

Past JETRO Client

Biological Testing Equipment Maker Luminex Seeks More Direct Presence in Japan with New Office

November 2010 – Luminex Corporation develops, manufactures and markets proprietary biological testing technologies with applications throughout the diagnostic and life sciences industries. The Company's xMAP® multiplex solutions include an open-architecture, multi-analyte technology platform that delivers fast, accurate and cost-effective bioassay results to markets as diverse as pharmaceutical drug discovery, clinical diagnostics and biomedical research, including the genomics and proteomics markets. These technologies allow up to 500 unique biological tests (bioassays) to be conducted within a single sample. For the past nine years, the company has been selling its products solely through partners in Japan, but recently established its own office this past February. JETRO spoke with Darin Leigh, vice president of global commercial operations at Luminex, to see why the company established the office, how they did it, and what insight he has for other companies looking to do the same.



Market Entry and Development

To gain entry into the Japanese market, Luminex began by selling its products in two ways. One was through the Japanese affiliates of large partners—like Life Technologies, Bio-Rad Laboratories, and Millipore—who already had a presence in Japan. The other was by licensing a partner, Hitachi Software, to sell and license Luminex technology in Japan. Over the next nine years, Luminex products were sold widely in Japan through these partners, said Mr. Leigh.

But the company wanted more of a direct market presence, greater ability to manage its partner relationships, and the ability to sell and provide service directly to its customers in Japan. “We decided to set up an office there to enable us to do that,” he said. “Previously, we hadn’t had the critical mass of customers to allow us to profitably put an office in Japan, but at the end of ’08, early ’09, we felt we would have critical mass within the next 2 to 3 years.” Through its partners, Luminex had “built an infrastructure of customers to a point where we felt we needed to have a local presence,” Mr. Leigh said. The company currently has between 300 and 400 customers in Japan that are serviced through its partners and directly by Luminex.

Setting Up the Office and Working with JETRO

To set up the office, Luminex spent about a year and a half conducting extensive research into its applicable markets in Japan, understanding its customer's needs and engaging third-party professionals. "We did our due diligence in terms of what type of entity to set up," said Mr. Leigh, "and we developed a P&L, a long-term plan for the company, what it would look like in terms of revenue and costs, and then validated that model with outside sources. Then we went ahead and made the decision of what entity to set up." Luminex also looked at what previous partners had done in Japan, hired a consultant to profile its current and potential customers, worked with accounting and taxation experts, and used JETRO's free services.

Luminex received assistance from JETRO on the different business entities in Japan and utilized JETRO's temporary office space at the Invest Japan Business Support Center (IBSC) to hold meetings while they looked for their own office. Luminex also gained insight from JETRO into the different areas and regions within Tokyo where they could locate the office. Regarding his overall experience with JETRO, Mr. Leigh said, "I like the fact that they [JETRO] were impartial, and they didn't force any particular direction on us. They basically laid out what the options were but didn't say, 'Oh, this is the route you need to go.' They remained impartial throughout and let us make our decision but were there to help with any advice." During the 2009 Bio Expo trade show in Japan, Luminex utilized booth space paid for by JETRO. "That helped a tremendous amount to get new customers onboard and helped us with our brand awareness in Japan," Mr. Leigh said.

Business in Japan

From his experience working in Japan and establishing the Luminex office there, Mr. Leigh described differences he saw between doing business in Japan versus the U.S.

Industry-specific differences:

- There are two main markets we service: We develop research products for life science research, and we develop products for the diagnostic markets, such as hospitals and Reference laboratories, etc. The market in Japan for research is, I would say, more conservative than in other parts of the world. They tend to take more time to embrace new technologies, certainly not as quickly as some markets. They will be methodical in their approach in terms of adopting a new technology—particularly in research, where globally the market is constantly seeing new products introduced. We find that to get a new technology adopted it is important to have

a Key Opinion Leader network to drive the adoption of these new products. The quality of the market and the scientists in Japan are very high; it just takes a little longer to introduce a new technology and move away from what they've been using in the past.

- In the healthcare market, it's a little bit more complicated because you have to get the health market approval in Japan through the Ministry of Health, and that tends to be a longer process than we have elsewhere in the world, even longer than the FDA 510(k) process we have here in the U.S. That makes it a difficult market to enter, particularly with multiplexed products. The diagnostic market is going to be a longer-term investment, from our point of view, in order to get products approved in Japan.

Marketing:

- We've been lucky in that we've had a couple of people with marketing experience—one of whom we first consulted with and then became an employee who was also a translator. She helped a tremendous amount in building our brand awareness through websites, collateral and the messaging to the market in Japanese. We also hired a very experienced general manager in Japan who had a lot of experience in the markets that we were in. He assessed the approach required to access those different markets and the way to create brand awareness amongst the customers in Japan. We utilized his input in how we directed our resources into those markets. Marketing has not been as difficult as probably for some other companies. The presence of our partners in Japan has also been useful in creating awareness about our xMAP Technology.

