

How has Japanese-style Marketing been Applied and Modified in Thailand? The 50-year History of Kao in Thailand

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Abstract

This paper discusses how Japanese manufacturing companies approach the Thai market, recognize differences between the Thai and Japanese markets, and address the problems derived from these differences. To evaluate these issues, I consider the case of the Kao Corporation in Thailand since the 1950s, and compare it with other major toiletry and cosmetics companies in Thailand. The development of Kao is described, with an emphasis on its strengths in the domestic market. In addition, Kao's history of many trials and errors with marketing in Thailand is illustrated. Through these cases and discussions, this paper shows that Kao applied a marketing system developed in Japan, with some modifications, in Thailand. In Japan, Kao developed a sales company as a vertical distribution channel, with a strict inventory system, retail support, and product line diversification. In Thailand, Kao started selling the same brands as in Japan, but implemented some modifications in light of the lifestyles and tastes of the Thai people. In some cases, this was accompanied by the development of original products in the local laboratory. Kao sold products directly to retail stores through its own distribution company, following an approach similar to the Japanese sales company system. However, the strategy of selling products directly to retail stores required Kao to have wide-ranging product lines, but Kao's product lines in Thailand were limited compared to those in Japan. I identify this as the mismatch of product policy and channel policy. Through the case of Kao in Thailand, we can conduct an examination of Japanese marketing strategies in emerging markets through the identification of the strengths (advanced product functions, advanced inventory systems, support for retailers) and weaknesses (high cost institutions) of the Japanese marketing system. Further, we can identify the main reason of weakness as being a mismatch of product policy and channel policy.

Keywords: Manufacturer-oriented marketing, Thai distribution, Kao, Taishin

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1. Study background

The toiletries and cosmetics industries are now among the most developed sectors in Thailand. These industries have developed through the expansion of the Thai domestic market. The Thai beauty and personal care market almost reached an estimated 4,500 million dollars in 2012 (Euromonitor, 2013), representing the largest market in Southeast Asia. With regard to export value, exports of beauty products and cosmetics from Thailand, especially to Japan, have increased 20-fold from 1996 to 2012¹, driven by the strong demand of Japanese women for natural cosmetics.

Several Western and Japanese multinationals occupy a significant portion of this industry. Unilever (which was known as Lever Brothers prior to 1997), Colgate Palmolive, Unicharm, Lion, and the Kao Corporation are leading companies in the toiletries industry. Shiseido and Mandom are well-known players in cosmetics, and Proctor & Gamble (P&G), although a late-comer, is now an influential player in both toiletries and cosmetics. Domestic companies are also well developed. For example, Saha Phathanapibul², a core firm of the Saha Group, is a key partner to both Lion and Shiseido. Small and medium-sized local enterprises in the cosmetics industry

are also growing. Through the development of these industries, marketing seems to have become a more important factor in the development of the Thai economy. Until now, cooperation in production and technological aspects were regarded as the keys to Japanese-Thai business relations. In recent years, marketing skills from Japanese enterprises have been influential because these companies have transferred knowledge to not only their subsidiaries, but also joint-venture partners, retailers, and wholesale traders.

There are few previous studies on the subject of marketing by Japanese enterprises in Thailand. This is perhaps because Japanese technology and product quality are highly valued, but marketing has tended to be ignored or regarded as having low value. In their comparative study of international management at Kao, Unilever, and P&G, Bartlett and Ghoshal (2002) mentioned this problem. They said that Japanese companies do not have weak marketing capabilities themselves, but rather have some problems in adapting to local market conditions; among the main concerns is the centralized relationship between headquarters and subsidiaries. In recent years, the marketing strategies of Japanese enterprises in emerging markets have often been criticized as suffering from “Gala-

¹ Ministry of Commerce Thailand, *Foreign trade statistics of Thailand*.

² Thanawat, 2001: 120-129; Suehiro & Nanbara, 1991: 150-153.

pagos Syndrome” (Yoshikawa, 2010) wrong strategy for emerging markets (Shintaku & Amano, 2009), because of their excessively high quality and cost. This paper aims to track the historical processes of marketing, management, and competition at Kao Thailand and analyze the marketing approaches that have been and should be taken by Japanese enterprises in Thailand.

2. Rationale and objective

Beyond Bartlett and Ghoshal (2002), Jones (2010) is a reliable empirical study on the globalization of the international cosmetics and toiletries industries. However, their examination of the Thai market is quite limited within their broader exploration of international business. Endo (2013) conducted a detailed survey of the distribution channels of Unilever Thailand and Saha Pathanapibul in his broad work on the modernization of Thai distribution. Ihara (2009) is one of the few studies that examined the marketing of Japanese enterprises in Thailand, noting that Japanese companies have influenced Thai product development and distribution through marketing activities that emphasize high product quality and effective adaptation to the Thai market.

In light of the presented background information and prior studies, the following research questions are posed: Has the Japanese

marketing system brought highly priced products with too many functions, known as “Galapagos syndrome”? Is the Japanese-style approach to marketing applicable to the Thai market or does it require modifications? I have tentative views on this based on previous studies. Through the appearance of Japanese manufacturers, the manufacturer-oriented marketing strategies that characterize the Japanese distribution model have become more popular in Thailand. Consequently, Japanese companies have provided relatively high quality products to Thai consumers, but at high prices. I will examine how this approach was tailored to the growing urban middle class” and whether modifications were made to both fit local customers better and stimulate consumption among regional customers. If I can find evidence of these occurrences, Japanese companies might have positively affected the growth of the Thai cosmetics industry through business or trading partners.

There are various reasons to examine the case of Kao. First, Kao is one of the main players in the toiletry and cosmetics sectors, which are now among the leading economic sectors in Thailand, as mentioned above. Kao is the largest manufacturer in the Japanese toiletry industry and has become Japan’s second-largest cosmetics manufacturer following its 2006 acquisition of Kanebo Cosmetics, Inc. Second, Kao is one of the representative

corporations using a manufacturer-oriented vertical marketing system (Ryutsu Keiretsu)³ in Japan. More specifically, Kao's strong sales company (called Hansha), which serves as a wholesaler, has some characteristics typical of the vertical marketing system, an important topic to understand in relation to the Japanese distribution system (Sasaki, 2007; Sun, 1993). In Japan, attention has been devoted to the problem of whether Japanese distribution is still "peculiar" in comparison with that of other countries and regions. The case of Kao represents a good opportunity to consider this problem.

