for those on the receiving end to respond in a similar manner with a gift of a similar price. Though this is a highly traditional belief and it is acceptable for foreigners to not necessarily understand, it's valuable for relationship building and demonstrates an effort which is often the most important aspect of participating in a culture's customs (King, Nell).

### ***G. Aesthetics and Taste (SC7)***

Due to the difference in age amongst the population of people in Japan, there are many different variations in aesthetics and taste when it comes to food, drinks, and fashion. For example, when it comes to alcoholic drinks, the older generation of people who were in the workforce tends to favor beer as their choice for alcoholic beverages. Conversely, the younger generations, like ‘millennials,’ are more interested in drinks that are known as ‘*kanchuhai*,’ which are sweet and fruity-tasting cocktails. Younger individuals also prefer whisky and cheap sake over the traditional beer that their parents might drink. Another prevalent reason younger people like cocktails are the wider range of flavors available.

### ***H. Political Life (SC8)***

Due to the fact the current political climate of Japan will be discussed in a later section of the paper, this section will focus on how politics are frequently discussed in Japan. As a culture, politeness is key to interactions in Japan and much like in the US, it's considered impolite to discuss politics in most

settings. Unlike in the US however, the custom of remaining private about one's political views is followed far more stringently, especially among coworkers. It's important for international business personnel to understand the political system, know who's in power and in what positions, but beyond that there shouldn't be any discussion of it with coworkers and fellow business professionals, both in and out of the work setting (Mei, Ayako).

The reason Japan can exist like this, with little to no discussion of the political climate in most settings, is because the climate is generally relaxed. There are no major threats from within the nation. Though North Korea is a volatile and dangerous neighbor, especially as the threats continue to increase, Japan has stayed out of many international conflicts since World War II, which increases a sense of peace in the nation and has a good economic and political relationship to many nations making trade easier and more relaxed.

### ***I. Material Life and Leisure***

Due to the change of taste and aesthetics within the younger generation of Japanese people, it has also contributed to the decline of nomenclature since people in the workforce are rarely going out with their coworkers to socialize and unwind after a week of work. Another factor that contributes to the decline of nomenclature is the fact that younger employees view this type of socializing event as pressure and as a work duty. For this reason, younger individuals prefer to go home after a long week of work so they can spend time with their own family and friends since they just spent a whole week talking and working with their coworkers.

Besides the decline of nomenclature, another culture change within Japan's leisure life is how individuals are staying at home more to save money. Japan is a country that is known for their nightlife since many people go out and drink or sing karaoke as a way to socialize with their friends, but according to the Japan Times, younger individuals are more conservative with their money so in an event such as the natural disaster that happened back in 2011, these individuals will have money to rebuild their house and survive. Annual per capita beer consumption fell about 7% between 2010-2015 as people prefer to spend more time with the family without consumption.

### ***J. Mental Process (SC10)***

While Japanese society is built on group belonging and the value of community over individualism, it is generally expected that a great deal of emotional and mental processing will occur internally. Japan, and the Eastern hemisphere as a whole, tend to have a vastly different view of life and death than Western culture. One of the ways this shows itself is an understanding and acknowledgement of life impermanence. It has been theorized much of this comes from a more consistent threat of natural disaster in Japan than in much of Europe and the United States. As seen with the 2011 tsunami, life often is interrupted by the natural world around it (Tetsuo, Yamaori). The view of life impermanence can also be seen in Japan's relationship to suicide. With one of the highest suicide rates in the world, suicide is an acceptable way to die, as it is often seen as a removal of burden on the family.

Japan is a deeply perceptive society. As comes along with the high context nature of the society, paying attention to the interactions with others, surroundings, and unacknowledged truths. In terms of business, this means the foreign partners should expect to be perceptive themselves and consider the impact of the words and actions with a great deal of deliberation.

A final important aspect of the mental process to consider the decision-making process. Again, it can be tied to the high-context nature of the culture. The decision process is slow as deliberation of qualitative and quantitative data must occur. Analysis is slow, deliberate, and thorough. Similarly, many voices are often included in the decision-making process and consensus is often the final goal. Some of this is frequently tied back to feudal Japan in which rice farming was a collective activity,

rather than individualized. (Kopp, Rachel). Though feudal Japan is clearly long over, the communal nature of society and decision making remains.

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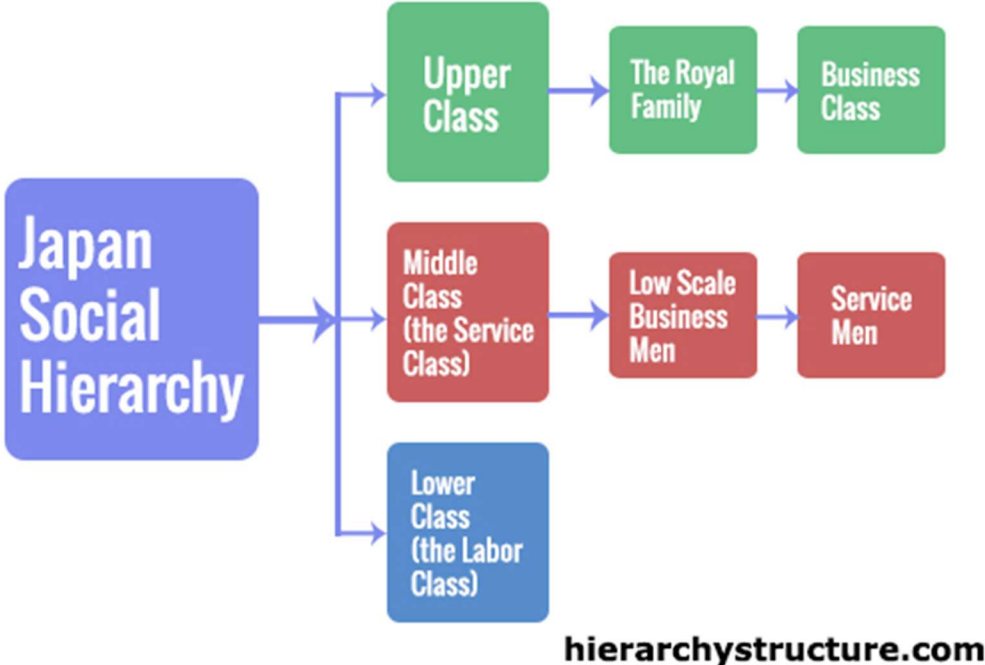
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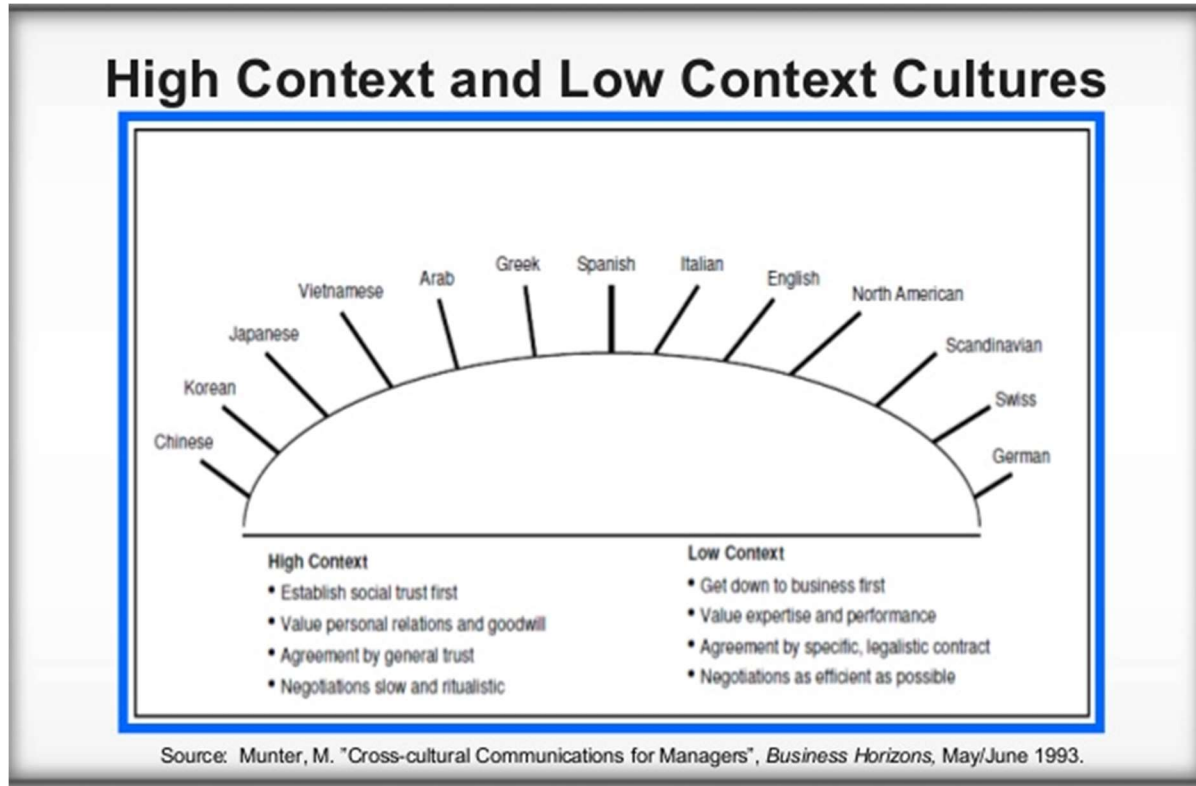
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5. Appendixes

Appendix A: Japan Social Hierarchy



## Appendix B: High Context vs. Low Context Cultures



As shown above, in a selection of countries to demonstrate Hall's Cultural Dimensions, Japan falls as one of the highest context cultures.

### Appendix C: Weighted Matrix for Sociocultural Environments

Socio-cultural Environment							
Criteria	weight	Risk		Probability		Cost to PCC	
		rating	weight ed score	rating	weight ed score	rating	weight ed score
Nominication	10	80%	8	90%	9	85%	8.5
High in Nonverbal Cues	20	5%	1	5%	1	5%	1
Highly Educated Workforce	15	20%	3	5%	0.75	25%	3.75
Social hierarchy	20	30%	6	50%	10	30%	6
Philosophies	15	20%	3	10%	1.5	10%	1.5
Gifts	5	10%	0.5	10%	0.5	20%	1
Dislike of political conversation	5	1%	0.05	1%	0.05	0%	0
Internalized mental processing	10	1%	0.1	20%	2	10%	1
Totals	100		21.65		24.8		22.75



### **Section III: ECONOMIC AND FINANCIAL ANALYSIS**

#### **1. Executive Summary**

To better understand Japan and the market structure, we have conducted an economic and financial analysis. In this section we will be looking at the physical environment, demographic indicators of the economy, monetary and financial systems and mechanisms, structure of the economy and indicators of economic performance, labor and infrastructures, technology, trade, investment and other national/local policies and activities, international economic relations, and lastly relevant international economic organizations.

The benefits of such analysis are crucial in the decision-making process. It allows our company to become familiar with the economic stability or instability, any possible trade barriers we may overcome and most importantly the safety of our investment.

Some significant findings are as follows. We found that Japan's physical environment may impact our distribution area. That is mainly in response to the chain of islands that make up the country. In some form it may benefit us, alternatively it may affect us negatively due to the natural separation amongst the population through the natural borders. In terms of costing, it may also impact our bottom line due to import fees and transportation costs. As far as the demographic section, the main points to keep in mind are the population size and the population age. Some points to consider is that the population is dwindling due to the aging population. We must consider how marketing will be affected due to these factors. It is accurate to conclude that overall Japan has a stable financial system, and has the largest, most sophisticated financial systems in the world (IMF). The Japanese Yen, has had a positive increase since 1949.

Japan has experienced an unstable leadership teams and which in effect has created an unstable structure to the economy. One of the most important factors to the economic structure of Japan is their economic revitalization strategy. This strategy has grown to be known as "Abenomics". It is explained further in the analysis, but this strategy serves as an important component to the Japanese economy. In terms of trading, Japan is open to trade with many countries without too many restrictions.

Overall it is safe to say that Japan has a healthy economy that will not pose a risk to our product. It is important to analyze this information, because it provides us with a clear illustration of the risks and of the type of things to consider. Below there is an extensive analyzation of our findings.

#### **2. Key Dimensions for Assessing Economic and Financial Environment**

Key dimensions have been identified for assessing the economic and financial forces at play when making the decision to export cider from Portland, OR to Japan. There are x dimensions thoroughly discussed here (EF1-EF8).

### ***A. Physical Environment (EF1)***

The physical environment can impact the economy in a vast number of ways, as it impacts how a people within a society lives on a day to day basis.

One of the most obvious impacts of the physical environment for Japan is that it is a chain of islands. From a social standpoint, it separates the country effectively from other countries through its natural border. Japan is a highly homogenized society. Though this is changing as globalization occurs, it is important to note in terms of marketing a product, particularly a product that is not traditionally popular within a country. The impact of the series of islands that make up Japan has is on the economy in that the cost of imports and exports are far higher due the inaccessibility of the country. The need for either air or water transportation creates additional costs that any company importing or exporting with Japan will need to consider.

