

**To:** davewatson@toysrusjapan.com  
**From:** jsalter@toysrusjapan.com  
**Subject:** Brand Development: Japan

We (Toys 'R' Us Japan) have various strategies to improve our business strategy whilst expanding our quality and services to the growing toy market in Japan. This platform consists of developing strong brand recognition, a targeted customer base, innovative distribution processes, and direct goods from manufacturers. With a 94% growth in retail sales annually along with a steady 7% growth in GDP, I suspect that we will have profitable opportunities to enter Japan's toy market. The factors driving the toy industry in Japan includes coordination and development within the following business sectors:

- **Marketing and Promotion-** develop and strengthen brand name and increase customer awareness, build customer loyalty, encourage repeat business, etc.
- **Customer Service-** establish and maintain long-term relationships.
- **Distribution-** bodega stores are classified as price consistent in product offerings. Distribution through primary and secondary wholesalers keeping prices high and consistent.
- **Cultural Loyalty-** the bodega toy stores experience high levels of customer and cultural loyalty.
- **Legal Protection-** local bodega outlets enjoy significant legal protection. However, government officials are beginning to relax legal barriers to attract foreign direct investment.
- **Competition-** for publicity, retail space, locations, customer's loyalty, and among the internationally experienced store owners, on price.

We have a large market potential in providing a vast selection that is extremely competitive on price. We must provide selection, convenience, and low prices that will attract and retain customers. We face specific cultural challenges and extreme opposition from the bodega merchants. Our mere structure of our distribution and size allows us to dictate direct relationships with manufacturers. A potential challenge since Japan is characterized by bodega stores under a different structure. We need to secure manufacturing relationships, retail space, and high traffic locations. We must introduce our brand equity by challenging local bodega store on price and store offerings. Furthermore, we need to interlock our core competencies with the external Japanese environment. Essentially, we need to develop an interrelated brand and market entry strategy for Japan.

From this analysis, we can make the following moves:

- A. We can enter the market through a joint venture.
- B. Enter Japan through a partnership with Den Fujita with stores in local family shopping malls or under other creative entry techniques. (available real estate)
- C. Stay focused on our core competencies and enter Japan in the same way we entered other global markets.
- D. Wait for legal barriers to subside before complete market entry.

One of our strengths is efficient distribution leverage to provide superior selection. We also experience significant pull with manufacturers allowing us to provide toys at a significant lower cost from our competitors; however, our local competitors are creating cultural and legal barriers. In my view, we need to continue to capture existing and new markets segments. Focus on development of a *local partner* to combat cultural and legal challenges. Furthermore, we need to develop an entry strategy that is creative to overcome labor, real estate, and partner troubles. Our brand quality is distinct advantage in my opinion. Our uniquely large platform, I feel, allows us to attract and maintain customer loyalty to our superior price. I also believe that this platform's flexibility allows us to expand geographically to capture further market segments in Japan. Eventually, I feel that toys will be available in various Toys 'R' Us retail stores in Japan. We should introduce our brand at the same time as maintaining our core competencies in distribution, selection, and price. This recommendation can be implemented while maintaining quality with reputation at a low cost due to our pull on manufacturer's relationships. All in all, Toys 'R' Us needs to enter the Japanese market through a partner that understands their business model and has local influence to provide real estate, combat legal and cultural barriers in brand development for the unique Japanese market. Therefore, Fujita possesses the knowledge and skills to complete our strategic mission for market entry and brand development in Japan. And, we should therefore establish Fujita as a partner to enter Japan and capitalize on the growing toy market.

Please email me your thoughts, ideas, and remarks.

JS