

KIMURA K.K.: CAN THIS CUSTOMER BE SAVED?



Professor Dominique Turpin prepared this case as a basis for class discussion rather than to illustrate either effective or ineffective handling of a business situation. All names and data have been disguised.

Dr John Reef, product manager at Pramtex Ltd, was disappointed by an e-mail he had just received from Kimura K.K., a major Japanese customer. Kimura K.K. had decided not to buy three additional Spartacus machines to be delivered to and installed in its new factory in Suzhou, China. Despite various attempts to contact his customer, John was even more disappointed that Kimura refused to explain why the company had decided not to buy from Pramtex.

John was also puzzled because about two weeks earlier, Mr Yukata Kimura, the President of Kimura K.K., had again indicated to him that Pramtex had the best and most technologically advanced equipment in the market. Dr Jim Craig, John's direct supervisor, had even agreed the previous week to lower the price of the Spartacus machines for the order by 10% in order to sweeten the deal and clinch an additional purchasing decision from the Japanese.

John suspected that Kimura K.K. would probably award the contract to SGY Technologies, (one of Pramtex's major Chinese competitors). Although Pramtex's top engineers perceived SGY products as "inferior," Mr Kimura had once hinted that within his company they were regarded as easier and cheaper to service and maintain. This was because SGY machines had fewer components that required the services of a specialized engineer.

Kimura K.K. was the second major Asian customer John had lost in a month. Given the strategic importance of this customer for Pramtex's reputation, John was wondering if this customer could be saved.

PRAMTEX

Pramtex, based in Sydney, Australia, developed and marketed various systems for manufacturing the latest generation of high capacity optical disks (*refer to **Exhibit 1***).

The company was established in 1985 by Dr James Priestley and Dr Bogdan Shariff, two well-known Australian scientists who had developed the business out of research done at Sydney University. Pramtex had become one of the emerging star players for the latest generation of Ultra HD Blu-ray machine manufacturing equipment, which represented about 20% of its total revenues and more than 30% of its profits.

The company's strategy had been to concentrate on leading-edge technology and to work in partnership with customers that were developing new products such as Kimura K.K. Although a fairly recent entrant and a small player in the industry, Pramtex had been able to charge premium prices thanks to its advanced technologies and its appeal to customer engineers. Pramtex had a solid local presence in all key Asian markets.

Competition

Pramtex was now under pressure from other Asian manufacturers – such as SGY – which were also offering lines at the lower end of the market. These companies had also found partners with whom they could start to develop more advanced machines.

Until then, Pramtex had stayed one step ahead of its competitors by concentrating on production line technology for the latest generation of Blu-ray optical disk formats, but in the long run Pramtex was vulnerable to competition as this business rapidly matured.

Pramtex customers

Pramtex's overall worldwide market share was estimated at 8%, but its market share was higher for the more advanced formats of products aimed at data storage (12%). With a new order from Kimura K.K., Pramtex expected to establish a stronger position in the Japanese market and to use Kimura as a reference to get more business from other major players in the industry.

KIMURA K.K.

Kimura K.K., founded in 1981 by Mr Kimura's father, had become a major player in media replication, with facilities in Japan and China, Brazil and Vietnam. The company had focused on blank media, but after a capacity shortage in the pre-recorded optical disk market in 1999, it had moved into large data storage products and the latest generation of Ultra HD Blu-ray manufacturing machines. Blu-ray was still the only option for those looking to play large games without having to download them over an unreliable or slow internet connection, which was why they were still (as of 2020) widely used by gaming consoles, like Sony's PlayStation 4 and Xbox One.

Kimura K.K. was one of the major independent manufacturers in Japan. The company's production process, termed "full concept," involved cooperating with its customers from concept to finished product. Mr Kimura, the new president of Kimura K.K., was an influential figure in the Asian optical disk industry. Although his company was a fierce competitor of the Asian media and electronic giants, Mr Kimura was known to keep close contacts with his Chinese competitors. Among his professional affiliations, Mr Kimura was the President of Japan's Optical Disk Experts Manufacturing Association and the Vice-Chairman of its Asian counterpart.