Japan is also a small country. At 145,932 mi<sup>2</sup> (compared to the US at 3.797 million mi<sup>2</sup>) population density is high and the majority of the population lives in urban centers, namely the capitol, Tokyo (World Bank). In terms of the impact of this on a business, it is important to consider how centralized the population is because knowing where the people are within a country improves how you market and where marketing occurs. In terms of economics, the centralization of a population means the majority of individuals with disposable income, those that would potentially be able to purchase a product, live within a small radius.

In addition to population density, the small size of the country makes production costly. For agriculture, land is expensive which means smaller production can occur, which then raises the price of the products. For factory or production space near cities the cost is also high as this space will be in high demand. It may be valuable to consider whether importing finished goods will be more cost effective or producing the product within the country itself.

### ***B. Demographic Indicators of Economy (EF2)***

In terms of demographics, Japan falls into an interesting category, especially in terms of its race/ethnicity, age, and education.

As far as the race/ethnicity distribution of Japan, as previously mentioned Japan is a highly homogenized society. In fact, 99% of the Japanese population is classified as Japanese. The impact of this homogenization has varying impacts. On one hand, some individuals, particularly older ones, may be drawn to products that come from within Japan and are traditional in nature. On the other hand, in younger demographics it can create a desire for less traditional products and to branch out outside the country. In an economic sense, the lack of racial diversity in the country means that race or ethnicity has little impact on the class stratification, unlike in countries in the US where it plays a key role due to historical repression of certain ethnic communities.

Japan is one of the most highly educated countries. In terms of math scores, Japan's youth were ranked 5th in the world and in science they ranked 2nd (Johnston, Eric). These high education levels mean there is a highly educated workforce and effects the industries in which labor is available for. According the CIA World Factbook, over 70% of the labor force is in service positions. In terms of manufacturing a product rather than importing it, this has high implications that manufacturing workers may be hard to employ. For future predictions, the education will likely continue to progress and the labor force will continue to skew more towards service (CIA World Factbook).

Finally, one of the most well-known and drastic demographic shifts Japan is facing is its aging population. The age of the population is creating a major change in economic development. As the labor force ages, a shrinking population is feared to be unable to pick up the slack. It is possible Japan

will find itself suffering from a shortage of workers. Another impact of the aging population is a need for facilities and products that cater to this population and supports them as their health deteriorates. A value of the aging population is that Japan may allow an influx of immigrant to support the economy, however this has yet to take place. Japan is the first country to face this situation but will likely not be the last. Many countries around the globe are watching to see the lasting impact of the aging population. Overall, it is believed the high age of the Japanese population will harm the Japanese economy as the shrinking labor force will be unable to financially support the health crisis facing the older population (*See Appendix A*).

### ***C. Monetary and Financial Systems and Mechanisms (EF3)***

Japan has a stable financial system and it has been stable for a great deal of time. According to the International Monetary Fund “Japan has one of the largest and most sophisticated financial systems in the world” (IMF). This steady financial institution allows for international business to occur in a steady and stable manner.

In terms of currency, the value of the yen has been increasing since 1949, when the Japanese yen was set as 360 per US dollar. Because of the recent global economic crisis, the yen is now valued at 80 per US dollar, which is considered very high. Though there are many benefits to this high value, including a great deal of buying power for Japan, many industries involved with production have left the countries for cheaper places to outsource. However, the benefits Japan sees far outweigh the costs and the Yen is considered to be a major reserve currency (Embassies of Japan). The impact of the strong currency for international business means there is a high cost-high reward relationship with importing to Japan. Products have the tendency to be very expensive to get on the shelves and have a high cost to the consumer, but once a product has been purchased there is a high return value for the company.

Japan has three major banks after a consolidation of their top 19 banks. There is little impact on international business caused by this, but it does demonstrate that the Japanese government is interested in controls and regulations for their financial systems, which is a positive sign for the stability of the country and its currency. Overall, Japan’s financial and monetary systems showcase a great deal of control over themselves through government regulation and a desire to maintain strength in the currency.

### ***D. Structure of Economy and Indicators of Economic Performance (EF4)***

Japan’s economy has experienced a lot of changes in leadership and the structure of their economy since the 1980’s, starting with what is known as the “lost decade”. This period referred to the economic boom of the 1980’s, followed by the burst of the Japanese economic bubble in the early 1990’s. Since then, their recovery has been slow with a growing rate of 0.5% which creates uncertainty among investors with their so-called Japanese zero growth-rate era. Nevertheless, many people seem to think that Japan is growing at a sustainable pace. “Developed countries should enrich our lives more humanely by using resources more efficiently on the assumption that “zero growth” continues. If we accept “zero growth,” Japan’s economic downturn, which has been going on for more than twenty years, can be seen in a different light. Japan is a pioneering country of the “zero-growth” era, which all developed countries will someday encounter. In other words, Japan is at the forefront of advanced economies.” (Takeda, Page 24). In 2006, the Japanese people voted Shinzo Abe as their Prime Minister bringing a new wave of changes by introducing his 2012 monetary easing reform called “Abenomics” (a term derived after his last name). Abenomics, consists of what is known as the three policy arrows: aggressive monetary policy, flexible fiscal policy and a structural reform. (About, JapanGov). These policies also include cutting the Corporate Tax Rate which in return may offset the negative interest rates introduced in 2016 by the Bank of Japan to combat deflation and encourage consumer spending.

Nevertheless, Japan's new monetary policies seem to be making a positive effect on their economy. In fact, as of 2013, Japan's economy was the third largest in the world with a GDP (PPP) Annual Growth Rate of 1.0%, and exports and imports equaling 36% of their GDP. Though, their growth rate is still a stagnated 0.5% which may indicate that Japan has a long road ahead of them in terms of being capable of a sustainable growth that could attract investors into their economy. For this reason, "A new legal structure governing the Bank of Japan came into effect in April 1998, defining price stability as the prime objective of the Bank of Japan's monetary policy and increasing its independence and the transparency of its policy-decision process." (Shigehara, page 61). This shows Japan's desire to maintain long-time growth by being transparent and applying aggressive fiscal measures to ensure their economy prospers.

The Government of Japan has also reported that the unemployment rate is at 2.8%, the lowest in the past 23 years. In January 2018, the reported inflation rate was 0.9%, below the Bank of Japan's 2% target rate which has become a major concern for the Japanese Government. Interest rates remain in the negatives with a -0.1% base rate. Based on the 2018 Index of economic freedom published by the Heritage Foundation, Japan score is 72.3 above the world average. (*See Appendix B*). For historical GDP, Unemployment, and inflation rates from year 1961 thru 1996 within Germany, the U.S. and Japan. (*See Appendix C*).

#### ***E. Labor and Infrastructures (EF5)***

Several sources indicate that Japan's labor force is facing aging and shrinkage of the population as well as a low birthrate posing a major long term economic challenge for the country and their Abenomics reform (Japan Economy). "Japan's demographic profile—an increasingly older and smaller population—is often cited as a negative factor for its economy and international standing." (Lipsy, Page 430). In addition, Japan is also seeing an increase on illegal immigration from neighboring countries looking to work in the manufacturing and professional fields which could bring political consequences for the government as these are countries Japan have strong economic ties with. (Sassen). However, a positive side to this issue is the fact that immigration could also offset the need for high skilled professionals in the country calling for a reform to their labor law system that could satisfy the country's long-term growth needs. "Investors are looking for signs that Abe is willing to take bolder steps, such as changes to labor regulations dating from the 1960s that offered lifetime employment at large companies. Abe is also trying to lure more women into the workforce and enforce a new corporate governance code that promotes boardroom transparency." (Sharp).

In terms of infrastructure, Japan focuses on energy efficiency as a way to solve transportation issues among Japanese people, especially of those living in rural areas. For instance, owning a vehicle is more expensive in Japan compared to other developed countries (Lipsy, 415). Mainly due to gasoline and automobile taxes, highway tolls and car weight taxes. These monetary factors force people living in rural and urban areas to choose the train or any other type of public transportation as their only way of commuting to the city for work.

Interestingly enough is the fact that the Japanese government intentionally created these fees as a way to reduce CO2 emissions, increase Japan's energy efficiency, and to help redistribute collected taxes to improve the lives of those living in rural areas and to benefit the infrastructure sector of the economy with the construction of highways. In addition, "Cooperation on energy efficiency has also been a major Japanese foreign policy objective. Japan has leveraged its strong record on energy efficiency by, among other things, taking an active role in facilitating international agreement on the Kyoto Protocol restricting CO2 emissions and promoting energy efficiency as a major component of its foreign aid program." (Lipsy, page 412).



### ***F. Technology (EF6)***

Japan has no doubts that their technological efforts and innovation will provide them a competitive edge, even with the issues they face in terms of growth as their birth rate declines and their population ages. For instance, The Government of Japan has stated on their website, “Japan is rapidly moving toward “Society 5.0”, adding a fifth chapter to the four major stages of human development: hunter-gatherer, agrarian, industrial and information. In this new ultra-smart society, all things will be connected through IoT technology and all technologies will be integrated, dramatically improving the quality of life.” (Innovation).

### ***G. Trade, Investment, and other National/Local Economic Policies and Activities (EF7)***

Japan’s trade and investment behavior may impact the economy in many forms. For starters, Japan has continued to promote a multilateral trading system, and bilateral and regional trade agreements with their trading partners. Since the most recent World Trade Organization trade policy review, we begin to see Japan move towards a more open trade and investment opportunities. In response to the sluggish economy in Japan due to a variety of reasons such as a low inflation and an aging and declining population. The low inflation, in most part has had to do with a range of natural disasters that hit the country. In order to begin revitalizing the economy, the economic authorities have developed a three-pillar strategy also known as “ABENOMICS”. The first pillar is an aggressive monetary policy, second flexible fiscal policy, and lastly a growth strategy. The goals of this “reform” are to in some form boost the domestic demand, boost gross domestic product (GDP), and raise inflation to 2%. The hope is that the through these efforts it will begin to improve the country's prospects by increasing competition, reforming labor markets, and to expand trade partnerships. The most recent information on the effects “ABENOMICS” has had on the economy are the following statistics: Nominal GDP has increased from 493 JPY tn to 549 JPY tn (a 56 JPY tn increase), Private Non-resident investment has increased from 71.9 JPY tn to 83.6 JPY tn (a 11.8 JPY tn increase).

In terms of the trade policies in place in Japan, we see a country that is inclusive and offers ease of foreign trade. For the most part Japan offers open borders to most countries, and specifically open trade with those whom they have trade agreements with. On that note, Japan offers what they reference as “Most-Favoured Nation (MFN) a form of preferential treatment to a country that meets the following criteria: Is a member of the WTO, is covered by a provision of the cabinet order Article 5 in the Customs Tariff Law, and lastly has in place a bilateral treaty with Japan. Additionally, it is necessary to discuss any form of trade policies for imports specifically pertaining to the type of product our company intends to export, alcohol beverages. To begin, Japan appoints a 2% tariff on any non-agricultural products, in addition to the customs tariff, we see an 8% consumption tax on a wide array of goods and services. It is significant to note that the consumption tax is scheduled to increase to 10% on October of 2019. As far as the logistical aspect of our product, The Japanese Measurement Law requires that “All imported products and shipping documents show metric weights and measures” (Kyoto). Additionally, in generality labeling at point of entry is not required but is required at point of sale.

### ***H. International Economic Relations (EF8)***

In this topic, I will begin to focus solely on the Japanese and American relationship. Our discussion will begin with the Trans-Pacific Partnership (TPP), which the United States were highly criticized for pulling out of the agreement. The agreement was one of the largest regional trade accord in history. The partnership of the United States and 11 other countries provided an annual GDP of \$28 trillion, nearly 40% of global GDP. The significance of these points is to paint a picture of the Japan-U.S. relationship. Although both countries participate in free trade, there is a wide gap in both imports and exports. On a wide scope, Japan in 2016, exported \$605B, which made it the 4th largest exporter globally. Nearly 15% of total exports, are from the automobile industry, followed by 6% in automobile parts. As far as import numbers, Japan’s highest import is 8.7% in crude petroleum followed by nearly

7% in petroleum gas. Japan's top exporters are China at \$129B, United States at \$63.2B, South Korea \$24.4B, Germany \$20.7B, and Australia \$18.9B. In term of economic relations, Japan is members with Trans-Pacific Partnership (TPP), Regional Comprehensive Economic Partnership (RCEP), Association of Southeast Asian Nations (ASEAN), and Asia-Pacific Economic Cooperation (APEC).

***I. Relevant International Economic Organizations (EF9)***

The relevant international economic organizations Japan pertains to are the following. Other organizations are Asian Infrastructure Investment Bank (AIIB), G20, G7/G8, World Trade Organization (WTO), the Asian Development Bank, and the Ministry of Economy, Trade and Industry (METI).