3. Methodology

This paper illustrates the 50-year history of Kao Thailand using the method of business history. The examined period ranges from 1957 to the present and analysis is conducted regarding how this corporation introduced the Japanese approach to marketing and how it was adapted to the Thai context. The Japanese style of marketing is characterized as employing a vertical distribution channel, making strict adjustments to demand and supply, and diversifying product lines (Ishii, 1994; Cho, 2010). Such characteristics have

been observed in various Japanese industries since World War II.

Kao Thailand published a book of its history covering 20 years in both Thai and Japanese, but it only reaches the mid-1980s. To supplement the lack of data after the 1980s, I collected company documents and journal and newspaper articles, as well as conducting interviews, both in Thailand and Japan. In the following section, after briefly summarizing Kao's history in Japan, I discuss the development process of Kao Thailand itself paying attention to Thai economy as business environment. I especially pay attention to two time periods, the sales depressions incited by the boycott of Japanese products in the first half of the 1970s and the Asian currency crisis in 1997. Then I focus on product line and development, sales channels, which are important aspects of marketing and main component of Japanese style of marketing. Finally, I explore Kao Thailand's development and influence on Thailand as a whole.

4. The history of Kao Thailand

Kao in Japan

The Kao Corporation⁴ originated as the Nagase Store, which was established in

³ Vertical marketing system is a pattern of distribution channel that strongly combines manufacturers, wholesalers, and retailers. This combination is made by not only capital integration but also semi-vertical integration, such as that involving joint ventures and retail groups. While such a combination is found in many countries, in Japan, the manufacturers typically lead the combination, which is considered Japan's specific point (Tamura, 1986; Sasaki, 2007).

⁴ During its history, Kao Corporation has been called the Nagase Store (1887-1940), Nihon Yuki (1940-1949), Kao Soap Company (1949-1986), and Kao Corporation (1986-present).

1887 by Tomiro Nagase as an importer of soaps, cosmetics, and other daily-use products. In 1890, Nagase began to manufacture and sell his first product, called “Kao Sekken” (Kao Soap), based on the management philosophy that “a clean nation prospers.” Following World War II, synthetic detergent replaced soap as the keystone product of the toiletry industry, and Kao reacted accordingly, thus gaining a significant portion of the toiletry market. First, Kao aggressively introduced Western management skills and technology in the 1950s, especially looking toward P&G as an example (Kudo & Ihara 2004). Yoshiro Maruta, who was the president of Kao from 1971 to 1990, further improved Kao’s position in the market by developing and executing a number of reforms. The first of these involved the establishment of a sales company⁵ to serve as an independent wholesaler for Kao products. By establishing a sales company, Kao gained the abilities to keep the retail prices of its products stable, implement speedy and accurate inventory controls, and collect information about consumer behavior. This sales company had some characteristics of a typical vertical marketing system, which is a key component of Japanese distribution⁶. The second management reform implemented by

Maruta involved the diversification of Kao’s products. To this end, Kao extended the range of products it offered to include cosmetics and other industrial goods (e.g., surfactants and toners). Product diversification and the establishment of the sales company were critical factors in promoting Kao’s competitive advantage in Japan.

Kao’s expansion beyond Japan began in the early 1930s, but was limited to regions in eastern and southeastern Asia (Ihara, 2009). However, after World War II, in 1957, Kao began exporting Feather Shampoo to Thailand, Singapore, and Hong Kong, establishing strong reputations in each of these regions⁷. Kao further expanded its activities to Europe and North America in the 1980s, especially through the purchase of the Andrew Jergens Company (presently Kao Brands Company) in 1988 and the 1989 acquisition of a 75 percent stake in Goldwell (presently Kao Professional Salon Services (KPSS) GmbH). Kao also established Shanghai Kao, its first Chinese subsidiary, in 1994. The 1990s brought consistent growth to Kao’s overseas sales. In the 1995 fiscal year, Kao’s profits from overseas sales began to climb steadily, and by the 2007 fiscal year, overseas turnover accounted for nearly 30 percent of the firm’s consolidated sales.

⁵ For more detail on sales companies, see Kao, 1993: (61–38); Sasaki, 2007; and Sun, 1993.

⁶ The Japanese distribution system has been characterized by “smallness of scale, combined with a large-number of retailers, the existence of multi-step wholesalers, and manufacture-oriented distribution channels” (Tamura, 1986).

⁷ Mizuo (2010) claimed that Feather Shampoo is an early example of a case in which a Japanese enterprise successfully served common people in Asia.

Feather Shampoo in Thailand

In April 1957, Kao began exporting its powder Feather Shampoo to Thailand. Because it had almost no experience in overseas exportation at the time, Kao chose to use export agents by introducing trading agents to its chemical and purchasing departments⁸. In Thailand, Taishin Industrial Co. Ltd., which imported miscellaneous goods from Japan, became an export agent for Kao. Taishin was established in March 1951 by Suvit Praisankul, a Taiwanese entrepreneur born in 1921. Suvit came to Thailand in 1943 as a commercial trainee for the prewar Taiwanese government⁹ and remained there following World War II. After temporarily working under the local agent of the Mitsubishi Trading Company in Thailand, Suvit established Taishin based on the expectation that the August 1948 Japanese-Thai agreement to resume trade would strengthen economic relations between these two countries. This expectation materialized when diplomatic relations between Japan and Thailand were re-established in 1952.

In 1956, Suvit became familiar with the Hiruko trading company in Hong Kong, where he had gone to search for something new for the Bangkok sales exhibition. Because shampoo had not been pervasively adopted in Thailand to that point with the exception

of some soap-type shampoos imported from Europe, Kao's shampoo product seemed to be relatively new. Given that it was a neutral detergent that caused less damage to hair than other cleansing agents, Feather Shampoo was considered to be of superior quality. Additionally, and in contrast to other hair cleansing products available at the time, Feather Shampoo was sold in relatively small quantities (3 grams), making it convenient for Thai consumers who shampooed their hair infrequently.