SPARTACUS

Engineers at Pramtex were particularly proud of the new generation of Spartacus products. The Spartacus was a turnkey production system consisting of two molding

machines, two metalizers, a bonder, a HD UV curing device and an inspection unit for the finished optical disks. The concept and design of Spartacus were unique and totally proprietary. The RX 72, the newly designed metalizer integrated into the Spartacus line, was equipped with a brand-new drive technology featuring “revolutionary servo drives” for disk handling.

Dr Max Scorse, nicknamed “the Prof” by his R&D colleagues, was the key man behind the development of the Spartacus. Max had developed the most important elements of the Spartacus in Pramtex’s main laboratory outside Sydney, working hard to make this machine “the Ferrari” of the turnkey optical disk production system.”

THE FIRST KIMURA CONTRACT

Twelve months earlier, Dr Gen-Ichi Nomura, the top scientist at Kimura, had been very impressed by the Spartacus when Max had proudly shown him the prototype in Sydney. The two men were former graduates of Sydney University, where they had both completed their doctorates in physics. Now in their mid-sixties, they enjoyed discussing complex technical challenges, preferably over a glass of great Australian Shiraz.

Dr Nomura had convinced Mr Kimura to place a first order for three Spartacus machines. These machines were intended for Kimura K.K.’s DVD factory in Osaka, Japan. There was also the prospect, should the first machines prove to be fully satisfactory, that three more machines would be ordered a few months later for a new factory in Suzhou.

Part of the Kimura K.K. delegation to Sydney to sign the first contract on May 10 were Mr Kimura (President), Dr Nomura (Senior R&D Advisor) and Dr Komoda (Chief of Production). John, as the Pramtex representative in Asia, had also made the trip to Sydney. John had spent the last 18 months in Tokyo with the mission to expand Pramtex’s customer base in Asia. Dr Shariff, the President of Pramtex, had asked John to supervise the Kimura K.K. project and use the project to liaise with all other potential Asian customers for the Spartacus system.

John was particularly proud of this first Spartacus contract with the Kimura company. Although he knew that Dr Nomura was a big admirer of Pramtex technologies and a close friend of Max, John had had to work hard to make this deal happen. He was not totally surprised that Mr Eiji Hashimoto, Mr Kimura’s finance director, had not made the trip to Sydney. “After all,” thought John, “Hashimoto has never been a strong supporter of Pramtex.”

John looked back over the events that led up to the signing of the contract.

January 12: First meeting in Tokyo

On his first visit to the Kimura K.K. headquarters to discuss the contract, John met with Mr Kimura, Dr Nomura and Mr Hashimoto. The meeting was quite friendly and lacked the formality of the typical Japanese meetings John was used to. Mr Kimura took a great deal of time explaining his detailed strategy to John, and expected that the Pramtex technology would help him achieve his objective. Mr Kimura, now in his early forties, had just taken over the family business from his father who had retired. His ambition was to double the company sales over the next three years.

After a quick “bento” lunch, during which Dr Nomura talked about his student days with Max at the University of Sydney, John met with Mr Hashimoto. Mr Hashimoto, now in his late fifties, joked that the only thing he understood in this company was numbers. Unlike all the other Kimura executives, he prided himself on knowing very little about technology. Mr Hashimoto had spent most of his career with Sumitomo Mitsui Banking Corporation and had been recruited by Mr Kimura’s father when the company had faced a major downturn in business about 10 years earlier. Dr Nomura explained to John that since the successful turnaround of the company, Mr Hashimoto had become the *éminence grise* (old and trusted advisor) of Yutaka Kimura’s father.

At the end of the meeting Mr Hashimoto asked John to submit a quotation for the Spartacus as soon as he had finished researching the exact specifications Kimura K.K. would need.