***Conclusion***

As our weighted matrix demonstrates (*Appendix D*), the factors that were considered the most important were Labor and Infrastructure, and Trade, Investment, and Other National Economic Policies. Labor and Infrastructure is highly valuable due to the impact from changing demographics and the aging population. This creates a risk for the longevity of the sales and the economy is expected to change, and potentially drop dramatically.

In terms of Trade, Investment, and Other Economic Policies, as we are participating in international business the stability of trade policies and trade relationships is required for continued business. There is a great deal of risk associated with this as Portland Cider Company has no control over the factors that are involved in the policies.

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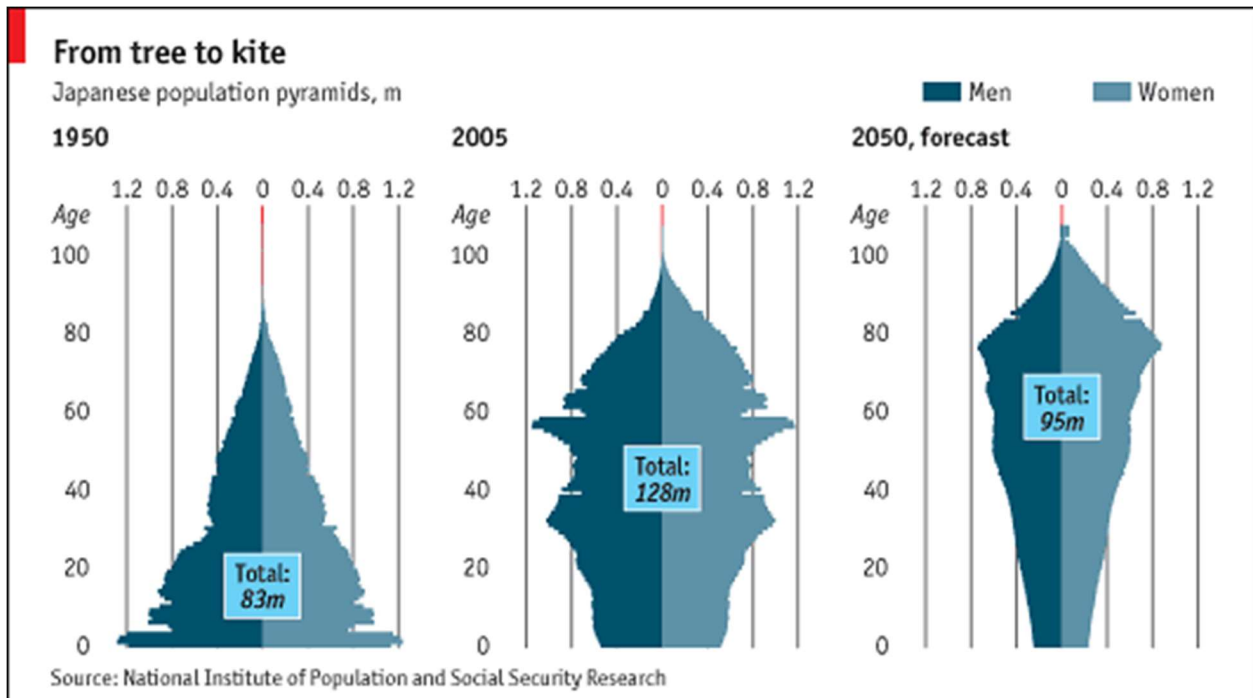
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## 4. Appendixes

### Appendix A: Japanese Population Forecasting

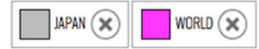


Appendix B: Business and Trade Freedom Japan vs. Worldwide

BUSINESS FREEDOM



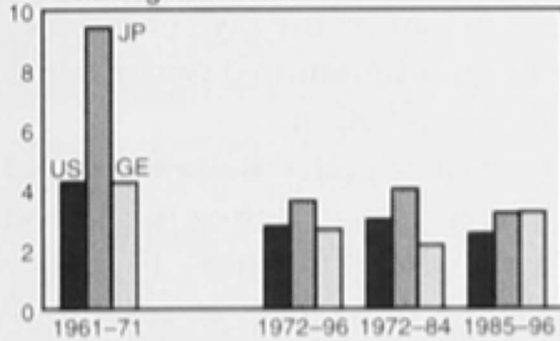
TRADE FREEDOM



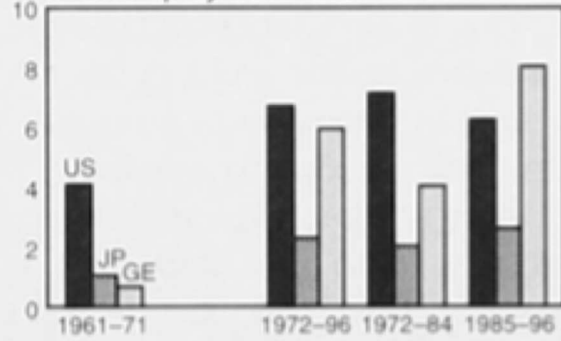
### Appendix C: Selected Economic Indicator Comparison for US, JP, & GE

*Shigehara: Policy and Economic Performance* 37

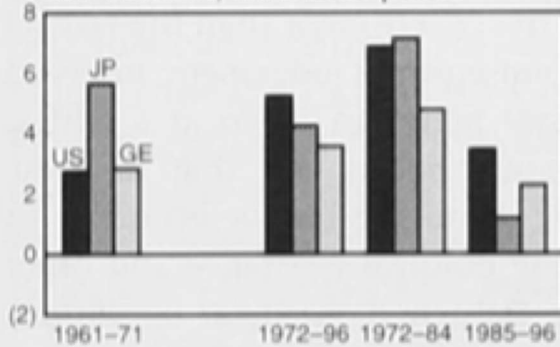
% I GDP growth rate



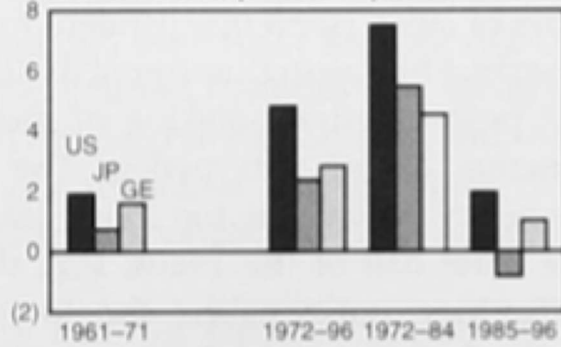
% II Unemployment rate



% IIIa Inflation, consumer prices



% IIIb Inflation, producer prices



Notes: Figures are annualized averages over the periods indicated; US = USA; JP = Japan; GE = Germany.

### Appendix D: Economic and Financial Analysis Weighted Matrix

Criteria	weight	Risk		Probability		Cost to PCC	
		rating	weight ed score	rating	weight ed score	rating	weight ed score
Physical Environment	5	30%	1.5	10%	0.5	85%	4.25
Socioeconomic	15	15%	2.25	70%	10.5	35%	5.25
Monetary & Financial Systems	5	5%	0.25	60%	3	80%	4
Structure of Economy	15	50%	7.5	75%	11.25	80%	12
Labor and Infrastructure	20	45%	9	75%	15	85%	17
Technology	5	10%	0.5	10%	0.5	20%	1
Trade, Investment, & Other National/Local Economic Policies	20	75%	15	80%	16	85%	17
International Economic Relations	10	75%	7.5	80%	8	90%	9
Relevant International Economic Organizations	5	15%	0.75	10%	0.5	20%	1
			0		0		0
Totals	100		44.25		65.25		70.5





## **Section IV: POLITICAL AND LEGAL ANALYSIS**

### **1. Executive Summary**

Understanding the political and legal system of Japan will be important to Portland Cider Company's ability to import cider. Japan is a constitutional monarchy practicing representational democracy. With three branches of government and a strong constitution, it is tempting to compare Japan with the United States. Japan is indeed a democratic, stable political system and is governed by the rule of law, however there are differences to consider. The current political climate is focused largely around the highly popular Prime Minister Shinzo Abe and his current revitalization plan dubbed Abenomics. His pro-business Liberal Democratic Party (LDP) has enjoyed an essentially single party rule since the adoption of the current constitution at the end of WWII.

The legal system is a mixed system, relying on civil law to codify all laws, rules and regulations. This applies not only to the national level but also by region and local prefectures. The bureaucracy involved in this highly regulated environment could prove burdensome to PCC as it negotiates its way into the Japan cider market. However, it is also a stable political environment according to World Bank Group WGI, so risk to business is low.

In the short term, the U.S. withdrawal from the Trans Pacific Partnership should have little impact on PCC's ability to import into Japan, as Japan is eager to keep changes to the existing TPP framework minimal in the hopes that the U.S will return to the agreement in the future. Hostilities on the Korean peninsula could also be a factor, however thus far they have not affected business to a meaningful degree. Negotiating the bureaucracy of the Japanese will likely be the key factor for PCC to overcome with regard to the Japanese political and legal system.

### **2. Key Dimensions for Assessing Political and Legal Forces**

Key dimensions have been identified for assessing the political and legal forces at play when making the decision to export cider from Portland, OR to Japan. There are six dimensions thoroughly discussed here (PL1-PL6).

#### ***A. Characteristics of Japanese Political System (PL1)***

Japan is a parliamentary constitutional monarchy practicing representational democracy. The Emperor serves as the ceremonial head of state but has no real power or authority. The Japanese political system, like the American political system has three branches of government with an Executive, Legislative and Legal however, these branches do not hold the same authorities and power structure as within the US.

The Executive branch is comprised of a Prime Minister (PM) and 11 Cabinet Ministers. The Prime Minister is appointed by the Diet and is typically the leader of the ruling party. Domestic and foreign policy is directed from the Prime Minister's office and it is then the Cabinet Ministers, appointed by the PM, that lead their bureaus to enact policy within their respective areas. Cabinet Ministers work for the PM to drive and direct the policies of their bureaus as the PM oversees all 11 Ministries to ensure a cohesive alignment of policies across the government.

The Legislative branch, called the Diet is bicameral with an upper chamber, the House of Councilors and a lower chamber, the House of Representatives. Each house consists of a portion of members elected directly by their constituents and a portion of preferred party members appointed based on the proportional representation political party makeup of each chamber. The Diet have the ability to enact laws, amend the constitution and to approve the national budget.

While there are multiple political parties that compete for seats within each of the chambers, Japanese politics has been dominated by the Liberal Democratic Party (LDP) since the end of WWII. This also means the executive branch has typically been controlled by the LDP. The LDP is a conservative leaning, well-funded and well-organized party with strong business connections.

The Judicial branch consists of a Supreme Court and 4 lower courts. The Supreme Court decides the constitutionality of law and is comprised of a Chief Justice and 14 Justices. Judges are appointed by the cabinet and up for review every 10 years. Judges must retire at age 70. The Supreme Court will only hear cases referred directly by the lower courts.

Japan, since the adoption of its Constitution at the end of World War II has been a strong and successful democracy. It is important to note however, according to The Economist Intelligence Unit's Democracy Index 2017, Japan, ranked 23rd most democratic in the world, has been categorized as a “flawed democracy”, having been recently downgraded from “full democracy” in 2016. The index cited lack of political participation and lack of political culture as factors, but also noted a consolidation of power among the leadership, in particular Prime Minister Shinzo Abe’s election to PM for the 4th consecutive term, with no change to his leadership for the foreseeable future. (EIU,28)

Additionally, government bureaucracy at the state and local level can be a hindrance. Civil servants within agencies can have great influence on regulation. Local prefectures and municipalities can also create laws and regulation in addition to state laws and independently from one locality to the next, resulting in many business hurdles. In fact, according to the Global Competitiveness Index 2017, from the World Economic Forum, 13.5% of Executive Opinion Survey Respondents cited inefficient government bureaucracy as the most problematic factor to doing business in Japan. (WEF)

### ***B. Ideological Climate, Nationalism and U.S. Relationship with Japan (PL2)***

Since the end of WWII, The United States and Japan have enjoyed a strong economic and diplomatic partnership. The United States Department of State describes the US-Japan Alliance as, “the cornerstone of U.S. security interests in Asia and is fundamental to regional stability and prosperity. The Alliance is based on shared vital interests and values, including: the maintenance of stability in the Asia-Pacific region: the preservation and promotion of political and economic freedoms; support for human rights and democratic institutions; and, the expansion of prosperity for the people of both countries and the international community as a whole.” (USDoS, September 2017)

The U.S. and Japan collaborate on a wide array of international and domestic initiatives ranging from world health issues, environmental and resources issues, education, gender equality, science and technology advancement. Economic issues such as increasing access to Japanese markets, encouraging additional bilateral investment between the U.S. and Japan and improving the Japanese business climate for U.S. investors to be able to invest more in the Japanese markets are also important areas of mutual interest. (USDoS, September 2017)

There are however territorial disputes within the South East Asia region to consider. Russia occupies several island groups to the north of the Japanese mainland, which Japan considers as their own. The countries have not normalized relations and have not signed an official peace treaty recognizing the

end of hostilities of WWII because of the disputed territories. South Korea and Japan both claim ownership of the Liancourt Rocks. Both countries claim to have evidence of their rightful ownership and historical evidence, though the territories have been disputed since WWII. And lastly, China and Taiwan claim the Senkaku Islands in the East China Sea, which Japan also claims as their own. Access to shipping channels affecting trade and access to natural resources and fisheries are affected by each of the disputes.

