

SUCCESS STORIES JAPAN

Helping Non-Japanese Companies
Succeed in Japan

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CLARIA JAPAN: INTRODUCING A NEW METHOD OF ONLINE MARKETING

Is it the devil incarnate or a consumer marketer's dream? Claria Japan has been operating in Japan only a few months, yet it already claims major successes in helping advertisers find customers online. What does Claria want to achieve in Japan? The story begins on Page 9.

After a V-Shaped Recovery, What Next?

Revlon Japan, as Told By Takashi Asami, President

BASIC STATS: Revlon, Inc. is a US-based global marketer of skincare, cosmetic, fragrance and personal care products whose brands include Revlon

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and Almay cosmetics and Flex shampoo. Revlon is publicly-traded but majority-owned by MacAndrews & Forbes Holdings, a holding company controlled by US billionaire Ron Perelman. Globally it employs about 6000, of which about sixty (plus thirty to forty contract staff) are in Japan. For the nine months ended September 30, 2004, Revlon's global sales decreased to \$918.9 million as compared to \$930.8 for the comparable 2003 period, while its net loss increased 34 percent to \$188.7 million. Meanwhile, Japan sales have been on the rise and approximated ¥6 billion in 2004 on a retail price basis, according to Takashi Asami, Revlon's current Japan president.

BACKGROUND: Revlon Japan was established in April 1963, from the outset a 100-percent subsidiary of its US parent with a manufacturing facility in Kanagawa. Asami believes that its Japan entry was timed to take advantage of lowered tariffs and trade barriers on imported goods that accelerated around that time. But by the mid-1990s, Japan's recession and

major changes in its retail landscape had reduced Revlon Japan's solid profits first to marginal profits, and then to losses.

Years before Asami joined Revlon in August, 2001, the company began taking steps to re-orient itself to the new realities in Japan. One of its approaches, described in detail by a former Revlon executive and SSJ specialist contributor in these pages (SSJ, October and November 1999 issues), involved re-training sales and marketing staff to sell and not just depend on traditional relationships. "It became apparent that our subsidiary was deeply challenged to establish and sustain business growth in the highly competitive Japanese cosmetics and beauty care market," our contributor wrote at the time. "Success would depend on making a strategic shift of merchandising emphasis from traditional (no-growth) department stores to the rapidly-growing mass-market channel. Consumers in Japan were shopping the discount, drug, and cosmetic shops in greater numbers and frequency than any time in the past, and we needed a new management and sales strategy to capitalize on this trend."

Gaining the buy-in of Japanese sales staff to US training approaches by wisely using the writings of the well-known 16th century samurai warrior, teacher and philosopher Musashi "produced a

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A Different Kind of Online Marketing Firm Comes to Japan

The Claria Japan Story, As Told By Paul Schwamm, Asia-Pacific General Manager

BASIC STATS: Claria, Inc. is a private US venture-backed online marketing company. According to the company, it "publishes advertising messages for top-tier

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companies and agencies" that "deliver contextually-targeted messages" to consumers, and claims to have approximately 1000 global clients including eighty to ninety in the Fortune 1000. Its backers include Greylock Ventures, Investor AB, and Technology Crossover Ventures, among others. Claria has about 220 employees worldwide, and in a preliminary US IPO filing it made early in 2004, it claimed \$34.9 million in 2003 net income on global revenue of \$90 million. Claria has three employees in Japan and *SSJ* estimates its Japan annual revenue at between \$1 and \$2 million based on its current monthly run rate.

BACKGROUND: Founded in 1998 as Gator Corporation during the internet boom, Claria claims to have grown steadily in its short history. In 2003, it changed its name to Claria in what some observers believe was an attempt to escape negative publicity arising from claims about its business methods (discussed below). The company entered Japan early in 2004.

APPROACH: When it comes to online marketing, Claria is either a godsend or the devil incarnate, depending on who you're asking. While it claims to be a permission-based marketer, it has run into controversy on a number of occasions, as computer users, marketers, competitors and other online publishers have at various times questioned its business methods. Nevertheless, the manner in which Claria operates in Japan is the same as it does in

the US and its other markets, only the scale of operations and the client lists are different.

According to Paul Schwamm, Claria's Asia-Pacific General Manager based in Tokyo, Claria is an online behavioral marketing company, serving ads to viewers based on their online behavior. That behavior is measured using ad-serving technology embedded in various software programs (such as screensavers, and weather, calendar and clock programs, etc.) offered by the company. In most cases, the company's software is downloaded from its various websites at no charge, in return for the computer user's agreement to be served with online ads while using it. (Users can also opt to pay \$20 or \$30 for Claria software if they would rather not view on-screen ads.). The company also works with certain major peer-to-peer file-sharing networks, such as music-downloading site Kazaa, that it pays for the ability to have its software downloaded along with the user's selected content. And it works with Overture, a subsidiary of Yahoo!, in operating SearchScout, a search site that offers Overture paid listings along with search.