January 21: Mr Hashimoto calls

As he was clearing his desk to leave Tokyo to spend his weekend in a hot spring resort located in Beppu in the southern part of Japan, John received a call from Mr Hashimoto. The finance director said that he had carefully reviewed John’s quotation for the Spartacus. He sounded unhappy when he pointed out to John that Kimura K.K. had received better offers from at least two competitors. “I ran the numbers,” said Mr Hashimoto. “SGY is at least 20% cheaper, if I include maintenance costs...Did you talk to Komoda-sensei?” he asked.

John reassured him that a visit to Dr Komoda had been planned for the following Tuesday. Again Mr Hashimoto mentioned that the price was “one of many other important elements to be considered” and that he would appreciate a new quotation once John had spoken with “...Dr Komada and the other members of the team...I know from Dr Nomura that the Spartacus is the so-called Rolls-Royce of the turnkey DVD production system...perhaps what we need is a simple Toyota Corolla.”

John promised that he would call him back at the end of the week and left the office for Beppu.

January 25: The factory visit

When John arrived at the Kimura K.K. plant on the outskirts of Osaka, Dr Nomura was waiting for him at the reception office. After a cup of green tea and an exchange of views on the best Japanese hot springs, Dr Nomura introduced John to Dr Komoda. Dr Komoda, still in his early forties, was responsible for all areas of optical disk replication formats. Dr Komoda was particularly respectful to both John and Dr Nomura to whom he referred constantly as “*Sensei*” (professor). Although Dr Nomura had officially retired from Kimura K.K. two years earlier, Mr Kimura had asked him to stay on as his personal technical advisor. Dr Nomura then explained to John that Dr Komoda had been his student at Kyoto University, where he had taught.

After a tour of the production facilities, Dr Komoda handed John a list of the technical specifications he needed for the Spartacus for a planned output of over 15,000 products per day. He insisted that it was critical for him to receive the first three Spartacus machines no later than the last week of July. Dr Komoda wanted to have enough time to test the brand-new machines before embarking on a major project for a Chinese customer based in Shanghai. Dr Nomura assured Dr Komoda that he would be totally amazed by the technical superiority of the Spartacus and concluded by saying that Max was a “real technology genius.”

Dr Komoda shook his head and politely repeated that the deal with his Chinese customers was very important for his company. To conclude, Dr Nomura asked John when he would be able to visit the new plant in Suzhou, together with Max.

February 6: Back to Sydney!

John was in Sydney with a group of Vietnamese executives to discuss a new project. Before flying back to Tokyo, he went to see Max to get an idea of the progress he was making on the Spartacus. He also handed Max the list of Dr Komoda’s technical specifications. Max quickly looked at the list of specs and grumbled: “Aah! That’s no problem!...the Japanese always overreact; we will exceed these specs easily.”

Max, who believed that traveling on business was a waste of his most precious resource – time – said that John would have to fly to Suzhou by himself. Max was too busy making important adjustments to the Spartacus.

To make sure that the Spartacus would not disappoint Dr Nomura, Max had built in all the latest technical features available, resulting in a potentially high output of HD Blu-ray disks per day, “...well over what your friend Kanada needs,” commented Max. “Max, the chap’s name is Komoda not Kanada,” John corrected him. Max did not reply. He then went on to stress that the Spartacus was truly state-of-the-art. The touch-screen user interface, also developed in Australia, was designed to facilitate easy handling of the machine. Coupled with a personal computer, it enabled the user to control all

components and processes in the production line. Max clearly wanted to impress on the Japanese that the Spartacus was a true turnkey system with the smallest footprint ever.

February 15: “Arigato” Ms Yamashita

Back in Japan, John decided to stop by the Kimura K.K. headquarters to drop off a bottle of a special Shiraz from the Hunter Valley he had bought especially for Dr Nomura. John wanted to thank Dr Nomura for his support on this project. Seiko Yamashita, Dr Nomura’s secretary who had studied English literature in Melbourne, was keen to practice her English with John. It was not often that Australians visited the Kimura K.K. head office.

Ms Yamashita talked fondly of her days in Melbourne and about her next holidays to Perth and the West Coast of Australia. As John was getting ready to leave, Ms Yamashita volunteered the information that Mr Hashimoto had been quite upset that John had failed to call him with the new quotation following his meeting with Dr Komoda. John thanked her for this important reminder, asked for forgiveness and promised to call Mr Hashimoto the following day.