While the relationship between Japan and the U.S is strong, there is however a rising sense of nationalism in Japan, particularly with regard to Japanese-South Korean relations. The source of the conflict is in a small way related to the disputed territories but more recently tensions have risen regarding their shared history during World War II. Japan was seen as an occupying force in Korea during World War II. Post war, Japan issued an apology for their involvement in Korea but more recently the apology was perceived by South Korea as being rescinded based on actions of the Prime Minister. Prime Minister Junichiro Koizumi was the first PM to visit the Yasukuni Shrine in 2005 and several subsequent times. But more recently Prime Minister Shinzo Abe also visited the Yasukuni Shrine. The shrine is a memorial that houses the souls of those who served the Emperor during war times. The visits were controversial and seen as a revocation of the apology because the Shrine includes the souls of 14 convicted Class A war criminals, those who committed “crimes against peace”, crimes that were committed against Korea. Also, Japanese law expressly demands the separation of region and the state. Mr. Abe’s visit to the shrine was seen as mixing religion with state affairs and as legitimizing convicted war criminals. Mr. Abe claims he visited the shrine as a private citizen to honor the fallen but the damage to the relationship between Japan and Korea only worsened and persists today. Additionally, there is the issue of Korea’s claim that Japan institutionalized the use of Korean women as “comfort women” during WWII, a claim that Japan vehemently denies and has gone to great lengths to dispute, including making sure that no school textbooks make any mention of the issue.

### ***C. Political Stability, Risk and Geopolitical Dynamics (PL3)***

Japan is a stable, representative democracy with a 70-year long history of democratic elections with a peaceful transfer of power and is viewed as an established, secure world leader. While there have been periods in which a rapid succession of Prime Ministers has occurred, creating some level of policy instability within Japan, the structure of the government and the constitution has never been at risk of collapse. Japan is a critical ally to the U.S. in keeping stability and security in East Asia and works closely with the U.S. on Korea policy, China relations as well as Russian relations within the region.

According to The World Bank, Worldwide Governance Indicators, Japan ranks in the 86th percentile for Political Stability and Absence of Violence and Terrorism. (*Appendix A*) The Index “measures perceptions of the likelihood of political instability and/or politically motivated violence, including terrorism,” war and political protests that could disrupt business activity or harm people. For comparison, the United States ranks in the 59th percentile. Also relevant is the Control of Corruption index, which measures the perception that businesses and other private entities will encounter pressure of bribery and corruption from public officials to do any level of business activity within the country. Japan ranks in the 91st percentile for Control of Corruption, (*Appendix A*) while the U.S ranks in the 90th percentile. (The World Bank)

### ***D. International Business Related Economic/Fiscal Policies and Government Interventions (PL4)***

As of February 2016, the U.S. did not intend to ratify the Trans Pacific Partnership agreement (TPP). TPP is a Free Trade Agreement (FTA) proposition among the U.S. and 11 Asia Pacific countries that include Japan. The Japanese government made concessions in TPP like “increased access to its

agriculture market had the agreement ratified Dec 2016” (*Japan-U.S. Relations: Issues for Congress*). The U.S. would then withdraw from the agreement, which creates uncertainty within Japan and the U. S. economic relationship. Remaining signatories in Japan could have a modified agreement that would be pursued due to the U.S. no longer participating. Japan is one of the three largest economies. U.S. and Japan have a bilateral economic relationship. Ever since the 2008-2009 financial crisis and 2011 disasters, Japan has not gained the momentum desired despite Abe’s attempts at revitalizing the economy. U.S. sees Japan as a “‘humbled’ economic power” rather than an economic competitor because of its low growth (*Japan-U.S. Relations: Issues for Congress*).

Japan and the U.S. are using the World Trade Organization to resolve trade disputes and help ease tensions between U.S. and Japan. To boost the economy and decrease inflation, “Abenomics” was created and implemented using the “Three Arrow Program” which include monetary stimulus (pursued the most aggressively of the three arrows) fiscal and structural reforms to improve the competitiveness of Japan’s economy (*Japan-U.S. Relations: Issues for Congress*). Fiscal packages are worth approx. \$145B. March 2011 disaster areas of interest for spending on infrastructure. Constraints seen for expansionary fiscal policies due to a staggering 240% of GDP. Sales tax has risen from 5% to 8%. Economists said it contributed to Japan's recession back in 2014. Sales tax to increase to 10% by 2019 (*Japan-U.S. Relations: Issues for Congress*). Abe approved a supplementary stimuli budgets totaling \$132M package passed in 2016 that aimed at easing the economic impact of Brexit and to support construction of train lines as well as providing aid for families in need.

The International Monetary Fund (IMF) is urging Japan to develop a fiscal consolidation plan with more credibility, a push for structural reforms, and to boost wages. The Yen is weak relative to the U.S. Dollar, which means U.S. competition with products vs Japanese imports could worsen the U.S. trade deficit with Japan (*Japan-U.S. Relations: Issues for Congress*). Japan’s exchange rate has been manipulated to decrease the value of the yen, much to U.S. President’s criticism.

#### ***E. Legal System and Practices (PL5)***

According to the lecture, Japan is a mixed law system, and a flawed democracy. Due to high turnover in Prime ministers (six prime ministers in six years), policies were unstable due to the changes in administration (Lecture). Prime Minister Shinzo Abe changed things however and has been in power since 2012. As the longest serving Prime Minister, he has to step down from being the Prime Minister and Party President in the fall of this year. Abe has little to no opposition from LDP (Liberal Democratic Party) and has been in power since 2012 (*Japan-U.S. Relations: Issues for Congress*). The Party’s coalition partner had scored a landslide victory in elections that were held recently. Almost two thirds of chamber seats were secured meaning the Prime Minister could amend the constitution and pass legislation with more ease. By serving the full two thirds would mean amendments to the constitution would be facilitated and many implications include changing the war-renouncing Article 9. The Prime Minister is stabilizing Japanese Policies (Lecture).

This is where the Trade Facilitation and Trade Enforcement Act comes in by the U.S. Treasury Department to engage and have vigilance on exchange rate issues. Japan is on its monitoring list. Japan’s noted to not have intervened in five years in foreign exchange markets (Siam). Japan is a Civil law country. If not in conflict with code, case law precedent is used as guide. Japan has approx. 1 lawyer for every four thousand people, compared to approximately 1 for every 250 people in the U.S. In Japan, lawyers don’t have as strong of a role as U.S. lawyers (Syam).

#### ***F. International Business-Related Laws and Regulations (PL6)***

Prime Minister Abe had negotiations into Trans Pacific Partnership and Free Trade Agreement for revitalizing not only Japan’s economy but also U.S. and Japan relationship. As of January 2017, the

U.S. was not part of TPP. Japan recently invested \$150B on the U.S. economy. Japan and the U.S. could have tensions in bilateral negotiations due to the possibility of revisiting TPP provisions including currency policies (*Japan-U.S. Relations: Issues for Congress*). Japan is in negotiations with Regional Comprehensive Economic Partnership (RCEP), meaning Japan as an edition to ASEAN association of SE Asian Nations, India, New Zealand, China, South Korea, and Australia in a regional trade agreement (*Japan-U.S. Relations: Issues for Congress*). Japan has existing trade agreements with “Singapore, Mexico, Malaysia, Chile, Brunei, Vietnam, Peru, and Australia” (*Japan-U.S. Relations: Issues for Congress*). With the U.S. not included in these agreements, U.S. exporters to Japan could put pressure for some kind of negotiation for trade. If the U.S. is to initiate FTA negotiations, key outcomes in TPP would include “eventual elimination of duties of 95% of Japanese tariff line,” (*Japan-U.S. Relations: Issues for Congress*).

Ministry of Economy, Trade and Industry (METI) consists of a variety of bureaus whose purpose is to facilitate Japan’s investments and international trade, including promoting Japan’s economic growth. The METI bureaus are divided by geographical area as well as purpose. The bureau’s “primary responsibility” is Japan’s activity in bilateral trade relations with all corresponding trading partners as well as Japan’s involvement in multilateral institutions (Trade Regulations of Japan). In regards to import licensing, most goods can be imported freely into Japan due to not requiring the license - which hazardous materials do require. Also requiring the license are animals, perishables, and high value items. Goods subjectable to import quotas such as controlled substances and fish need licenses (Trade Regulations of Japan).

Japan has one of the lowest tariffs on average in the world. Most Favored Nation (MFN) is granted by Japan, including special treatment to a country or territory that either; has a bilateral treaty with Japan, is a member of the WTO, or is covered by Article 5 of the Customs Tariff Law. This means the U.S. does qualify (Trade Regulations of Japan).

### ***Conclusion***

As our weighted matrix demonstrates (*Appendix C*), the factors that were considered the most important were the Bilateral trade relationship with the US and Prime Minister Shinzo Abe. The US trade agreement has the largest impact on the economy when compared with other factors, which makes it highly valuable considering climbing national debt and other risk factors. Because of the high-level importance and uncertainty involved with the US bilateral agreement and the TPP/CPTPP, those two have emerged has the highest risk factor criteria.

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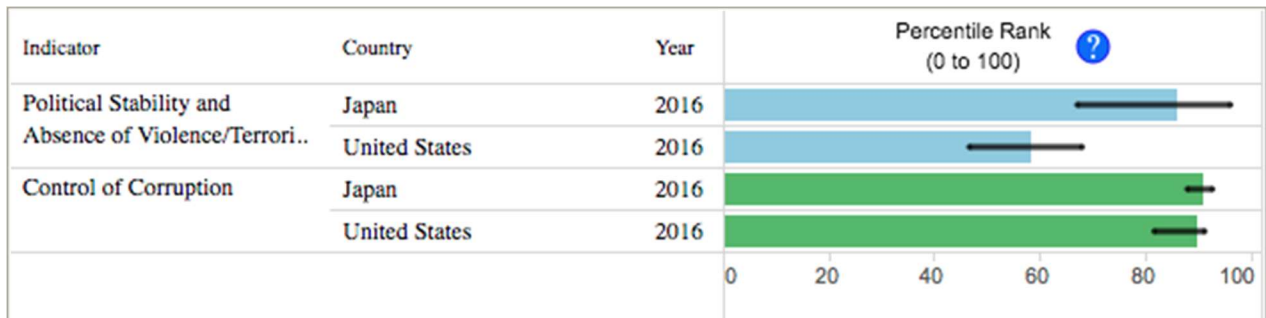
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## 4. Appendixes

### Appendix A: Political Stability and Control of Corruption Indicators for Japan



Source: World Bank Group, Worldwide Governance Indicators

**Appendix B: Fig. 1****Prime Minister Abe Shinzo**

Source: [wsj.com](https://www.wsj.com)



### Appendix C: Political and Legal Analysis Weighted Matrix

Political and Legal Analysis							
Criteria	weight	Risk		Probability		Cost to PCC	
		rating	weight ed score	rating	weight ed score	rating	weight ed score
Abenomics	10	10%	3	90%	9	25%	2.5
Prime Minister Shinzo Abe	20	15%	3	95%	19	25%	5
TPP	10	25%	2.5	50%	5	30%	3
Bilateral trade relationship with U.S.	25	30%	7.5	90%	22.5	50%	12.5
Corruption	10	5%	0.5	70%	7	50%	5
Bureaucracy	10	10%	1	70%	7	15%	1.5
Violence and terrorism	5	5%	0.25	20%	1	10%	0.5
Democracy	5	1%	0.05	90%	4.5	1%	0.05
Lowest tariffs in the world	5	5%	0.25	35%	1.75	5%	0.25
Totals	100		18.05		76.75		30.3

**Rating:**  
 Excellent ««««« (100%); Good «««« (75%); Satisfactory ««« (50%); Mediocre «« (25%); Poor « (0%)



## Section V: INDUSTRY AUDIT AND COMPETITIVE MARKET ANALYSIS

### A. Executive Summary

Portland Cider Co. has a diverse offering of ciders. The “Kinda Dry” product has been targeted as the specific cider to marketing in Japan. Beyond cost of transporting goods internationally, one of most significant barriers for alcoholic cider in Japan is education. Cider has traditionally been thought of as a lemon-lime flavored soda in Japan instead of a crisp and refreshing apple-based alcoholic beverage. There are alcoholic cider products already present in Japan though the concept is new and unfamiliar to the Japanese drinking public.