In June of 1959 Suvit began selling Feather Shampoo in Thailand using Hiruko as a sales agency. Feather Shampoo was priced at one Baht per pair of bags, which was comparable to the prices charged by its primary competitors. Despite the strategic utility of this pricing strategy, it was difficult to implement because the tariff rate for shampoo had recently risen by 50 per cent. Luckily for Suvit, Feather Shampoo was quite popular following its introduction, exceeding the sales of products from Colgate-Palmolive and Lever Brothers.

The establishment of Kao Thailand

One key factor associated with Kao's decision to engage in local production was the increase in the tariff rate, which was

⁸ Heigoro Izumi, "Shoki no Thai Kao (Kao Thailand in the Early Days)", Interview conducted for *100-Year History of Kao Corporation*, June 20, 1984.

⁹ Kao Corporation (1986 : 6)

implemented by Sarit Thanarat as one of import-substituting industrialization policy. In response to the increased tariff¹⁰, Kao ended its contract leasing packaging equipment to Taishin in 1959 and commenced local production of packaging. After 1963, Kao's production capacity could not keep pace with demand for Feather Shampoo. As a result, in 1964, Kao established a joint venture with Taishin called Kao Thailand.

Kao and Taishin agreed that the directorial ratio should be defined as a function of each company's capital share, and that Taishin should select Kao Thailand's president. Kao offered Taishin production technology and business expertise, and, in return, Taishin agreed to decline royalties for brand name or licensing fees. The factory began operating in December of 1965 and was located in Phra Pradaeng, in the Samut Prakan Province, which was home to several Japanese production facilities for automobiles, electronics, motorcycles, and food. At that facility, Kao Thailand introduced a comprehensive process of local shampoo production comprising every step, from the sulfation of raw materials to packing, until 1970. Feather Shampoo, which was the primary catalyst for Kao's entry into

the Thai market, has subsequently become a key brand for Kao Thailand.

Adoption of the "Mini-Kao" strategy

From the 1970s to the 1980s, the Thai toiletry market was occupied by four companies (Lever Brothers, Colgate, Lion, and Kao). Kao was among the first Japanese companies to begin local production, along with Lion. In response to Feather Shampoo's success in the Thai market, Lion Corporation also began exporting shampoo through a technical guidance agreement with Saha Pathanapibul for the manufacturing of Pink Shampoo in 1958¹¹. In 1966, Lion established Lion Dentifice (Thailand) Co., Ltd., through a 50-50 joint investment with Saha Pathanapibul¹². In the 1950s, the Saha Group began to manufacture products through joint ventures with Japanese companies (e.g., Mama brand instant noodles with Nissin Foods)¹³. Even when Lever Brothers spun off its food division, it continued to be the largest company in the industry in Thailand. It was severe days for Japanese companies from 1972 to 1974, because of anti-Japanese products champagne, which was triggered by the visit of prime minister of those days, Kakuei Tanaka.

¹⁰ Bangkok Japanese Chamber of Commerce (1971), Shinsyuttsu Kigyou Shoukai Sono 27 Kao Industrial (Thailand) Co., Ltd. (Introduction of Companies Entering in Thailand, No. 27, Kao Industrial (Thailand) Co., Ltd.. Shoho (Monthly Report), No. 125, p. 53.

¹¹ Lion Dentifice (1973 : 359).

¹² In Japan, Lion Dentifice and Lion Fat and Oil merged and became the Lion Corporation in 1980.

¹³ Suehiro & Nanbara (1991 : 150 - 153).

Starting in the second half of the 1980s, Thailand experienced an economic boom that was accompanied by a rapid increase in consumption (Pasuk & Baker, 2009). The driving force behind this consumption boom was the Bangkok metropolitan area, which had the highest incomes and largest population in the country. Soon, however, a ripple effect from the growth of industry and commerce spread to the provinces. This boom in consumption also led to strong growth in Thailand's domestic toiletries industry, and competition among companies intensified. What changed the previous competitive environment, which was dominated by four companies, was P&G's re-entry into the Thai market in 1988. At the end of the 1980s, P&G stepped up its investment in Asia, emphasizing operations in parts of Asia other than the Philippines and Japan, which it had previously focused on. It prioritized products requiring low capital investments, such as shampoo and cosmetics rather than detergents, and in just eight years reached annual sales of five billion Baht¹⁴.

Given these developments, Kao Thailand made investments to launch new products such as New Feather Shampoo and Attack, a concentrated detergent, and worked to develop a direct sales network. It adopted a "Mini-Kao" approach based on a diverse product range, and settled on moderate added

value product/sales strategy, as shown below. However, it was not easy to maintain a level of performance on a par with that of Lion (Thailand), which itself did not perform as well as Unilever in the 1990s.

Dissolution of the partnership with Taishin and a new beginning

Between 1997 and 1998, the Asian currency crisis caused both the Thai economy and Kao Thailand to undergo substantial changes. The first of these was the dissolution of the company's relationship with its joint-venture partner. For Kao, Taishin was not only a distribution partner, but was also useful for gathering various types of information related to Thailand and forging personal connections with politicians. Nevertheless, Kao Thailand determined that for the purposes of growing the company, there were no longer any advantages of maintaining the partnership with Taishin. As a result, in 1998, Kao Thailand became a wholly owned subsidiary of Kao. In addition, the company's human resources became localized as capable young Thai employees who had joined the company in the 1980s were promoted, many to vice president positions.

As the economy floundered following the Asian currency crisis, Kao headquarters increasingly felt a sense of crisis concerning its Asian household products business, and

¹⁴ *Bangkok Post*, March 18, 1996.

began a massive overhaul of all aspects of the business, including product line-up, production, distribution, and management. Entering the 2000s, Kao headquarters centralized the administration of its operations in Asia, including Thailand, and positioned Thailand as a hub. In April 2001, Kao Consumer Products (ASEAN) Co., Ltd., was established in Bangkok to oversee product line-up, production, distribution, and management across Asia. As will be described in the next section, Kao Thailand made changes such as focusing on differentiated brands, implementing a “down-grade” strategy, receiving more support from headquarters, and standardizing sales. Back on a growth trajectory, in 2005 the company began operating a new plant, which was three times larger than the old plant, at the Amata Nakorn Industrial Estate, and expanded production in Thailand not only of detergent, shampoo, skincare products, and feminine hygiene products, but also of surfactants and chemicals.