March 28: Mr Kimura is confused

At the end of March, John received a call from his boss Jim, sales manager for Pramtex operations worldwide. John had talked on the phone the same day with Mr Kimura. Mr Kimura had asked for some extra information regarding the delivery of the three Spartacus machines to the Osaka factory. Mr Kimura indicated that both he and Mr Hashimoto were still a bit confused by the new quotation John had given them a month earlier:

Your second quotation is not very different from the original one...The competition has promised to deliver the exact machines needed by Dr Komoda...and their pricing is very much in line with our budget...I know that you have great technology and a solid reputation but technology is not everything. We need to take many elements into account and above all win the confidence of our customer in Shanghai!

Jim asked John if he had any idea of what SGY’s offer was. John replied that nobody within Kimura was willing to discuss the competitors’ offers. “Dr Nomura confirms that we have the best product,” concluded John.

April 19: Dr Nomura’s confidences

John received a call from Dr Nomura informing him that Mr Kimura was ready to be in Sydney to sign the contract for three Spartacus machines, if they could be delivered by the end of July at the latest. Dr Nomura confirmed that not everyone at Kimura K.K. supported the Spartacus system:

Some of your competitors have been very persuasive...SGY gave the red-carpet treatment to Komoda and his team during their last visit in China... I have put all my weight behind this to convince Kimura-san and push the deal in your favor...I called Max at home last night and everything seems to be going fine with the production planning...Our engineers checked the SGY details and were very impressed with the sophistication of their system...I heard through Mr Kimura's father that you are asking a big price for the system, but our President has decided to purchase only state-of-the-art Pramtex equipment to minimize the learning and start-up curve...Another important thing is to get the equipment to our Osaka factory on time.

May 10: "Great job John!"

The contract for the delivery of the three Spartacus systems was signed in Sydney. After a superb dinner at the Ritz-Carlton, everyone on both sides was feeling relaxed. Dr Shariff congratulated John for the "great job done." On the way back to the parking lot Mr Kimura confessed to John: "You owe a big favor to Dr Nomura on this one...He is your best ambassador within our company." Mr Kimura left the following day for Suzhou and invited Pramtex top management to see the new factory.

August 9: The first three Spartacus arrive in Japan!

Despite a delay of a few days, which John attributed to a poor job in the Japanese customer office, the Spartacus systems had finally arrived in Osaka. The machines were installed in record time by a team of Pramtex technicians flown in from Sydney. Dr Komoda, in charge of production, was keen to start the series of tests he wanted to complete before embarking on the project for his client in Shanghai. He was already behind in his test schedule and was ready to work every weekend to catch up with his original plans.

URGENT PROBLEM WITH SPARTACUS IN OSAKA

August 12: The Saturday morning call

John was spending his Saturday playing golf near Narita Airport when he received a call from Dr Komoda asking him to send a couple of technicians to Osaka immediately. Something was wrong with one of the Spartacus machines and none of the in-house technicians could solve the problem. John explained that there was nothing he could do over the weekend and that he would call the office first thing on Monday morning.

August 14: “Where is Dr Scorse?”

09:00 – Dr Komoda was on the phone again wondering if the technicians were on their way from Sydney. John said that he had just arrived in the office and that he would call Max immediately. When John called Max’s office, he was greeted by a voice message:

- “Hi, this is Dr Scorse, I cannot take your call right now but if you leave a message after the tone I’ll call you as soon as I can, or push ONE for assistance.”

John hesitated for a fraction of a second and then pushed “ONE” to get hold of Max. He waited for seven or eight rings and was on the point of giving up when he heard a feminine voice at the end of the line.

- “Hi, this is Linda from Pramtex Industries, how can I help you?”

John asked to speak to Max. Before he could finish his sentence, the receptionist interrupted him with a stereotyped:

- “Wait a moment please, I’ll put you through!”