Once its software is on a user's computer, Claria can identify the IP address of the user's internet connection, time zone and language default of his or her computer, and track the websites that he or she visits. Based on this information, Claria designs online ad campaigns for consumer marketers and serves ads that it claims are more relevant to the user than a generic ad, for example serving a bank or personal loan ad to those visiting personal finance websites, or a hotel or travel ad with a coupon to someone pe-

rusing discount fares at various airline sites. Marketers can also vary the size and shape of their ads, their timing and frequency, and where they originate from on screen, using what Schwamm feels are "intrusive, attention-grabbing formats" such as 'pop-ups', 'pop-unders,' 'sliders,' and 'browser pop-unders' in a dizzying array of possible combinations. One thing that seems to make Claria's service different from that of other online firms that offer paid search or similar services to marketers, is that the ads it shows to users are individual graphic ads for that marketer exclusively, making no reference at all to the names or websites of that advertiser's competitors. Claria estimates that its software is operating on some 40 million computers worldwide, of which three million are in Japan.

Schwamm is very pleased with the results Claria obtains for clients. "Click-through rates worldwide are 0.1 or 0.2 percent, but we often get four to ten percent click-through rates because our ads are relevant," he claims. How does Claria do it? It offers advertisers in Japan the chance to run their ads against one or more of 55-60 different ad categories, (such as full-time employment, web hosting, personal loans, books, cosmetics, Korean hotels, insurance, general shopping malls, and dating), conducting research to pre-load between 100 and 200 of the most popular URLs in each category into its software. It also offers Japan-specific categories which have a lot of demand, such as *tantei*, or detectives (who are frequently sought out by individuals interested in investigating infidelity in relationships), and *onsen* (hot spring spas). When a user visits one of the website URLs that has

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The Claria Japan Story (Continued)

been pre-loaded, the software recognizes that action and immediately serves the user with an ad for a client paying to advertise in that same category. In 'old media' terms, it's somewhat analogous to seeing an ad in a fashion magazine for a fashionable dress next to an article about dressing stylishly — that's relevance. Except that in Claria's case it's all determined in the flash of a computer algorithm.

Schwamm claims clients in Japan are knocking down his door. "We just closed deals with three employment companies in the past week," he exclaims, "and many more clients are finding us although we are doing no marketing of our service at all." Nevertheless, Claria is very new to Japan, and having to introduce its company to a new market and explain a different approach to online marketing at the same time presents challenges. So upon first setting up shop, Claria concluded marketing partnerships with two online marketers already active in Japan, ValueClick and ValueCommerce (SSJ, June 2003 issue), to gain immediate business as an add-on for their existing clients. "We got Citibank as a client via ValueCommerce, and once you get Citibank, you start getting a lot of calls from others who find out about you and want in," says Schwamm excitedly.

Claria clients in Japan spend an average of ¥500,000 to ¥1 million with it each month, according to Schwamm, and can then specify their target and decide if they are interested in 'eyeballs' or 'clicks'. Either way, Claria codes their ad to appear against one or more of its categories, on a 'run-of-network' basis, or a combination of both. Pricing is either per-click or on a CPM basis (per thousand impressions). While it is set up to help US clients create their

actual ads in English, Claria does not yet offer the capability to create client ads in Japanese. To solve that problem, Schwamm says he is looking to find a few talented Japanese web artists interested in freelance work, to whom he can refer Claria's Japanese clients.

Pricing seems to be Claria's 'secret sauce'. For example, how much is a click-through from an interested and qualified client or candidate to the website of a temporary-employment firm worth to a firm offering that service? How much are 1000 online impressions that produce forty measurable and documented sales leads worth? While clients can find out current pricing for keywords through their own contacts in the online marketing world or even by looking it up on the websites of Overture and other players, the number of clients that Claria will allow to advertise against a specific category depends on how much 'inventory' (number of users) there is interested in that category. As Schwamm points out, "for IT jobs it's a few thousand, for career sites it's a few hundred thousand."

Even for categories which have lots of interested users, Schwamm will only make that inventory available to no more than seven clients per category at the same time. "That's so we don't overwhelm the finite number of users in that category in a

given month," he explains, "and also so we can raise prices as more firms seek to get in on that traffic. We only show the same creative to the same user once a month," since it's "best for everyone" not to overwhelm users or water-down the impact clients are trying to make. "Our pricing is a function of client demand, the amount of inventory we have to offer [in any given category], and the client's own average ticket and margin," he adds.