Gradual localization

Kao Thailand slowly localized its operations; it can be said that middle managers were localized there. In 1995, for example, four out of the seven departments in its production division were run by Thai managers.

Later, a Thai national became the manager of the remaining engineering department, which was a key production division. In 1995, 20 out of 23 staff members at its research and development center were Thai nationals.

It seems that Kao Thailand has very gradually developed Thai managers. When it was a joint venture, the seven directors included four Japanese nationals and three close relatives of the founder. Since the dissolution of the joint venture, all the directors have been Japanese. No Thai employees from inside the company have been promoted to the director level. Compared with United States (US) companies, Kao has moved more slowly in handing over responsibility to Thai people. P&G, for example, has focused on education and training, bringing Thai managers to its headquarters in the US each year to participate in training programs for new employees and using summer programs to hire personnel, among other initiatives¹⁵. As a result, by 1996, half of its executives were Thai, even though the company had only been established in 1988. The lack of senior management posts for Thais led middle managers at Kao Thailand to leave the company. Two to three percent of all employees left the company each year; although this appears to be a small number¹⁶ at first glance, numerous employees

¹⁵ *Bangkok Post*, July 24, 1996.

¹⁶ Out of approximately 800 employees, 20 or fewer left the company each year between 1991 and 1995. Most of these were office workers, with only a few engineers or factory workers leaving the company each year (gleaned as an answer to a question asked by the author).

who worked at the company for many years and had expected to become senior managers left the company. In the words of a Japanese manager, the problem was that “the more capable the employee, the more likely he or she was of leaving.”

Diversification of product line and new product development

(1) Product line diversification

As previously mentioned, Kao developed a sales company and diversified its product line as the two cornerstones of its business in Japan¹⁷. The company attempted to replicate these strategies in Thailand by implementing a direct-sales system similar to the sales company as well as diversifying its product line. Although the implementation of direct sales was possible, product diversification was a relatively difficult endeavor for Kao in Thailand.

From the 1970s to the 1980s, Kao Thailand did not reinforce its activities in the laundry detergent business, but instead diversified its product line to include sanitary goods, bleach, liquid detergent for tableware, and mosquito coils (Bangkok Japanese Chamber of Commerce, 1995). Initially, sanitary goods were the most successful of these products because the number of young people (who are heavy users of sanitary goods) had been steadily increasing in Thailand at that time.

Kao’s bleach product was also successful because wearing white clothing is popular in Thailand. Both sanitary goods and bleach contributed to the successful diversification of Kao’s product line. Despite the introduction of the products mentioned above and unlike Kao in Japan, Kao Thailand did not develop disposable diapers, thus allowing a rival company, Unicharm, to secure a greater part of this market.

(2) Overhauling the product line-up and focusing on core brands

After the Asian crisis, Kao overhauled its product line-up and decided to select and focus on core brands for concentrated investment, allocating resources to them (Kao Corporation 2012). Bioré, Attack, and Laurier, in particular, became the targets of concentrated investments in resources because they succeeded in differentiating themselves among Kao’s brands within Asia. Bioré, which had once only sold a facial foam, went on to sell almost its full product range in the skin care category. For example, Bioré pore packs, which had proved successful in Japan and the US, were launched in Thailand in 1997. Products offering new functions, such as make-up removers and sunscreens, also went on sale. Bioré survived a harsher competitive environment in 1998 and 1999 when rival companies introduced the competing brands C&C and

¹⁷ Kao (1993 : 389 - 390).

Olay. Laurier continued to hold the greatest share of the feminine hygiene product market in Thailand because it was popular with users demanding reasonably priced products: It offered a higher level of quality for its price, compared with competing products from P&G (Whisper) and Unicharm (Sofy).

The company had difficulties developing a core hair care brand. Sifone was a popular brand in the early 1990s because it met demand for two-in-one products and its advertisements featured a popular Taiwanese actress. At the end of the 1990s, however, its market share was clearly on a downward trend. The Lavenus brand, which was expected to replace it, went on sale in Thailand in 1998, and, following a massive promotional campaign that cost 400 million Baht, temporarily captured an 11.8 percent share of the shampoo market before growth eventually stalled. Asience, which was launched in 2008, was Kao's first product that clearly targeted high-income earners in Asia. Asience, which was based on damage-care technology that Kao had developed over many years, was marketed as a revolutionary product that was compatible with the black hair of East Asian people. A problem, however, was that unless Thai women understood the damage-care technology, the product would be offering "over-performance" (i.e., doing more than required), so the company had to employ

various ideas in its advertising and promotion to get consumers to comprehend the concept of damage care.

(3) New Feather shampoo

Starting around 1970, the market share of Feather Shampoo began declining, falling to approximately eight percent in 1974¹⁸. One of the reasons for this was that sales of the liquid version of Feather Shampoo, which was launched in the early 1970s, failed to grow as expected in provincial markets and cannibalized demand for traditional powdered shampoo. A campaign to persuade Thai people not to buy Japanese products, which ran between 1972 and 1974, also dealt a heavy blow. Moreover, when the business tax on shampoo was raised from 7.7 percent to 22 percent in 1975, Kao Thailand slipped back into the red.

In that year, Kao Thailand conducted a market survey for the first time and found that Thai people tended to favor pink over the green coloring that was added to Feather Shampoo to prevent it from changing color. Another finding was that shampoo was normally kept in the shade and was therefore unlikely to change color. In addition, because Thai people tended to have short hair, the amount of shampoo contained in each sachet could be reduced from 10 cc to 8.5 cc. These discoveries were reflected in product improvements.

¹⁸ Kao (1986 : 71).

However, throughout the 1970s and 1980s, Feather Shampoo gradually lost market share to competitors, falling to three percent by the end of the 1980s.