Gaining new customers:

- It's a unique challenge to gain new customers in Japan, particularly in our markets. There's a lot of utilization of local agents and distributors, whereas in the U.S. and Europe, you tend to be selling directly or have one distributor. In Japan, you'll have a distributor, but then they'll also have a local agent who's very familiar or has a relationship with the hospital or the institute. They will develop the relationship with your customer and sell your product, so the margin gets divided up amongst several entities which make pricing the products correctly a little more difficult. It also takes you a lot longer to establish the relationship with the customer and have the opportunity to see important customers in those markets as the agent and distributor tend to own that relationship. You have to earn the right to meet important customers and that takes time.

Standards and expectations from customers:

- I find them to be equivalent to anywhere in the world where high class research is being conducted... I think generally in most of the markets around the world, we see a similar trait; I don't think Japanese customers are any more demanding than anybody else that I've encountered. I've found them to be extremely amiable and being able to do business with them is easy, if you're respectful of the business culture and their demands as well as the research that they're doing. I think you have to adapt your style to the customers. If you do it more in a consultancy capacity and use sales people with relevant industry expertise, I would say you'll have more success. It's a slower process, so you have to take time to develop the relationships, rather than just jumping in and expecting some closure straight away. I think we've been respectful of that, and we've hired people in our organization who have obviously come from that business culture.

General operations:

- The big thing for us is supply chain logistics. Creating quotations, invoices and all the local administrative documentation has been a challenge for a company of our size—we're a \$120 million company, but our operation in Japan is very small; so that's been quite demanding on us. The depth of what we needed to implement to satisfy the expectations of many of the Japanese customers I think has surprised a few people here in the U.S. The expectation of creating an invoice here in the U.S.—to run some of the functions here in the U.S.—just wasn't as simple as we first thought. We've learned that, and we are adapting. We're making some changes now where we can invoice in Japanese and make the process simpler to execute.

Finding the right employees:

- We used a recruiter for a couple of the key positions and then those new hires have gone out and found the rest of the commercial people. Also, we were lucky that we had a consultant over the last three years working in Japan. We had interviewed a number of people before we actually set up the office there for a number of different positions, so that's been a relatively simple process. Also through our partners in Japan, we got to know who were some of the good commercial people, and they made some recommendations of who may be suitable to work in our business.
- Language has also not been a barrier to hiring good people. Because we're in the science

and technology business, what we've found in Japan is most of the scientists tend to speak English well, because the language of science is English. We've found most of the people we interviewed spoke good English. Japan has a strong scientific community with excellent researchers, PhDs and commercial people, so getting good candidates really wasn't a problem.

Results and Outlook

In addition to a base of 300-400 customers in Japan, Luminex has developed other areas of its business that it expects to be enhanced by the new office. One of the company's key relationships is with the Japanese Red Cross Society (JRCS), for whom Luminex services a number of instruments. "They use our technology extensively for transplant screening in Japan," said Mr. Leigh. "Providing service to them locally has been huge. That's actually one of the reasons why we set up local representation because they're an extremely important customer. They've decided to contract with us to do a long term service agreement, and that commitment has allowed us to fund many of the engineers and support staff. This has allowed us to develop our relationship with the JRCS beyond what we had previously."

To better serve the local market, Luminex's partners have developed Japanese-specific products. The company also licenses and sub-licenses its technology to companies in Japan, like Wakunaga and Medical & Biological Laboratories, Co., Ltd. (MBL), who make specific products for the Japanese market in the field of transplantation.

While revenue from Japan currently represents less than 5% of Luminex's global revenue, it has already grown since the opening of the company's Japan office only a few months ago. Moving into next year, Luminex plans to make additional hires and also introduce new products into the Japanese market, said Mr. Leigh. The company seeks to gain more partners in Japan and also develop more of a direct presence by licensing directly in Japan, developing its own relationships with key institutions, like the Riken, Cancer Institute and large reference labs like SRL, Inc and BML, Bio Medical Laboratories. "The idea would be that we'd continue to develop a Luminex-to-the-customer relationship, in addition to the partner-to-the-customer relationship we have enjoyed in the past."

Some Advice

For companies seeking to establish a Japan office, Mr. Leigh offered the following advice:

- You've got to really do your homework and understand what type of entity you want to set up, whether it's service or cost-plus or buy-and-sell—for taxation and long term planning purposes. You've got to get a good, strong, experienced head of the entity you set up in Japan, because in many cases they also are directors of the company and are relied on to represent the company.
- And I would say seek as much advice as you can from reputable sources like JETRO and maybe other companies, as well as other partners who have set up companies in Japan. Make sure you go and visit as much as possible to understand your markets, customers, products and competitors. Don't try and set up the company from the U.S. or another country outside of Japan. Make sure you spend time in the country and complete your due diligence to make sure you make as an informed decision as possible.

Japan Company Profile

Japan Company: Luminex Japan Corporation Ltd.
Established: February 2010
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Business: Biological testing technologies
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