Already, Claria Japan claims it has been working with Citibank, AIC, Mobit, Aozora Bank and others to generate online personal loan applications; serving Nicos, SMBC, JCB and other credit card companies with specific promotions; helping e-tailers like Shop-Japan and Ellesaine drive sales of online merchandise; and assisting a myriad of dating and matchmaking sites generate user registrations. "Some advertisers use Claria media to build brand awareness for new websites, products and services," Schwamm continues. "Some use us for user registration campaigns. Some want to generate sales leads. [And] some use us for product sampling campaigns."

And that's not all, because in addition to generating actions, Claria can give advertisers a lot of information on their online market. "We have some very powerful campaign-reporting capabilities," notes Schwamm. "Typically, we send weekly campaign reports showing impressions, clicks, click-through rates, and, if advertisers have asked us to do so, we track user acquisition. We can [also] get as granular as reporting how many users went to an advertiser's website and did a transaction after clicking the ad, how many went directly to the advertiser's site and did a transaction

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without clicking the ad, and how many minutes, hours or days after seeing the ad the user took that action."

Nevertheless, to become a major online marketing force in Japan Claria eventually will have to move beyond the easy clients knocking on its door and market directly to Japan's very traditional marketers, where the big money is and where other more-established online competitors like Yahoo!, Google, MSN and a variety of Japanese players already compete. And that task will not be made easier by the amount of fire that has been aimed at Claria's business methods back in the US. Various online publishers, including major newspapers like the New York Post and New York Times in 2002, tried to limit Claria's ability to serve ads when users were viewing their content, which the publishers contended was a misuse of their right to portray their own content (and ads) in their own way. LL Bean also supposedly went to court to stop Eddie Bauer ads from coming up when Claria users were visiting Bean's site. Meanwhile, some in the online community have questioned the way Claria installs its software on users' computers, contending that the company does not properly warn users that they may be bombarded by ads, and that its software is difficult for users to uninstall once it has been loaded. Claria works hard to emphasize that the ads it serves always appear in a separate window onscreen, therefore not infringing other publishers' content in any way. And it claims all of its software is downloaded

only with the user's permission, and is either easily removed using standard Microsoft Windows procedures for removing programs, or uninstalls itself when the user sets the right conditions. So far all the complaints seem not to have slowed Claria's business significantly in its other markets, although at a minimum they have probably not enhanced its reputation and may at some point diminish the interest of conservative clients in Japan who otherwise might be interested in working with it.

Claria will also have to work on localizing its software to increase the number of unique Japanese users it has, its 'inventory'. "We've gotten most of the three million in Japan through our efforts at home and in other countries, and frankly we've done little so far to specifically increase the number of Japanese users," he admits. "We still have a lot to do to leverage our current user base in Japan." Once Claria is a bit more established, Schwamm hints that the company can offer localized versions of its screensavers and software, and work on getting distribution from Japanese peer-to-peer file-sharing sites

GOING FORWARD: With only thirty or so clients to date, Claria Japan is still at an embryonic stage given its room to grow. After all, there are tens of thousands of potential clients in Japan. And with very little Japan overhead (Claria Japan relies on its US office to get campaigns cleared, tested, up and running, billed and reported), Schwamm claims the Japan operation is already "very profitable" after only a few months. So he can afford to muse on the possibilities for further growth: "Having five clients in each of fifty cate-

gories would mean we have room for 250 clients," he calculates, but actually there's room for more than that because "general 'run-of-network' ads usually do just as well as behavioral, and clients can do a combination of both."

Still, Claria in no way is a household name in the US yet, much less in Japan, where online habits, household computer penetration and cultural behavior are all different. Schwamm has already experienced a few frustrating meetings explaining Claria to Japanese marketers stuck on traditional notions like demographics. "We say, 'we're beyond demographics now, we can tell you how your potential customers are behaving', but some Japanese just can't get past it," he notes. In addition, "some campaigns have lower conversion rates and some ads have lower than average click-through rates." And there will undoubtedly be more competitors if Claria's methods really do work. So by no means is Claria guaranteed a wonderful outcome in Japan.

Nevertheless, online marketers are slowly waking up, and with a potential IPO on the horizon, so are investors. "They've been cleaning up their act, though they're still borderline scumware," says one senior online marketing executive at one of Claria's partner companies who wished to remain anonymous. "[But] their products work in terms of conversion off clicks, and they have great analytics behind it [as well]." Sounds like all Claria may need to do is explain more simply and directly to users what its software does on their computers. Then let marketers discover what great online performance really can be. Though it's early yet, Claria has the potential of truly shaking up the online marketing world in Japan.

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