In 1993, Kao introduced a new product to the market called New Feather Shampoo, which was developed in coordination with a Thai research institute. The first head of the institute, who had extensive experience in product development in Japan, performed several experiments to maximize the effectiveness of the new shampoo product. He changed the composition of the ingredients so that cold water would be sufficient for the shampoo to be effective, allowing the shampoo to foam immediately. Further, he incorporated scents into the shampoo that had a powerful lingering fragrance, which was suitable for Thai consumers who did not shampoo their hair daily. In addition to the research performed on the product itself, a market research analysis of price consciousness revealed that special discount prices had the opposite effect of what was intended. Therefore, to increase Thai consumers' purchase intentions, the price was set at a conventional level of 10 Baht, and the quantity of each package was doubled from the conventional 50 cc to 100 cc. Television advertisements promoted brand familiarity by having Thai children repeat the brand name and the product price. Due to

its association with a newly founded research institute and the success of the advertising campaign, New Feather Shampoo was a hit in the Thai market¹⁹. Feather Shampoo's market share, which had temporarily fallen to three percent, rose to eight percent as a result of these strategies.

(4) Development of concentrated detergent

Kao Thailand struggled in the laundry detergent business in the 1960s and 1970s. Kao Thailand's Asachan brand accounted for less than four percent of the Thai detergent market in 1973, while Colgate's Fab and Lever Brothers' Breeze achieved 25 percent and 30 percent market shares, respectively²⁰. The reason for Kao Thailand's failure in the detergent industry was not the quality of the product itself. In this case, quality refers to the degree to which the detergent whitened clothes or maintained the softness of consumers' hands. Instead, it was determined that Asachan was more prone to "foaming." Foaming is a critical factor for laundry detergent because most Thai customers washed their clothes by hand, soaking them in water for about an hour, without the use of a washing machine.

This fact forced Kao to change its understanding of quality in Thai markets. However, Kao seemed to address this problem through the application of the Japanese standard

¹⁹ *Nikkei Business*, January 2, 1995, pp. 34-37.

²⁰ Kao Corporation (1986 : 67).

of quality, at least in 1990s. Attack is a Japanese concentrated (high-density) type of detergent, and was known in Japan as an epoch-making hit product after it went on the market in 1987²¹. However, it was thought to be difficult to increase the market for concentrated detergent in Thailand (Moriya, 1992). The main reason for this was that few households (just over eight percent) owned electric washing machines at the end of the 1980s.

In these circumstances, Kao focused its efforts on concentrated detergent and started producing Attack in 1990²². To attract people's attention, Kao launched a huge television advertising campaign, as well as radio and billboard advertisements. It was difficult to communicate the advantages of concentrated detergents to Thai consumers, so the campaign, whose message was that a single spoonful could wash a large amount of laundry and make it whiter and cleaner than conventional detergents, enabled Kao to emphasize the concept and potency of Attack. Attack's advertising budget reached 55.8 million baht, which was unprecedented at Kao Thailand and approached the advertising budget (70 million baht) of Lever Brothers'

Breeze Excel²³. The appearance of compact-sized detergents, which had hitherto been unavailable in Thailand, attracted a lot of interest from Thai consumers.

Next, a product featuring disposable sachets containing enough detergent for one load of laundry was launched as an alternative to regular boxes of detergent. This allowed Attack to achieve a certain level of penetration not only in the Bangkok area but also in regions where most households still washed clothes by hand. As a result, Attack accounted for a quarter of Kao Thailand's sales by 1991. In 1993, it held approximately 20 percent of the entire Thai detergent market (worth around 6.9 billion baht)²⁴, which includes conventional and compact types of detergents, as well as 35 percent of the concentrated detergent market, representing the highest share²⁵.

However, certain circumstances made the sale of concentrated detergent in Thailand more difficult. The spread of electric washing machines in rural areas was slower than predicted. As a result, conventional detergent still represented 65 percent of the total detergent sold in Thailand, with only 35 percent being concentrated²⁶. In addition, due to the

²¹ Not only was the volume of the Attack concentrated detergent one-quarter that of conventional detergents, it offered far better detergency than conventional detergents by including alkaline cellulose, which allowed stains to be removed from the inside the non-bound parts of fabrics.

²² *Kagaku Kogyo Nippo*, January 10, 1990.

²³ *Bangkok Post*, August 24, 1996.

²⁴ *Nikkei Sangyo Shinbun*, September 21, 1994.

²⁵ *Bangkok Post*, September 24, 1996.

²⁶ Bangkok Japanese Chamber of Commerce (1995 : 128).

strong depression in the Thai economy, the market for conventional detergent kept increasing. While the market for concentrated detergent grew by 105 percent in the decade after its introduction in Thailand, the market for conventional detergent grew by 107 percent during the same time period. Finally, Kao Thailand recognized the difficulties of selling only concentrated detergent. In 1997, Kao Thailand released Big, a conventional detergent. Although Kao did not promote Big to the same extent as it promoted Attack, Big accounted for 40 percent of Kao Thailand's detergent sales in 2001²⁷.

(5) Development of a new type of conventional detergent

Attack Easy is a product that meets the firmly rooted need for conventional detergent in Southeast Asia yet adds new value²⁸. There remain strong needs for conventional detergent in the Thai market. Since the Asian currency crisis, which caused economic depression, about 60 percent of customers have been using conventional detergent because of its low price (Figure 1). While other competitors had strong brands in this sector, Kao did not have a fixed position in the price brand. At the end of 2002, Fabric and Home Products Division marketers, the Household

Research Center, and the Production Process Research Center put together a full-time project team, began development, and conducted a survey of consumer needs through interviews with Thai consumers in their homes. Thai people wash laundry by sitting down or squatting and scrubbing the laundry by hand in a bowl filled with water. Although doing laundry is hard work, it is a daily activity that is essential in caring for one's family. This observation led the team to create the concept of "making rubbing easier work" and including a moisturizing ingredient in the formula. Rather than procuring this ingredient, which was an expensive, rare substance, externally, the Production Process Research Center developed a new polymer with the same properties. In Thailand, the key advertising theme was "Ten Hands," which was reminiscent of a goddess, and advertisements emphasized how easy it was to do laundry with the product, which went on sale in January 2006. Attack Easy proved to be highly successful, capturing a large share of the market on its own; in addition, coupled with the concentrated version, Attack, became one of Thai's leading clothing detergent brands.

In December 2007, Attack Easy also went on sale in Indonesia, where it was adapt-

²⁷ This information was based on the interview data from December 16, 2002 in Thailand. See Ihara, 2009. Although the production of Big was stopped, Attack Easy, which was meant to be used for hand washing of clothes, was promoted and sold in Thailand and Indonesia in 2006.