John was now on hold, patiently listening to “Vivaldi’s concerto RV 109,” the company’s “on-hold phone music,” which he had heard every time he called headquarters.

Linda came back to him with the following reply:

- “I am sorry, Dr Scorse is not in his office.”
- “Thanks Linda, I know that already, you did not let me finish,” replied John tersely. “I expected you to help me locate Dr Scorse. It’s important.”
- “Sorry,” replied Linda, “I have no idea where he can be.”
- “Can you put me through to the central lab?” asked John.

Again John was put on “Vivaldi” before someone with a strong Australian accent picked up the phone.

- “Hi, yeah, what do you want mate?” asked a nasty voice at the end of the line.
- “Can I speak to Dr Scorse, PLEASE?” asked John.
- “Who are you?” asked the voice on the phone.
- “I’m John Reef from the Pramtex office in Tokyo. We have an emergency here with a major Japanese client, can I speak to Dr Scorse...”
- “Whaaat?” answered the man. “Can you repeat that and speak louder, I can’t hear you, there is a lot of noise in here...”

John repeated his request. The man said he had no idea where Max was but would try to find out from the people around him. This time John was not “put on Vivaldi” but he could clearly hear the noise of running machines in the background.

The minutes John had to wait on the phone seemed like an eternity. Finally the engineer returned to the phone.

- “Look mate, Max is at this international conference in Brisbane to talk about our new gold sputtering for DVD9, you know?... I don’t know when he will be back actually and nobody knows his mobile number.”
- “Has anyone around you worked on the Spartacus system we delivered to the Japanese?” asked John.
- “The...WHAT?” shouted the man.
- “The SPARTACUS...S-P-A-R-T-A-C-U-S!” John spelled out, obviously angry.
- “Oh, yeah, the Spartacus! Whaooh!...I don’t know anything about this, I am working on the new FX42 System...I know the Spartacus name, of course,...but David...you know David Loan, right? Well he was working on Spartacus...You should call him on 226!”
- “Can you transfer me to David?” asked John in a milder voice.
- “Woahm, I don’t know how to do that, we have a new phone system...you’d better ask reception...I’ll try...but no guarantee I’ll succeed...”

Those were the last words John heard before the phone went dead. John dialed the Pramtex number again and asked Linda to transfer him to David Loan. This time he managed to get through immediately. David explained that, indeed, he had worked on the Spartacus project but only Max knew all the details of the problem John was describing to him over the phone.

- “Do you happen to have his mobile number?” asked John.
- “Yes...but you do know that Max seldom has it switched on? The best would be to send him an e-mail.”
- “OK, will do...Can you transfer me to Jim Craig?”
- “Sure!” replied David.

Jim’s telephone was also on voice mail. John left a message, hung up the phone and called Max’s office again to leave the same message about the urgent problem at Kimura K.K. and then phoned Dr Komoda to explain what was going on. By the tone of Dr Komoda’s voice, John could hear that he was very upset.

“This is not the kind of service we expect from Pramtex,” commented Dr Komoda. John apologized, exchanged mobile numbers with him and asked him to call back anytime.

August 16: Eureka!

John received a call from his boss. Jim confirmed that two engineers were on their way to Japan. They would be in Osaka within a few hours. Jim also told John that Max had been informed of the problem. However, Max had not replied yet.

A few minutes later Dr Komoda was on the phone again. He told John that his engineers had found the source of the problem and that Kimura K.K. needed a replacement part for one of the molding machines in the Spartacus line. John insisted that Dr Komoda wait for the Australian engineers to arrive and confirm the source of the problem. Dr Komoda sounded exasperated.

August 17: Kerry & Doug arrive in Japan

Kerry Wood and Doug McCartney, the best maintenance engineers at Pramtex, had landed in Osaka and confirmed that the problem was the one Dr Komoda's engineers had identified. They immediately ordered a new part from the warehouse in Sydney that would be delivered within two days by express courier. Kerry and Doug would stay in Osaka for a couple of days to check the two other Spartacus machines and wait for the new spare part to arrive in order to install it properly.