In doing our industry audit, we can summarize a few points. The Japanese drinker, does not prefer highly sweet drinks, they’d prefer a dryer European style drink. This has lead us to realize that the flavor and taste will be accepted by the Japanese drinker. A barrier to keep in mind, is the nature of our product. We found that the definition of cider can be interpreted quite differently by our Japanese customers. In their experience with cider, they describe it as a lemon-lime soda beverage. This form of drink has been accepted and liked in this country for many years. This industry of lemon-lime soda is very powerful in the beverage market and will pose a significant barrier to us.

Some other observations of the Japanese alcohol market, is that overall it has begun to shrink starting in 2016. This is partly due to an aging population. This can pose a risk to Portland Cider Co.’s product due to the decline in drinking culture. In the contrary, historically speaking, the Japanese culture has shown respect towards their form of cider which could be favorable for Portland Cider Co.

Throughout this analysis, barriers and opportunities have been identified for introducing hard cider into this market. Most importantly this type of analysis gives us the opportunity to analyze our product, on how effective its presence would have in this country. Extensive data comparison has been prepared which includes a weighted matrix of criteria for review at the end of the document. Below is a detailed analysis of the findings.

### B. Product

Portland Cider Company over time has offered at least twenty-eight different varieties of cider. Considering research done in previous sections, one particular cider stood out as being the best to introduce first to the Japanese market. The “Kinda Dry” is the flagship product and best-positioned product. As shown in *Appendix C, MarketLine* has forecasted the total beer and cider market in Japan to be relatively flat due to the aging population and low birth-rate among other issues. The growth experienced in the market has been within the craft market. For cider specifically, Aoki of Farmer’s cited two Japanese companies that are better-known in Japan for cider. Kirin, who is discussed later, has a cider that uses poorer quality apples from China. (*Appendix D*) Then there is another named ‘Two Towns’ which happens to be imported from the NW US. Both are experiencing some growth in the market but from Aoki’s perspective, the US and traditional Europeans can afford to make a better quality of cider vs. what can be produced in Japan today. Since the introduction of cider

is new and the tax is lower on cider than it is for beer, there seems to be a good market opportunity if the demand for the product can be found within Japan.

Because the Japanese are not known for preferring highly sugary drinks, a drier European-style cider would be preferential. This further supports the selection of the Kinda Dry flagship product being the best choice for an initial offering of Portland Cider Co. cider for the people of Japan. As the craft market grows, the first choices made available to the Japanese public will be the most like to create lasting brand associations.

The most significant barrier for alcoholic cider in Japan in terms of the product itself is the definition of cider. Cider to the Japanese brings thoughts of a lemon-lime soda product to mind. This soda has been popular in Japan for decades and is generally what people think of if you were to ask about cider in Japan. In a blog about this kind of cider, it was described as being, “The taste is firstly like a soda water with a dash of lemon, or a weak lemonade, but the end is like the taste of having chewed bubblegum until it had no more flavor. It's not really a nice flavor to end on, and really just makes me thirsty. I really want to have a tall glass of water after drinking this. I wouldn't even recommend this for curiosity's sake though my husband loves Mitsuya Cider, and that is why I keep buying it. I guess it holds something that I can't fathom to others who have grown up with it.” (Kelly)

This soda-cider association is evidently strong from the above description and will be difficult to overcome. The owner of Portland Cider Co. at one point mentioned it was discussed that perhaps calling it by another name could be a solution but thus far nothing appears to resonate easily. The best solution could be not to change the tradition, but to focus on a rebranding campaign that educates the public about how alcohol can be made from apples that could be potentially sponsored by Portland Cider Co.

The Japanese have an appreciation for tradition, and cider has a long and storied tradition. Once people begin to know and try the product, the market could bloom into something larger. Aoki cited there is an official cider association in Japan whose meetings he attends. (*Appendix D*) With continued focus from such organizations, a potential education campaign, and a larger scale distribution attempt of quality cider, a potentially lucrative business opportunity has been identified that could be filled by Portland Cider Co.'s Kinda Dry.

## C. Industry and Market

### *-Geographical Region(s)*

Japan is divided into eight regions: Hokkaido, Tohoku, Kanto, Chubu, Kinki/Kansai, Chugoku, Shikoku, and Kyushu. Kyushu and Hokkaido are islands separated from the largest one, of which the other six regions exist on (Japanguide). In terms of population, the largest region of Japan is the Kanto region, as this is where Tokyo sits. Despite being a very small country, transportation to all regions of Japan is somewhat difficult due to the water separation. It is important to note that each region of Japan has the same governing body as Japan's power structure is unitary.

### *-Supply and Competition*

#### a. Characteristics and Practices of Industry

##### *i. Composition/Structure of the Industry/Product-Category*

Growth in the broader alcohol market has been weak through 2016. In fact, according to MarketLine (2017) the Japanese beer and cider market shrank 0.1% in 2016 and it is projected that the market trend will continue to exhibit weak growth through 2021. The Cider segment specifically is the exception. The cider industry in Japan consists of retail sales and includes apple cider, flavored cider, pear cider and seasonal cider. According to Euromonitor International (2017), total volume sales of Cider/Perry increased by 7% in 2016 to 1,655,000 liters with off trade sales representing 66% of

those sales. Total volume is projected to surpass 2 million liters by 2021. (*Appendix B*) The Cider market continues to be dominated by Nikka Cidre which controls 68% of market share.

*ii. Stage of Life Cycle, Cyclicity, Seasonality, Trends and Other Patterns of the Industry/Product-Category*

The market for alcoholic drinks and beer in Japan is mature and could even be interpreted as on the decline, driven by an ageing population and an aggressive, cost prohibitive tax regime. The cider market however is in the growth phase. Cider in Japan has traditionally been thought of as a non-alcoholic carbonated drink similar to Sprite and is synonymous to many with Mitsuya Cider, so consumer education will be a key factor to promoting continued growth. According to Euromonitor International (2017), Younger consumers, new to drinking, particularly young women who prefer sweeter and fruitier alternatives to beer will continue to be the target consumer. Apple flavored cider/perry accounts for almost all cider sold in Japan. Manufacturers are expected to introduce seasonal products with new flavors to maximize trial purchases.

*iii. Size, Growth, Profit Level and Variability and Other Performance Indicators of the Industry/Product-Category and Its Sub-Segments/Sub-Categories*

In 2007, Japan was ranked as the seventh biggest consumer of beer and of other types of similar brews in the world. (Japanese..., p.4). According to a 2017 report by MarketLine, “Japan accounts for 19.1% of the Asia-Pacific beer & cider market value” (MarketLine, p.12). Even though this number seems low compared to China’s 43.7%, there is a lot of room for growth, especially when it comes to hard cider. For instance, beers are heavily taxed in Japan, due to their alcohol content; this situation has created the introduction of new products with less alcohol, less carbohydrates and less malt to compete with the beer industry by selling for a cheaper price as they pay less taxes on these types of products. A Datamonitor Case Study from 2009 about Japanese beers explains how cheaper beers have attracted consumers to switch from traditional ones to cheaper and healthier products. (Japanese..., p.10). In addition, as part of a healthy trend happening in many areas of the world such as the U.S., North Europe and Australia (Japanese..., p.1) cider, is seen as a healthier option for alcoholic beverage for being gluten free, not having artificial flavorings, colorings, or added sulfites which complements this trend.

Profit level and variability depends on the distributor’s fees, which are usually about 25% of the sales they are able to generate. Method of transportation can also affect profit levels as it could be cheaper to transport the cider in a container to be bottled in Japan, or perhaps to export the product already bottled in glass or cans. Also, cider will be taxed depending on the alcohol level which means that making a product that has less alcohol is the key to increasing profit margins. Product category depends on the acidity and tannin levels and depending on these, its Sub-segments are either bittersweet, bitter-sharp, sharp, and sweet.

*iv. Challenges Facing the Industry*

The beer and cider industry face many challenges in Japan, particularly due to government laws and regulations on imported products as well as taxes imposed on alcoholic beverages. These factors are important when determining what the price should be on imported cider as it may be hard to compete with other products being sold at a cheaper price, either because they are domestic or because the alcohol content is low, making taxes lower and in general, making it a cheaper product. “As

the Datamonitor 2008 global consumer survey shows, price is the second most influential factor when consumers make their choice on alcoholic beverages, so the incentive of a lower price could encourage consumers to switch to healthier alcoholic beverages.” (Datamonitor, p.12). This could play an important role in the consumers’ choice to either purchase more expensive imported cider or cheaper domestic cider from Japan. In addition, another challenge facing the industry is declining sales partly due a declining population. According to Market Analysis “The beer & cider market in Japan recorded weak growth during the review period (2012-2016). The growth of the market is expected to follow a similar trend over the forecast period (2016-2021).” (Beer Cider..., p.8). New trends could be one of the causes for declining growth which may require an adjustment of any existing marketing practices from the cider and beer industry to better fit their consumer needs and wants.

*v. Norms and Common Practices of the Industry*

In order to sustain business relationships in Japan, it is important to have a good distributor that knows Japan’s norms and common practices so that the Portland Cider Company is represented accurately without disrespecting existing products, customs and business etiquettes in Japan. In the case of our product, strong and long-lasting relationships with distributors or agents are the key to penetrating the market and gaining market share, and any type of devious behavior could heavily impact how the product is seen among consumers, especially by not being a domestic brand.

b. Characteristics and Practices of Distribution Channels and Other Market Intermediaries  
The structure of large scale beer/cider distribution in Japan is predominantly run by a small number of companies. There are smaller distribution firms that would be more appropriately sized for Portland Cider Co. such as ‘AQ Bevolution,’ a medium-sized Japanese distribution firm who currently handles mostly craft beer. (Morales) They have a Tokyo-based headquarters that is capable of cold-flight shipping beer within Japan and they are committed to finding logistical solutions for delivering products. This company and just a couple others like it would be uniquely qualified for entry-stage distribution.

Large beer and cider manufacturers often manage their own distribution or hire smaller local contractors to complete the final delivery stage of distribution. Common norms experienced in the industry are that are required for distributing alcoholic beverages are displaying alcohol content, container volume (in milliliters or liters), net weight (in metric units), ingredients other than additives must be listed in descending order of weight percentage, food additives must be listed in descending order of weight on a separate line from other ingredients, name of product, the word "Imported" and country of origin if imported, name and address of the importer, date "Best before," and then any “special instructions for use, storage, or preparation when established by the Minister of Health, Labor, and Welfare for the product or when their absence could cause confusion”(IARD). The labelling must be in Japanese. Once all of these requirements have been met, the best distribution partners would be chosen based on the amount of cider distribution company believes they can sell. To get the cider to Japan, it is possible to work directly with a company like AQ Bevolution or to work with an intermediary exporter/broker within the US who would deal with companies like AQ Bevolution on Portland Cider Co’s behalf.

Recent trends in Japanese alcoholic beverage distribution have led to smaller exporters more frequently using export insurance to leverage the risk of sending product overseas where domestic contracts are non-enforceable. (*Appendix D*) Insurance adds to the cost, but once the scale of inventory being delivered reaches the millions of dollars, the revenue to exporter

would be sustainable enough to make distribution worth it. The tax savings on cider also helps reduce the overall cost of distributing cider vs. traditional craft beer. Cost continues to be a barrier at every level of distribution because of the margin added each time the product changes hands before arriving to the customer. A general methods overview for ocean and air international delivery contract terms (Incoterms) are shown in *Appendix E*.

#### c. Characteristics and Practices of Upstream Suppliers to the Industry

In recent news, Japan's government has taken an interesting twist on the apple industry in Aomori prefecture. They have decided to educate apple farmers the art of brewing, specifically hard cider. Currently, the Japanese market in hard cider, has begun to rise. This is mainly because of other countries beginning to introduce their cider into Japan. The Japanese people have begun to respond to this movement in a positive manner. As far as suppliers in the hard cider industry are concerned, many of the current suppliers originate from European countries. The main suppliers are farmers in the outer area of Japan such as the Aomori prefecture. Since this area is the largest apple farm in the country, they are the main suppliers. In many cases, we see the Japanese government providing the necessary resources for the brewers to begin conducting business. In some cases, the government has put the farmers through the necessary classes to learn how the brewing process works. Additionally, many countries have been invited to Japan to test their hard cider, and to educate the Japanese drinking population on the drink. It has proven to be successful.