²⁸ For a detailed description of the development of Attack Easy, see Kao, 2012.

ed to reflect slight differences in consumption habits. In Indonesia, people wash laundry by rubbing it and slapping it against a board, so foaming is considered more important. As a result, a basic formula that produces a lot of foam was created. Indonesia is a huge market for general-purpose products, and the reaction to Attack Easy there has been spectacular. It

is therefore hoped that Attack will emerge as a brand that can compete with the market leader, Rinso. Attack Easy, which evolved from the concentrated version of Attack, is aimed at the Thai and Indonesian markets, which are large markets for general-purpose products, and could represent a turning point for Kao's growth in Asia.

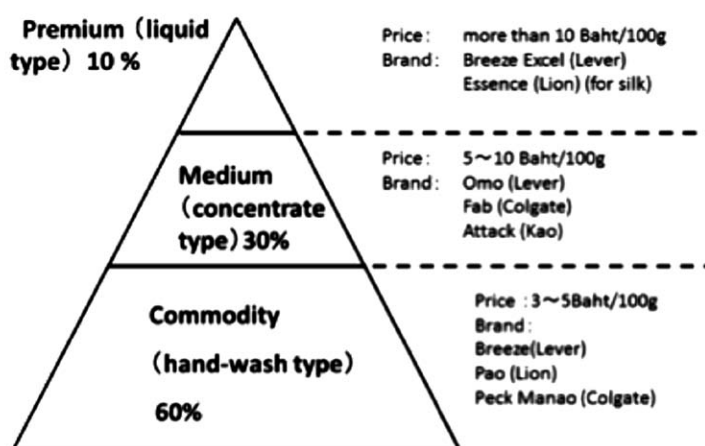


Figure 1 Thai laundry detergent market in the beginning of 2000s

Source: Field research by the author in 2002 (see Ihara 2009).

Sales channel

(1) Construction of direct-sales channels

Originally, Kao Thailand relied on sales agencies employed by Taishin as its sales channels. Taishin played a significant role in initial sales activities during the 1950 and 1960s. Because television had not been fully developed as a conduit for advertising at that point, Suvit effectively marketed Kao Thailand's products through samples and

advertising campaigns based on picture-card shows. Given its popularity, Feather Shampoo established a widespread reputation that "shampoo is Feather" among Thai consumers.

As Kao Thailand grew, the firm ended its relationships with Taishin and agencies because agencies had weak distribution channels in rural areas. The differences between the Taishin sales force and those of competitors were evident. For example, whereas Taishin

employed only three salespeople for shampoo wholesalers, Lever Brothers' Omo employed 60. Kao Thailand required Taishin to cut the number of account of wholesalers from 2,000 shops to 344. The cut shops were then put in direct contact with Kao Thailand. This meant that Taishin would have lost a significant portion of its Kao sales. Instead of accepting this option, Taishin was instead required to sell Kao products using the Tancho (currently Mandom) trademark, which was another primary dealer of Taishin products. Kao accepted this proposal and allowed its Feather Shampoo brand to be sold as Tancho Shampoo starting in 1972²⁹. Despite the steps taken to facilitate Taishin's sales, Tancho Shampoo disappeared from the market two years after its introduction, and all relations between Kao and Taishin were dissolved.

After the establishment of Kao Commercial (Thailand) Co., Ltd., which separated the Kao Thailand's sales and marketing departments in 1975³⁰, Kao Thailand began placing a greater emphasis on direct sales to retailers. Kao Thailand's original direct sales method was called the "cash sales van" and differed from method Kao had implemented in Japan. In this method, salespeople navigated their territories in vans loaded with goods and sold them to retail stores for cash. This system had the advantages of eliminating the

need to collect payments and serving as an inherent means for advertising. Despite these advantages, a precise list of retail stores that carried Kao Thailand's products could not be created under this system, and transaction prices varied by area.

To cope with these problems, Kao Thailand adopted a new sales system in the early 1990s. At that time, Kao Thailand established 18 sales offices that sold Kao products exclusively throughout Thailand (see Figure 2). Sales offices were formally belonged to Kao commercial, which was the joint venture established by Taishin and Kao. Products are mainly sold directly from sales offices to large chain stores, while a part of them are sold through traditional wholesalers. Each sales office featured a manager, five to six salespeople, one to two accountants, one to two distribution staff, a few drivers and mates, and five to six sales promotion staff; large sales offices were therefore staffed by a total of 20–40 people. The manager was responsible for evaluating and training the staff, while the general sales manager at headquarters was responsible for determining commissions and allowances. As part of this new approach, Kao introduced a full-scale manual called the "call book" to educate local staff on how to negotiate with retail stores³¹.

²⁹ Kao (1986 : 58 - 59).

³⁰ The reason for the establishment of Kao Commercial (Thailand) was the 1972 Alien Business Law, which forbade foreign investment in wholesalers except when they were local majority-owned.

³¹ Kao (1986 : 83).

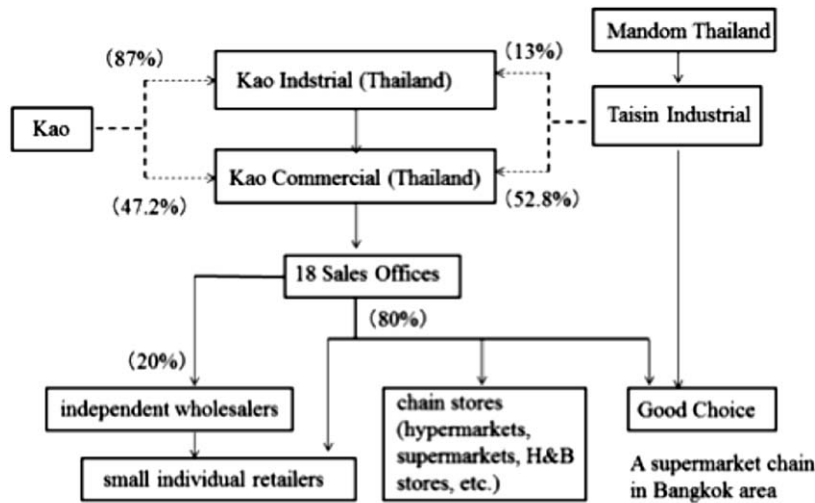


Figure 2 Kao Thailand's capital structure and sales channels in 1996

Sources: *Bangkok Post*, August 20, 1996; *20-Year History of Kao Thailand*; author's interviews.