The same day, John managed to get in touch with Max, who seemed more interested in talking about his new pet project than discussing Kimura K.K.'s problems. Max explained that Pramtex had entered into an agreement with a US-based company to work on proprietary edge-to-edge holographic technology. Max considered it to be the best anti-piracy measure currently available. Max was surprised to hear the kinds of problems Kimura K.K. were experiencing: "That's not even our product," he remarked, "we purchase it from a Vietnamese supplier...but don't worry John, I talked to Kerry and we are OK. They will change the defective part and the system will work just fine."

August 18: Where is the part?

John received another call from Osaka. This time it came from the Pramtex engineers in Osaka. They had bad news. Nobody back home was able to find the spare part required in the warehouse. They did not know how to break the news to Dr Komoda. "Fortunately," he was in Suzhou visiting the new Kimura plant and would only be back on Tuesday August 22.

August 20: Problem solved!

"Finally, some good news," thought John. The spare part had been found and was on its way, by express delivery. It would be in Osaka before Dr Komoda.

Kerry and Doug worked all weekend in tough conditions: Japan was really stuffy at this time of the year and changing the part proved to be harder than expected. Finally, on the

Monday, Dr Komoda could start his tests again. The Spartacus system was working perfectly, indeed exceeding Dr Komoda's expectations in terms of output and product quality. The Pramtex technicians went back to Sydney and John did not hear any complaints from Kimura K.K. for the next three months.

John could now devote himself to winning a new contract with a major Chinese client for the delivery of six Spartacus. He also expected Kimura K.K. to confirm the order for the three extra machines for its Suzhou factory.

THE MONTHS LEADING UP TO THE CONTRACT DECISION

October 17: Dr Shariff's visit to Japan

Dr Shariff was in Japan for a five-day visit to meet with some Panasonic executives. He also wanted to meet with Mr Kimura before flying back to Sydney. When Dr Shariff raised the issue of the next order for three Spartacus, Mr Kimura remained uncommitted. He praised the high quality of Pramtex technology but said that they were "still thinking about it." The following morning, John and Dr Shariff took the *Shinkansen* (bullet train) to see the Spartacus system in action in the Osaka factory. Ms Yamashita, Dr Nomura's secretary, had called the evening before to say that unfortunately Dr Nomura would not be able to make the visit. She did not elaborate on the reasons. The factory visit was very satisfactory. Unfortunately, Dr Komoda was not there. His assistant mentioned that he was in Vietnam and would only be back at the end of the month. During the visit John noticed that the operators using the Spartacus system has made some minor modifications to the controlling system, making it much easier to use. John took note of this interesting innovation to send to the designers in Sydney.

Back in Tokyo, a *sayonara* (farewell) dinner was held in honor of Dr Shariff. Mr Kimura's father also joined them. In the car on the way back to the Imperial Hotel Mr Hashimoto raised the issue of price. Dr Shariff responded that he would discuss it with John the following morning and that a quick decision would be made on this point.

The next day, after a breakfast meeting with John, Dr Shariff called Mr Kimura and said that Pramtex was ready to offer a 10% discount if Kimura K.K. confirmed the order before Christmas.

November 16: The accountant!

John was surprised to hear Mr Hashimoto's voice on the phone. Kimura K.K.'s finance director had received a nasty reminder from the Pramtex accounts department claiming that Kimura K.K. was late in paying one of its installments on the three Spartacus delivered in August. Mr Hashimoto had called Graham Prakke, the Pramtex accountant, to confirm that the payment had been made two weeks earlier. However, it sounded as

if the discussion between Graham and Mr Hashimoto had turned sour. “The money is already in your bank account,” claimed Mr Hashimoto. “John, I want you to call Mr Prakke and explain the situation,” concluded Mr Hashimoto, “the man is unprofessional.”

December 11: Is Dr Nomura still on our side?