#### d. Competition Assessment

##### *i. Structure/Composition of the Competition*

Through our research we had a difficult time being able to come across direct competitors in the alcoholic cider market. What we have found that there is a potential growing market in this type of drink. It is meaningful to note that during our research we came across a piece of information that may benefit us in this industry. A place named Aomori Prefecture is a part of Japan's main island of Honshu. This island is known for its remarkable natural ranges, and mountain ranges. The key here is that this part of the island is significant to us, because this place is the largest apple-growing region. Due to dwindling population, due to aging, many of these farmers are worried who will be their successors in taking over the business. The point to note, is that the main significance to us, that since the government has a revitalization plan, part of their plan is to help apple growers move into the hard cider business. (*Japan Times*). Now these facts may serve a pro or a con in our market analysis. We have noted in our research that one of our hurdles is the spectrum of education the Japanese people have with hard cider. Part of our strategy was to focus on educating people more on what the drink is, and how it does not directly relate to their traditional cider. Through the efforts of the government helping apple-growers move into the industry of hard cider, it benefits us since the government is educating the growers on the drink. On the flip side, once these growers are fully established in the market, we may face those competitors.

##### *ii. Characteristics of the Competition*

The barriers to exit and enter the market of hard cider are quite different for those Japan natives than those like us who are working internationally. With this in mind, there are some benefits to us in terms of entering the market. To begin, since the Japanese government is pushing apple-growers to move towards this industry, this may imply to us that there is a level of acceptance in this drink (*Marshall*). Secondly, this also implies that the Japanese people do have some form of interest in hard cider, and if made in the form that the Japanese people enjoy we may have a meaningful

market size. As far as barriers to enter the market, we identified the following. We have found that in the alcoholic beverage market in Japan, there is a small amount of those drinkers that perceive hard cider as we do in the United States and in other European nations. This will be difficult for us to be able to overcome if we do not begin by educating the drinking population of this type of drink. Secondly, we could conclude that the Japanese population, simply does not drink as much as it did historically. We find that due to the obvious issue of aging population, there isn't that level of consumption as there was.

### *iii. Major Competitors*

As far as major competitors, there is a mix on their reasons for being competitors. There are many major brewing companies in Japan that are quite successful, and there are many up and coming potential competitors. Sapporo, a brewing company, one of the oldest companies. The reason this company is one of our competitors, even if they do not offer hard cider, is the fact that it is a brewing company that has been around for a long time. What this implies to us, is that it has captured a set of customers, and those customers are loyal. Customer loyalty is quite significant. In dealing in a country where there is a large population of those aging individuals it makes it more difficult for us to be able to capture those customers into our product. The apple-growers as we discussed, are also our competitors. This is significant to us in our journey into this industry because they have an advantage with the Japanese government. This is significant because they will be capturing the attention of many of our potential customers. Earlier we discussed the lack of education in hard cider in the Japanese culture. Many would perceive hard cider as apple juice, which is why the Japanese drinker is so difficult to capture. This brings me to another competitor we may consider, Mitsuya Cider. This drink is a Japanese carbonated drink that is basically cider. In many countries cider can mean many things, and in Japan it happens to mainly be related to a non-alcoholic carbonated drink. This is a problem because our product is being perceived in a manner that is incorrect.

## ***-Demand and Customers***

### **e. Identifying and Characterizing the Customer Chain**

In the importation of cider to Japan, Portland Cider Company will not singularly be responsible for the sale directly to customers but will have to participate in B2B sales as well.

The distribution of alcohol occurs through several different means: specialty liquor stores, grocery stores, and bar and restaurants. In the US, Portland Cider Company sells their product mainly through groceries, but in order to get their cider into the stores they need to work with distributors, which will be the first step in the customer chain process. In the US, Portland Cider company has a consistent distributor to help them reach stores and breweries in Portland and the Pacific Northwest, in order to sell to Japanese markets, Portland Cider will need to find a distributor there. Currently Portland Cider has a small distributor who works with them, but for a large-scale operation they would likely need more distributors or a larger one (Portland Cider Company).

From there, the distributor will assist Portland Cider company in finding stores interested in selling their product. The work of finding a distributor who has faith in the growth potential of cider will be key to operations in Japan, which is why Portland Cider should work to educate their end consumer as well to demonstrate the value of the cider business. Similarly, misinformation from the point of the distributor will lead to disinterest from businesses who

would potentially buy the cider. Key to the entire process of selling will be education at every step of the customer chain: from distributor to seller to final consumer.

#### f. Assessing the Demand

The most important aspect of selling cider to Japan is not necessarily the current demand, but rather the demand potential that exists within the country. Drinking in Japan is a highly socialized activity as has previously been discussed. Similarly, they are a highly communal society, this means if cider can be normalized as a preference for some, it will likely spread to others and create a culture in which cider is not only normal and socially accepted, but potentially preferred. Much of this comes down to the marketing of cider as a concept, not even necessarily the Portland Cider Company but the larger cider community as well.

#### iv. Market Demand Characteristics:

In 2011, The cider/perry market was worth US \$10.9 million and registered a sales volume of 817,000 litres (International Markets Bureau). Within the report from the Canadian International Markets Bureau, which discussed Japan as a whole, not Canadian specific imports and exports, it suggested that cider sales in Japan were expected to drop around 7% between 2012 and 2016. This prediction, however, has proven false as cider sales in Japan have actually increased in recent years, especially with a younger, female population and in 2016 alone, cider sales increased 7% (Euromonitor).

In terms of elasticity, for most of the world, and Japan included, alcohol demand is generally inelastic as no matter the economic climate, people who desire alcohol will purchase it, especially relevant because it is such a low cost good. In many countries elasticity will change depending on preference. For instance, Ireland is more likely to prefer beer, therefore beer is more inelastic in demand than wine. However, Japan is highly unique as it falls without specific preference in a study completed by British researcher James Fogarty. This implies that elasticity remains the same across all alcoholic beverages, a good outlook for cider sales (Fogarty, James) (*See Appendix B*)

Cider in Japan can still be referred to as an emerging market. There is a lack of awareness within the potential consumer base and, through educational marketing tactics, cider in Japan could continue to grow. The 7% growth seen in 2016 demonstrates room for further growth and spread of the product throughout the country. There is already a tie between Pacific Northwest Cider and Japan in fact, as Portland and Japan held their “Cidercon” festival at the same time to promote a relationship between the industries across borders. A statement from Northwest Cider reads “Japan is an evolving market looking for the things we excel at growing. With Oregon’s proximity to the Pacific Rim, there continues to be a huge opportunity” (Northwest Cider). This relationship, as well as the predicted elasticity of cider, and the growth cider sales have seen over the last several years demonstrate that demand not only for cider as a product, but cider from the Pacific Northwest has a chance to flourish in Japanese markets.

#### v. Customer Profiles:

Through the discussion on the sociocultural factors of Japanese society, a trend in customers can be observed, in which a target market for Portland Cider can be found: through our research the most market potential lies with young, working women and men in Japan.



The young working men and women of Japan have a great deal of burden on their shoulders. As the age of the country changes shape, growing older without a large labor force to take its place, the need to maintain labor, build services to support the aging population, and keep the economy afloat falls to them. However, they are also a generation that grew up with traditions of their society while at the same time building traditions of their own, which can be seen from the pop culture coming from Japan in recent years. Cider has the capability to fill the gap between tradition and youth in a unique way. The light, fruity flavor of the semi-dry cider is a foreign concept, making it a fun way to explore outside the traditional Japanese culture. The lack of cider in Japan currently is what will allow Portland Cider to penetrate the market, because it is different than what the traditional Japanese drinker is accustomed to.

Cider, however, doesn't break away from all tradition. As nomication, or the drinking culture of Japan, exists drinking after work with coworkers is a large part of Japanese society. Cider can take its place as an addition to this tradition that allows young professionals to bring their own take to the custom.

Through the completed research, it was discovered that cider does best with women who prefer its fruity and light taste. This is an asset to Portland Cider Company. Though times are changing, historically women in the workplace of Japan have been highly under represented and are often seen as doing the family a disservice by not choosing to stay at home and raise a family. Catering drinks to these young women who are now in the workforce and partaking in drinks after work benefits these women as it gives them options they may prefer while joining in the activities and also benefits Portland Cider because they are a large population of drinkers who are frequently ignored by major beer sellers and distributors.

Many in the Japanese market are focusing their marketing and products to cater to the aging population because of their size and current buying power. By focusing on young professionals, Portland Cider is entering a market that many have forgotten which gives Portland Cider an advantage in the market. Overall, because of the lack of current customers and the focus on the younger generation, Portland Cider has a huge potential market to work with in Japan and will likely see success from such efforts.

#### vi. Projection of Future Demand and Sale

Considering the implications of all of the research on Japan all of the factors impacting selling cider in Japan including sociocultural factors, economic, and political, as well as the current trends in the cider industry, the outlook for Portland Cider is bright. Through education of the population as to what cider is, as well as targeted advertising for young male and female professionals, Portland Cider would be able to likely increase the market for cider by a decent percentage. As the sales for cider grew 7% in the year 2016 alone, Portland Cider would be entering Japan at the right time as some of the education is already taking place, which Portland Cider Company would be able to build off of. Though growth is expected to be slow as education continues, once the younger population feels secure in cider as a drink for them, it will continue to grow. All in all, because of how small the market is currently and openness to exploration of the younger Japanese demographic, cider in Japan has a very positive outlook and Portland Cider will do well to get involved in the growth now and follow the potential as it grows.

## **D. Company Internal Assessment**

Portland Cider Co. currently has a very small existing presence in the intended target country/market of Japan. This assessment also considers the perspective Portland Cider Co. as entering Japan for the first time as a larger scale distribution in Japan will differ significantly from current operations.

### A. Measurements:

#### g. Status, Practices and Performances

The Portland Cider Company is a popular, well regarded company both locally and its additional reach due to their business practices, the quality of their cider, the taste, as well as the company's strong involvement with the local community. They are located at a variety of retailers in here in Oregon. Retailers include Safeway, Whole Foods, Albertsons, Fred Meyer's, Zupan's and others (About). Their business practices include having high accessibility of the founders, married couple Jeff and Lynda Parrish. Their office is right next to their taproom at one of their two Portland locations (About). Performance wise, Portland Cider Co. has won numerous awards for their wide variety of ciders. In 2017 and 2016, Portland Cider Co. won Best cidery in Portland by the Portland Readers poll in The Willamette Week (Awards).

#### h. Resources (both tangible and intangible):

For resources, Portland Cider Company has a vast amount of local support and community ties (Parrish, Jeff). For example. Portland Cider Co. uses a local bottling business that consists of a man with a bottling truck in order to do the bottling for the company. Resources also include the neighboring apple farms that are close to one of the locations that aligns with PCC CSR, and PCC boasts an impressive \$176,000 revenue in 2016 alone (Parrish, Jeff).

#### i. Capabilities

For capabilities, PCC is able to produce its product in-house including the bottling. They have distribution across the U.S. and have a one-person (full time) marketing team. PCC has its production location at one of its two locations in Portland and this eases the cost of distribution and production instead of using a third-party company. They have better control of the product, the process, the costs, and therefore risks are mitigated. PCC varied product mix also provides a variety of choices for consumer selection that can appeal to a broader audience and promote company growth.

### B. Analyses:

#### j. Core Competencies and Other Strengths and Potentials

Core Competencies include its in-house production of their product and strong community ties. Strong commitment from the founders in the company's future growth is also a core competency that some companies may not experience due to numerous investors/stakeholders having a say in their respective company.

#### k. Weaknesses, Limitations, and Constraints

Constraints include the fact that PCC is still a relatively new company. They're focused on tending to the current distribution it has in the U.S. and doesn't have the resources needed to expand in the near future either domestically or on an international level (Parrish, Jeff). They are interested in these ventures but they want to make sure they are established in its current markets successfully before looking ahead. They did have a 5-year plan to expand however. Major markets to explore regarding

Cider does not include Japan, an extremely small batch is sent on a rare basis to Japan and has received some positive results (Parrish, Jeff). This does not mean PCC does not share opportunities however. As shown in (*Appendix A*), nearly 10 million dollars are available in market potential with the future cider industry projection in Japan.

### **E. Competitive Analysis (*against Major Competitors in the Intended Market*)**

To be able to sell Portland Cider Co.'s (PCC) product in the Japanese market will be challenging due to the beer market being overly saturated with different varieties of alcoholic beverages such as premium beer, low-malt beer, quasi beer, and sake (Brewers Association of Japan). PCC will need to compete with other well-established beer companies such as Sapporo, Kirin, Asahi, and Suntory. All of these four companies are major competitors to PCC because they have been around longer than PCC therefore people in Japan are more aware of their brands (Stephanie Mai, *Japan's Asahi takes rein on beer sales*). Another reason why PCC might have trouble entering the Japanese beer market is because the major four beer companies holds a large percentage of the market share for beer. Sapporo has 49.6% of the market share of beer in Japan, which means the company has the biggest market share (Nikkei Associates). Asahi has 27.3% of the market share, while Kirin has 15.4%, and Suntory with 7.7% (Nikkei Associates). With the four major beer companies in Japan holding all of the market share, it will be difficult for PCC to enter the market with their products because they will be competing with companies that are very well known in Japan.

In order to provide recommendations to PCC about how they can distribute their products in Japan, we need to analyze their competitors' status, performances, and abilities. By doing this, we will be able to see where PCC stand in comparison to the four main beer brands in Japan.