In this way, Kao Thailand fundamentally changed its sales system from one in which salespeople traveled to retail stores to one in which salespeople placed orders for out-of-stock goods on a credit system and delivered goods separately. As a result of these changes, the inventory management abilities of salespeople as well as the support provided to small retailers were strengthened. Furthermore, by having a fixed list of retail stores, it became possible for Kao to transition from cash transactions to a system in which consumers were given two weeks to settle payments. The goods produced at the central factory were delivered to three warehouses near Bangkok and were then transported to branches around Thailand. From there, the goods were sold to local retail stores, and

in some remote regions, to wholesale stores. As a result of this system, product delivery times were shortened from five or six days to 48 hours.

(2) Drastic changes in Thai retail and the strengthening of support to retailers

Soon after the restructuring of Kao Thailand's direct sales, extensive changes were made to Thailand's overall distribution structure (Endo, 2013). Until the mid-1980s, the Thai distribution system was very limited. Prior to that, the only large retailers in the country were department stores. However, the Thai retail industry has rapidly developed since the economic boom of the mid-1980s, allowing for modern foreign retailers to enter the Thai market. One of the reasons that Kao

advanced united management of Asia has huge change of retailing in Asia. Most of Kao Thailand's direct sales channels were large-scale global chain distributors that accounted for around 40 percent of Kao Thailand's sales by 2000. Since the distributors themselves had been developing efficient logistics systems in which they served as distribution centers, it became necessary for Kao Thailand to re-conceptualize its distribution system to account for the changes implemented by global retailers.

Despite the emergence of modern retailers, Kao maintained advantages in its direct sales³². The first of these is the rapid distribution of new products. If products go through wholesalers, it takes almost one month for them to reach stores following initial shipment, whereas through direct sales, this process takes only two to three weeks. Western competitors also operate through vertical marketing structures, so when launching a television advertising campaign for a new product, a delay in the initial broadcasting of commercials can lead to big losses. Second, market information can be obtained rapidly. The company can quickly identify which products are selling well, and if production needs to be increased, it can swiftly invest capital in equipment. Third, the accumulation

of inventory can be prevented. In the new direct sales system, salespeople visit each retailer, record the sales of products, and replenish the inventories of products that have been sold. Kao in Japan had a great amount of know-how related to this process, which is referred to as "retail support" and can make distribution more efficient through the use of information technology and determine how products should be displayed in storefronts. Through this method, the accumulation of inventory can be prevented and products are always available to customers for purchase.

It is thought that direct sales should continue to make up the bulk of sales. However, to cope with the globalization of retailers, a standardization program similar to ECR³³ should be introduced and the kind of human resources who can make products sell out should be developed. Based on these ideas, Kao headquarters and the Kao Sales Company (now known as Kao Customer Marketing) began working together to provide full-fledged sales support for Thailand in 2004. The support program was named "Commercial Excellence," and aimed to rebuild sales activities. It involved the standardization of sales methods, the adoption of the "Kao Way" philosophy, and the deployment of Kao sales know-how. This program was significant in

³² Interview by the author on November 23, 1995.

³³ The ECR (Efficient Consumer Response) movement, began in the mid-90s in Advanced Countries, was characterized by the collaborative management along the supply chain for serving consumers better, faster and at less cost by working together with trading partners.

that it marked the first time in the history of Kao's Asian operations that Japanese sales companies had provided full-fledged sales support to Asia. Key components of sales support activities were business follow-up, human resource management, the organizational development system, and the shelving allocation proposal system, among others, which were completed under the Asian Business Synchronization (ABS) project that ran until 2005 (Kao 2012). From 2006 onwards, the tools developed under ABS were put to use in activities that were directly tailored to each sales channel, while taking the distribution practices of each Asian country into account. For example, business plans were offered to customers, meetings between senior executives were held, collaborations were forged with retailers, and market research meetings were organized during which Japanese sales personnel visited stores with local sales staff. In fiscal year 2006, proposals were made to 120 chains across Asia. These chains were diverse, including global retailers from the West, Japan, and Hong Kong, as well as large local chains and small retailers, and the project demonstrated that Kao's traditional strength, its ability to make proposals to stores, could also be applied in Asia.

As a result of these activities, in 2009 Kao Thailand's sales to hypermarkets, health and beauty companies (HBCs), and convenience stores grew faster than the total sales of these companies did. Sales of Kao products,

particularly the Asience, Essential, and Bioré UV brands, in Thai branches of Watson's, a large Asian HBC, were especially impressive, increasing by 2.15 times between 2007 and 2009. The benefits of the transfer of Kao's sales know-how were therefore demonstrated through the increased sales of large chain stores. The transfer of Kao's sales know-how had finally produced real results.

5. Discussion

This paper illustrated the process through which Kao Thailand developed. I will now analyze and present the characteristics of Kao's marketing history and evaluate it in a broader context. To begin with, I determine which types of Japanese marketing knowledge were transferred to Kao Thailand and explain the reasons that the systems implemented in Thailand differed from those incorporated into the Japanese model. Kao employed the mini-Kao product strategy, direct sales channels, and thorough distribution management. The direct sales approach differed from the sales company system employed by Kao in Japan, although both approaches shared the goal of increasing efficiency in distribution management. These typical strategies or mini-Kao, direct sales channels, and efficient distribution management, appeared in the 1980s and 1990s. In the 2000s, Kao implemented some minor adjustments, such as a focus on a limited range of core brands, and reappraised its partnerships with distributors. Kao mainly

launched the same brands as it sold in Japan, but they were adjusted to fit the lifestyles of Thai people and efforts were often made in local product development. The reasons for these differences between Japan and Thailand were related to differences in lifestyle as well as the distribution and competitive environments. Thailand differed from Japan in that distributors, especially nation-wide wholesalers, were undeveloped³⁴, the competitive environment was more severe and uncertain, and people had extremely different lifestyles. Kao has tried to import Japanese technology and know-how and adapt it to different circumstances.