John called Dr Nomura’s office to invite him to give a talk on the future of the Japanese data storage industry to a group of Korean customers the following month. Ms Yamashita told John that Dr Nomura was away, attending a meeting in the Suzhou factory with Mr Kimura, Mr Hashimoto and Mr Kimura’s father. Ms Yamashita assured John that she would pass on the invitation to *Nomura-sensei*. When John asked if she knew anything about the future Spartacus order Ms Yamashita indicated that a lot of heated discussions were taking place regarding the choice of system for Suzhou. To John’s surprise, Dr Nomura never returned the call regarding the talk to the Koreans. John was starting to wonder: “Is Dr Nomura still on our side?”

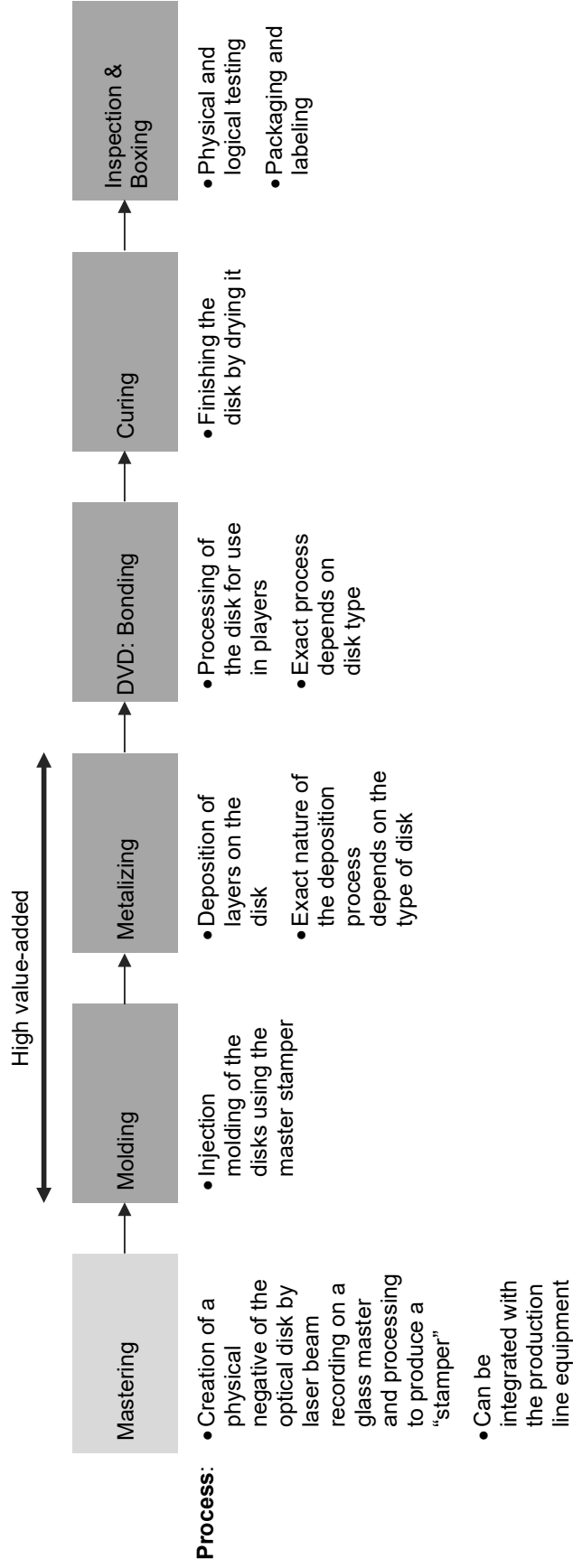
December 21: Sony turns us down

John received a short, formal e-mail from Sony, a major client indicating that the company had decided to opt for the SGY system on the basis of better cost and performance.

December 22: Can this customer be saved?

John received copy of an e-mail from Mr Kimura sent to Dr Shariff informing him that Kimura K.K. had decided not to pursue further discussions with Pramtex about buying three additional Spartacus machines to be delivered and installed in their new factory in Suzhou. After various calls to Sydney, John was wondering what to do with Kimura K.K.: Could this customer be saved?

Exhibit 1 : Production line processes for optical disks



Source: Brokers reports