#### **Assessment of Competitive Status and Performances**

##### *Sapporo*

Sapporo is a Japanese brewery company that was founded in 1876, which makes it the oldest brand of beer in Japan (Sapporo, *About Us*). As mentioned before, Sapporo holds 49.6% of the beer market share which makes this company the number one competitor of PCC. The company is best known for their Premium beer, Yebisu, and Sleeman Cream Ale. The Premium beer is a more luxurious version of their company's draft beer and has been the bestselling Asian beer in the country since 1984 (Refer to *Appendix F* for a picture of Sapporo's beer selection).

##### *Asahi Breweries*

Asahi was founded in 1889 in Osaka, Japan and is one of the leading brands in the alcoholic beverages market (Asahi, *About US*). The company is known for their Super Dry beer which was the first beer to be created without heavy malt flavor which delivers a crisp, dry taste that was widely popular amongst their domestic market as well as international (Asahi, *About US*). The company was able to gain a competitive advantage when compared to other beer brands such as Sapporo and Kirin because they were the first company to market a beer product like Super Dry (Refer to *Appendix G* for a picture of Asahi's beer selection). Due to the popularity of Super Dry it became Japan's best-selling beer, many people within Japan start to demand for dry beer and because of this, Asahi's sales and profit surpasses Sapporo and Kirin in 1987 (Stephanie Mai, *Japan's Asahi takes rein on beer sales*).

### *Kirin*

Kirin was established in 1885 but did not market their beers until 1888 (Kirin, *About Us*). The first alcoholic beverage that this company created was lager. Even though it took the company three years to market their first beverage, their hard work paid off because their first product became Japan's best-known lager. Kirin is also known for their low-malt beer through the company's creation of Kirin Ichiban. (Refer to *Appendix H* for a picture of Kirin's beer selection).

### *Suntory*

Suntory is a Japanese brewing and distilling company that was established in 1899 (Suntory, *About Us*). The company is more known for their whisky beverages over their beers. Even though Suntory was founded in the same year as Asahi, the company does not have a high percentage of market share because they have many different business foci which makes it difficult for them to be the best in the alcoholic beverages market segment (Refer to *Appendix I* for a picture of Suntory's beer selection). Besides creating beer, Suntory also sells flowers, tea, and soft drinks.

### **Assessment of Companies Competitive Capabilities**

Portland Cider Company is a relatively small brewing company when compared to the four biggest beer companies in Japan. However, PCC has a competitive advantage in the alcoholic beverage industry because they have the ability to focus more closely to their production line (Portland Cider Company, *About Us*). As for Sapporo, Asahi, Kirin, and Suntory; these companies have many different product lines therefore it will be difficult for them to always be innovative with their products. This is the reason why PCC should market their ciders in Japan because they are offering different kinds of alcoholic beverages that is not common within the existing alcoholic beverage in Japan. The current population in Japan that is currently drinking alcohol is already more interested in beverages that contains a fruitier taste, therefore this can another competitive advantage for PCC (Yuri Kageyama, *Tastes Changes in Japan*)

Another competitive advantage that PCC has over their competitors is that the company has the ability to keep their manufacturing cost down (Portland Cider Company, *About Us*). PCC purchases their apple cider from an apple farm located in Portland, Oregon and they brew their ciders at their location in Clackamas, Oregon. When the company finishes brewing their ciders, they would outsource the bottling process to another company that is also located in Portland. For this reason, PCC is able to keep their manufacturing cost down because they do not need to have a large facility to brew their products.

Even though it will be challenging for PCC to enter the alcoholic beverage market in Japan, but the company may have a chance at success due to the changing drinking culture in this country (Evie Lund, *Studies Shows Japanese People Drinking Less than Ever.*). A further analysis of Portland Cider Company's strengths, weaknesses, opportunities, and threats can be found in the next section.

## Portland Cider Company SWOT Analysis

<p><b>Strengths</b></p> <ul style="list-style-type: none"> <li>Lower production costs</li> <li>Already established relationship with Japanese vendors</li> <li>Start to finish production</li> </ul>	<p><b>Weaknesses</b></p> <ul style="list-style-type: none"> <li>Limited flavors of ciders</li> <li>Not capable of producing a large quantity of products at one time</li> <li>Lack of brand name recognition internationally</li> </ul>
<p><b>Opportunities</b></p> <ul style="list-style-type: none"> <li>Japan's drinking culture is changing</li> <li>Increase brand awareness</li> </ul>	<p><b>Threats</b></p> <ul style="list-style-type: none"> <li>International regulations</li> <li>People in Japan thinking cider is a non-alcoholic beverage</li> </ul>

### *Strengths*

- **Lower production cost:** Portland Cider Company keeps their manufacturing and production expense down by relying on a close-by apple farm to bring them apple cider throughout the week and a bottling service company to bottle their ciders when they are complete. (Portland Cider Company, *About Us*)
- **Established relationship with Japanese vendor:** Portland Cider Company is already selling their ciders in Japan through a vendor name Aoki. PCC would make a couple thousands of ciders that is unique to the Japanese market every 6-8 months and ship it to Aoki who then distributes it throughout Japan. This method is not the best for PCC because it makes them unable to control where their ciders are being sold.
- **Start to finish production:** PCC has control of their production line because they are the ones who is manufacturing their ciders at their company. They can make sure that quality control of the ciders is up to their standards before distributing their products.

### *Weaknesses*

- **Limited flavors:** Portland Cider Company only produces 24 different types of ciders. For this reason, their flavors are more limited when compared to their four major competitors who has a variety of different types of beers and flavors.
- **Incapable of producing ciders in large quantities:** Since PCC produces their ciders at their cider tasting room in Clackamas, their space is limited therefore it will be difficult for the company to produce a large amount of ciders.

- **Lack of brand name recognition:** PCC will have trouble marketing their product in Japan because their brand name is unknown to the Japanese's market. For this reason, PCC may have to spend a lot of money on advertising and marketing their brand in Japan.

#### *Opportunities*

- **Change in Japan's drinking culture:** As mentioned before in this paper, there is a shift in Japanese drinking culture where people are choosing fruit-based alcoholic drinks over regular beers. This might be an opportunity for PCC since their ciders are all fruit based.
- **Increase brand awareness:** PCC will have the chance to market their product how they want to and be able to educate people in Japan that their ciders are different from the ones that is in the market.

#### *Threats*

- **International regulations:** PCC does not have a lot of knowledge about the international regulations that Japan has, therefore this will be difficult for the company to market their products.
- **People in Japan think cider is a non-alcoholic drink:** In Japan, there is a cultural difference for the word cider. Japanese people has believed that cider is a non-alcoholic beverage similar to soda, therefore PCC needs to advertised to their consumers in Japan that their beverages does contain alcohol to compete in this beverage market.

#### *Conclusion*

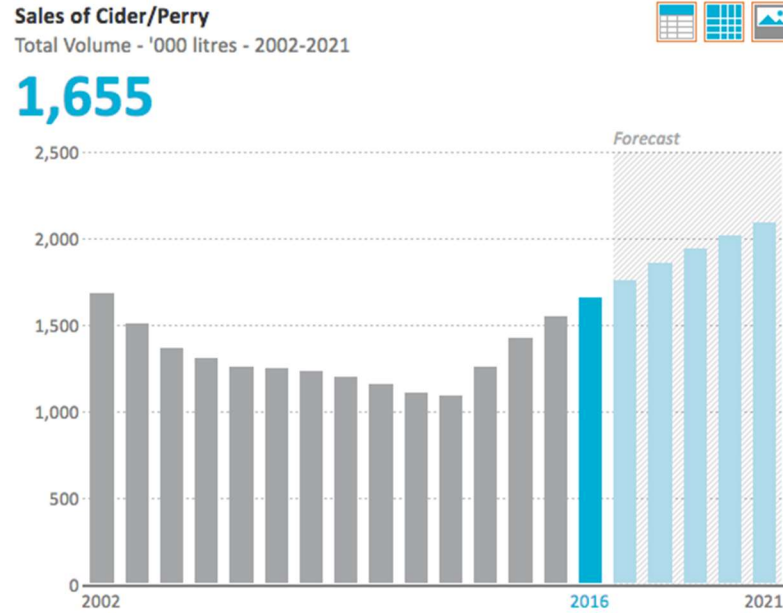
Factors that were considered most important while Portland Cider Co. is seeking to do business in Japan were 1) Product, 2) Industry and Market, as well as 3) Supply and Competition. Product is highly valuable due to Portland Cider Company as it is the backbone of the business, our product is what we are aiming to sell. This creates implications that with any major fault in this factor, it has a high probability of fatally impacting Portland Cider Co.'s ability to do business in the target country of Japan. In terms of industry and market, there is a great deal of risk associated with this as Portland Cider Company has little control over these factors. External risks are difficult to impact directly yet still hold a great weight of influence over the possible success of our company. Supply and competition are of moderate risk and moderate cost due to the volatile nature of competing businesses. Competitors are present and prevalent. Supply could attract possible errors, meaning it could incur unnecessary costs if not appropriately and actively managed. (*see Appendix J*)

## F. Sources of Information

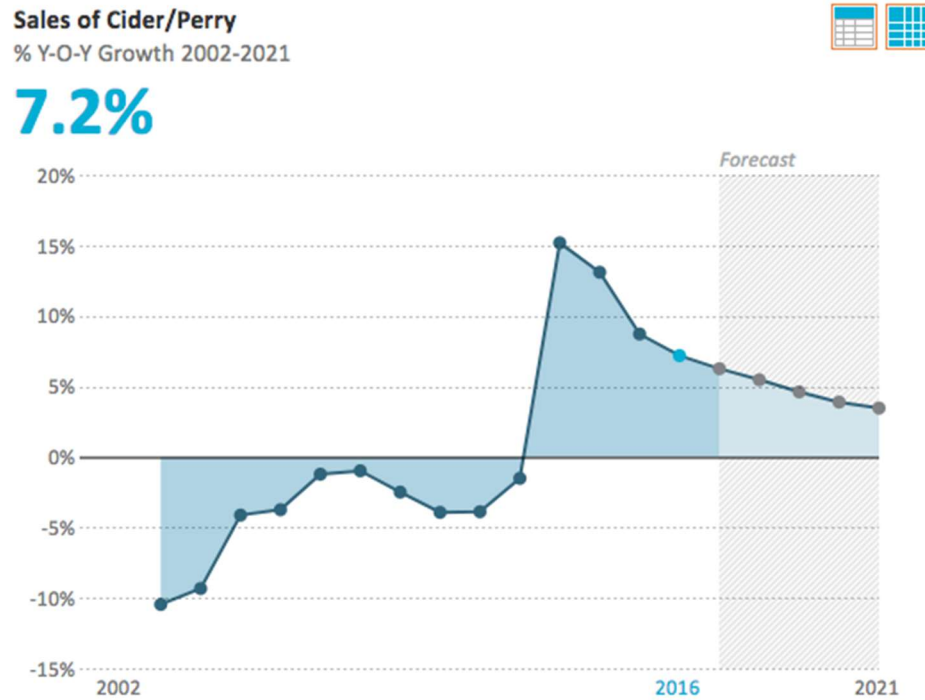
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## G. Appendixes