In summary, Kao brought its advanced technology and marketing skills, with some adjustments, to the Thai market. The use of these approaches by Kao is unique among its rival companies. Unilever made use of its advantages, particularly its large scale and cost leadership, in the Thai market. Lion was more moderate in bringing high-functioning Japanese products and placed greater emphasis on modification. Kao did not have the same large scale as Unilever and is not the type of company that delegates many responsibilities

to local partners. Kao was characterized by the application of Japanese methods and their adaptation to Thailand. Borrowing the term of Abo (2007), this can be referred to as “Revised Application,”³⁵ which is one of the effective international management solutions used by Japanese corporations.

These methods employed by Kao Thailand -- differentiation and adaptation -- were evaluated as follows. First, Kao often introduced brand new products with high functionality, changing the Thai market. Good examples of this were Feather Shampoo, concentrated Attack, and Bioré. Second, Kao’s development of original products was sometimes carried out in Thailand, resulting in the creation of products with greater potential sales, thus exposing the company to a wider range of Thai customers. Attack Easy was a good example of this. Third, some products, specifically shampoo and diapers, failed to achieve differentiation, indicating the limits of the full-line policy. This caused the direct sales system to become costly, because, as in the case of the sales company system in Japan, the direct sales system produces the strongest effects if the manufacturer imple-

³⁴ Endo implemented the detail field survey to Thai wholesalers in his broad research on Thai distribution. He pointed that wholesalers, at least leading provincial wholesalers still play important roles in the marketing channel of manufacturers (Endo, 2013 : 156-168).

³⁵ Abo (2007) categorized the overseas management systems of Japanese companies into different types, of which Revised Application is a type that applies the Japanese management system to the foreign market and modifies it to fit into the local circumstances. Although his interest was in labor and production management, it is thought to be applicable to marketing (Ihara, 2009).

ments a full-line policy. It seemed that there were mismatch of strategy between product policy and channel policy. These activities influenced economic outcomes in Thailand. As shown in Table 1, Kao is more profitable than Lion, but performs at a lower level than Lever Brothers in terms of both scale and

profitability. The performance of Kao seems to recover after 2000 as a result of focusing on core brands in the Thai market. In short, Kao has begun to reap the benefits of its efforts, but these are still low relative to those of its Western rivals.

Table 1
Economic outcomes of major toiletry companies in Thailand

Year	(Million Baht)														
	Lever Brothers			Colgate-Palmolive			Lion Corporation			Kao Industrial			Proctor & Gamble		
	Net Profitability		ty (B/A)	Net Profitability		ty (B/A)	Net Profitability		ty (B/A)	Net Profitability		ty (B/A)	Net Profitability		ty (B/A)
	Sales (A)	Profit (B)		Sales (A)	Profit (B)		Sales (A)	Profit (B)		Sales (A)	Profit (B)		Sales (A)	Profit (B)	
1980	1,614	78	4.8%	1,012	46	4.6%	573	2	0.4%	226					
1985	2,412	311	12.9%	1,444	-33	-2.3%	923	9	1.0%	540	24	4.4%			
1990	3,441	144	4.2%	2,323	23	1.0%	1,443	69	4.8%	1,792	99	5.5%			
1995	11,767	486	4.1%	5,662	68	1.2%	2,353	42	1.8%	2,976	11	0.4%			
2000	19,662	2,360	12.0%				4,328	67	1.6%	3,424	211	6.1%			
2001	21,604	2,940	13.6%	7,903	377	4.8%	4,333	70	1.6%	3,672	250	6.8%			
2002	18,266	2,729	14.9%	8,627	586	6.8%	4,387	102	2.3%	4,473	421	9.4%	1,950	363	18.6%

Sources: For 1980, 1985, and 1990: International Business Research, *Million Baht Business Information*. For 1995: Business Research & Data Center Co., Ltd., *Business Profile Thailand*. For 2000, 2001, and 2002: Thailand's Advanced Research Group Co., Ltd., *Thailand Company Information*.

6. Conclusion

It is now time to answer the question posed at the beginning of this paper: Has the Japanese marketing system brought highly functional but overly high-priced products to the Thai market? This paper showed that, in the case of Kao, this sometimes occurred, and sometimes did not. Kao aimed for high functionality based on Japanese technology, but did not seek an exclusive image. It met the needs of middle-class Thai consumers. Kao reached local common customers through product adjustments. As a result, Kao has

maintained a strong position in the middle-range price band. In comparing Western and Japanese cosmetics companies, which emphasize having luxury or exclusive images, the position of Kao in the Thai market seems unique.

It is important to know that the transfer of resources and the adjustments made by Kao Thailand took quite a long time. As shown in the main part of this paper, Kao delegated many responsibilities to local partners until the 1980s, but strengthened centralization from the late 90s to the beginning of the 2000s.

There were few successful brands during this period. After the mid-2000s, Kao revisited this excessive centralization approach and implemented changes to emphasize partnerships with distributors. The success of Attack Easy and Commercial Excellence were the main achievements during this period. These facts may support the skepticism of Jones (1995) that the transfer of knowledge by multinational firms is not always as effective as expected by host countries, or is at least not guaranteed.

I can more generally comment on Japanese strategies in emerging markets based on the case of Kao Thailand. By analyzing this case, we can identify the strengths (advanced product functions, advanced inventory system, support to retailers) and weaknesses (high cost constitutions) of the Japanese marketing system. Further, we can identify the main reason of high cost constitutions as the mismatch of product policy and channel policy. The direct application of this Japanese system has caused rapid changes in the Thai market. As a result, the manufacturer-oriented marketing strategies that characterize the Japanese distribution model have become more popular in Thailand. In addition, attractive lifestyle products were provided to urban middle class Thai people, as well as duality of consumption between cities and villages. The key to overcoming challenges related to differing conditions in Thailand was modification, and the role of local partners or local staff, even in foreign companies, will continue

to be important. We found that Kao, a typical centralized Japanese company, experienced the need to make adjustments. This research was based on single case study, but there should be some common trends in development among Japanese companies in Thailand. As in the case of Kao, many Japanese companies experienced trial and error in local management. This should be important topic for future research.

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