### Appendix A: Sales of Cider/Perry in litres



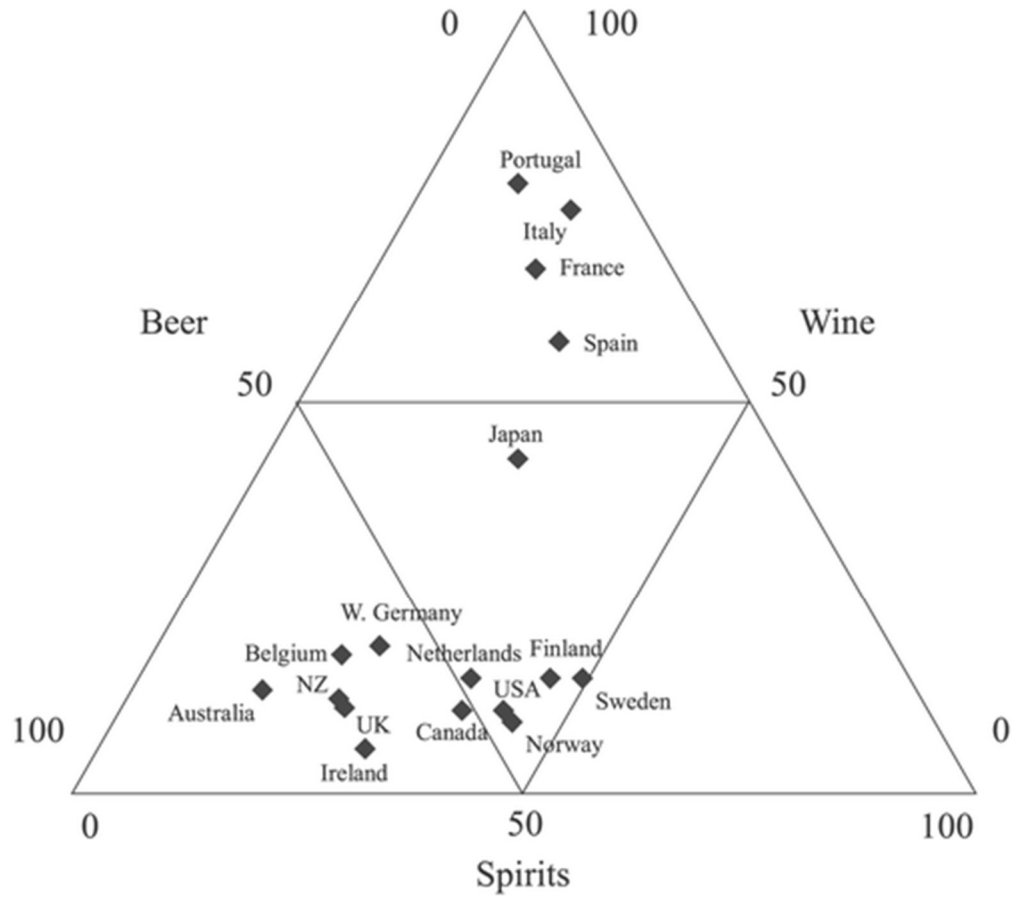
Source: Euromonitor 2017



Source: Euromonitor 2017

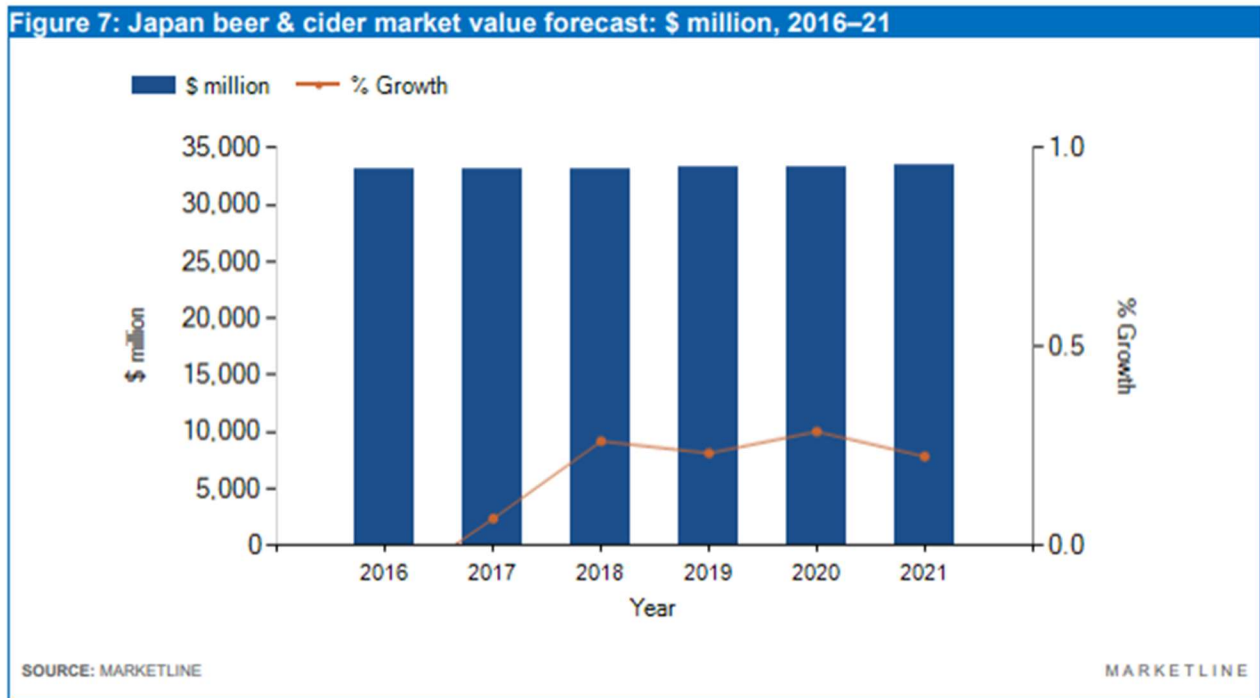


### Appendix B: Developing Country Alcoholic Beverage Perceptual Map



The figure above illustrates the alcohol preferences of 17 developed countries, including Japan. As illustrated, Japan has the most centralized preferences of the studied countries.

## Appendix C: Japan Beer & Cider Market Value Forecast



Source: *MarketLine Industry Profile* (2017): 15. Print.

## Appendix D: Email Exchange with Japanese Importer

Correspondence was begun with a gentleman named Aoki who owns a small business importing craft beer and cider from specifically Oregon here in the United States. He has a counterpart name Michael who is the exporter who is located in Portland, OR.

The team was able to meet with Michael to have a discussion about the nature of exporting to Japan and provide additional insight for research. Michael uses exporter insurance provided by the US federal government to insure the inventory he sends to Japan. This helps manage the risk of sending inventory to Aoki.

One of the most significant exchanges to result with Aoki specifically was this one about marketing strategy as an importer in Japan.

“Marketing strategies I have are 3 things:

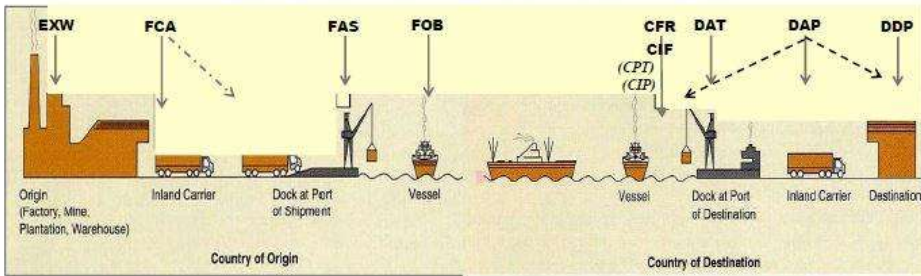
1. Keep introducing to beer bars and restaurants who buys our beer
2. Work with Cider master association who are supporting Cider industry in Japan. They are new but active. They have good access to wine drinkers market as well. I attend any event they have.
3. I have my bottle shop in Sapporo. I keep inviting people to drink cider there. I am not succeeding yet to sell [to] retailers. This is hard to do. Educat[ing] retailers will be next challenge, many of them do not understand difference between hard cider, European cider, Japanese cider and cheap cider. Only retailers they sell hard cider are same guys selling craft beer. There is no hard cider in general retail stores yet, two major companies in Japan are trying to sell hard cider. One is “Two Towns” distributor, I expect they [will] expand [the] market scene. They have good bargaining power. Another one is Kirin brewing company and selling their original Chinese apple concentrate used cider. Others, very few in retail market. Thank you for offering me to visit you. I love to do but I am not sure yet if I have time to visit. Please let me keep in touch and if we can meet, please let me visit you. I will be with Michael almost time of my visit. thank you very much. Cheers!! “

2/13/2018 Portland State University Mail - Portland State University & Exporting Cider from US to Japan

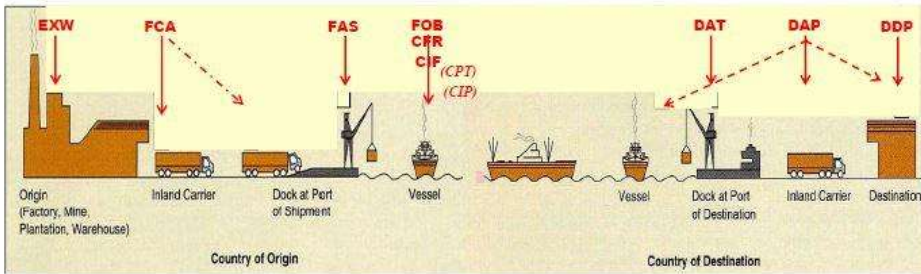
-Aoki (Farmer’s Imports [Japan])

Appendix E: Incoterms

Cost Transfer (Ocean Shipping)



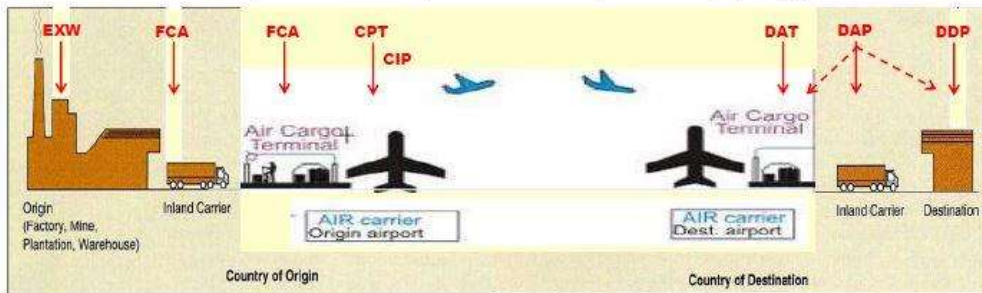
Risk/Ownership Transfer (Ocean Shipping)



Cost Transfer (Air Shipping)



Risk/Ownership Transfer (Air Shipping)



Source: Portland State University MKTG376 International Business Lecture w/ Lu Tseng

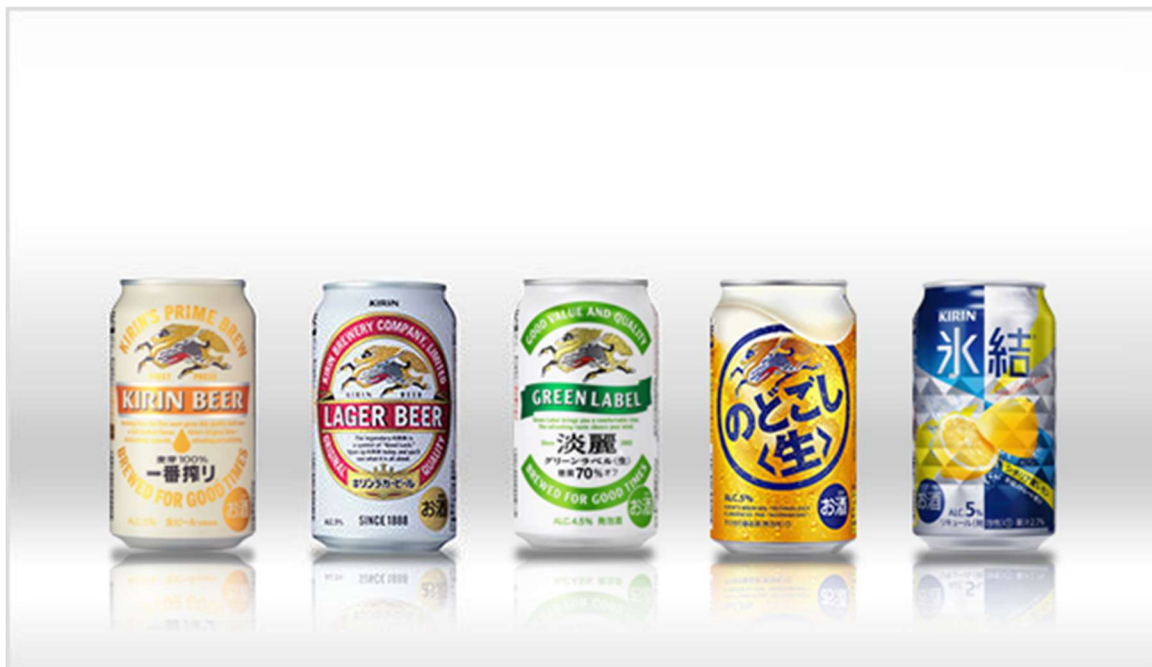
## Appendix F: Sapporo's Beer Selection



## Appendix G: Asahi's Beer Selection



## Appendix H: Kirin Beer Selection



## Appendix I: Suntory's Beer Selection





## Appendix J: Industry Audit and Competitive Market Analysis

Industry Audit and Competitive Market Analysis							
Criteria	weight	Risk		Probability		Cost to PCC	
		rating	weighted score	rating	weighted score	rating	weighted score
Product	15	10%	5	90%	12.5	25%	4.75
Industry and Market	25	15%	4.75	95%	22	25%	8.25
Geographical Regions	5	25%	2.25	50%	3	30%	2.5
Supply and Competition	20	30%	7	90%	17	50%	11
Characteristics and Practices of Upstream Suppliers to the Industry	10	5%	0.5	70%	6	50%	4
Demand and Customers	10	10%	2	70%	8	15%	1.5
Company Internal Assessment	5	5%	0.25	20%	2	10%	0.5
Competitive Analysis	5	1%	0.05	90%	6	1%	0.5
SWOT Analysis	5	5%	0.25	35%	2.75	5%	0.75
Totals	100		22.05		79.25		33.75

**Rating:** Excellent ««««(100%); Good ««««(75%); satisfactory ««« (50%); mediocre «« (25%); poor « (0%)