

An Interview with Chuck Geschke and John Warnock, Founders and Chairmen of Adobe Systems

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JABS: Can you give us an overview of your Asian operations?

A: Overall, our largest market is the United States, next it's Europe, and then Asia and the Pacific Rim. All of Asia together accounts for roughly 20% of our business. Although we have operations in China, Singapore and other parts of Asia, Japan is our biggest market in Asia, partly because Japan is already a very industrialized economy. Furthermore, a lot of the technologies that are important to us, particularly things like lasers and ink jet printers, were all primarily being initially developed in Japan. It is a very good market for technologies, and we recognized that pretty early on. Now, roughly 15% to 20% of our worldwide revenue comes out of Japan. So, the Japanese market is very important for us.

JABS: How do you describe your initial experience when entering the Japanese market?

A: When entering the Japanese market, one of the first things we needed to do was to find vendors who could provide us with the actual art work of the typefaces for printing (Editors' note: typeface is the design of the individual characters making up the text). Once we had access to the Japanese typefaces, our printing products could be used in Japan.

At the time, there were two primary typeface vendors in Japan. One was much larger than the other. The larger one was based in Tokyo and was the market leader. We approached the larger one first because they had the most popular typefaces in Japan. But we had great difficulty dealing with the company. They really didn't want to talk to us. They were in command of and controlled the market. They didn't feel that they needed to deal with new technologies, particularly with Westerners coming into that market.

The second and smaller company that we approached was based in Osaka and they were a pretty distant second. This company began to see that they needed to do something to really vitalize and grow their business. We spent a lot of time talking to them. Initially, it was a difficult decision for them because they had never licensed their trademarks, typefaces, or the information about how to create them. This was because, before Adobe, everything was proprietary in the Japanese printing and publishing industry. A Japanese printing company would typically be locked into one vendor that would capture the entire printing process and there was no way to inter-mix equipment from other vendors. When we went to Japan, we introduced a universal standard that allowed many vendors to pro-

duce compatible products. And once that happened, the innovation, pricing and accessibility all changed. We tried to convince them that they might have millions of people as customers at the time, but we could offer tens of millions of people by them having access to our technology. They finally agreed to deal with us. As a result, they became the dominant typefaces in the new desktop publishing world in Japan, and now are much bigger than the original leader based in Tokyo. The larger firm didn't see a huge paradigm shift.

JABS: Do you mean that this vendor surpassed the original market leader because the vendor embraced a non-proprietary business model which is uncommon among Japanese companies?

A: The reason they are successful is because they wanted access to the markets outside of Japan, which are much bigger than the domestic one. We guess that they would have been perfectly happy to stay propriety inside Japan. But they knew, in order to get to the rest of the world, they couldn't do that. They didn't control enough of the market. They didn't control the PCs, they didn't control all the software, so they had to go with the standard implementation in order to be successful.

JABS: What about your partnerships with printer manufacturers in Japan?

A: We have software called Postscript. It does image generation for the text, line graphics, as well as photographs on the printer pages. The way that we would work with printer manufacturers is that we would help them design the controller boards for those printers. They would manufacture the whole thing, and we would put the software in it, so the software was built in as part of the printers. We were paid a royalty by the printer manufacturers for our software and technology.

JABS: Were your relationships with the manufacturers aimed at the Japanese market from the very beginning?

A: Most of our initial contracts with the Japanese manufacturers were for the US market.

In the early days many of these companies such as Epson, Cannon and NEC, Fuji, Fujitsu, basically all of the original laser printer manufactures, were not interested in producing machines

for the Japanese market, but for producing machines for the American market. But we were interested in expanding into the Japanese market, so we asked them to build machines for Japan. But we really didn't go into Japan right way. We entered Japan one to two years after a competitor introduced its laser writer in Japan, which was around the mid 80s.

JABS: How about your business in other Asian markets, such as China and South East Asia?

A: The other parts of Asia are problematic primarily because of copyright laws and piracy. We do have an office in China but only have a very small business there. Our biggest hope there is that they will develop a really vibrant software industry. And if they do, and are successful, they'll have to recognize and solve the intellectual property problem.

JABS: Can you share your experiences when doing business in Japan?

A: One of the differences of doing business in Japan was that in order to be successful with Japanese companies, you had to build a personal relationship with the senior decision making executives. You had to do dinners and had to go out to bars afterwards. They really wanted to understand you. While in the United States, you might go out to a dinner occasionally, but it isn't necessarily an inherent part of the business process.

JABS: What was your experience of Japanese decision making process?

A: We found in Japan, while negotiations happen in many places and people could be very stubborn getting to something, once you had an agreement, they executed exactly as they promised they would do. Sometimes we felt bad that we couldn't always deliver as quickly as we had promised.

JABS: Do you face competition in Asia?

A: Certainly, as Tom Friedman said in the title of his book "The World is Flat", if a company is a competitor of ours in the United States and they're doing worldwide business, then they're also a competitor of ours in Japan. So, like any software company, Microsoft is a competitor everywhere. We also have companies that compete with us in areas such as page layout, product design, etc.

JABS: How about local competitors?

A: There is some domestic competition, particularly in specialized markets. Some of these local competitors build products that are similar to our Photoshop and other products, but they are not major barrier to us gaining revenue in these markets.

The reason that they are not strong threats to us is because we

have a strong platform product. When publishing anything, whether it's a web page, movie, video, or printing materials, our platform has a multifaceted set of functions that need a large number of tools. The better those tools work with each other, the more you have a base of functionality that is sort of accepted as everybody's standard. This is true in essentially all countries. Asia doesn't distinguish itself.

For example, in Japan, we offer integrated products. Our products were designed by Japanese speaking people who were in the publishing business. The user interfaces of our products in Japan were very carefully thought out. We have done a great deal of research on how Japanese people do topography and printing applications. We have Illustrated, Photoshop, End Design, and video products that are all integrated and talk to each other. In this sense, we have a strong platform.

Local firms may compete in certain features or products, but in order to compete with our platform they not only have to replace all the products or functions that we build, but also the ones that other people build. So it's very hard for a specialized local competitor to compete against that. Because our offering is complete, a sort of one stop shopping that you can do everything with. To replace us, you have to replace the whole platform.

JABS: Although you have strong products, do you face disadvantages in Asia because Asia has a different regulatory, culture and customer environment?

A: Although there are major differences between the United States and Asia in these areas, they are pretty much handled at local level. We hire local managers and staff who are aware of how business is done locally, how contracts are signed, how distribution is really done. But the differences in regulatory and culture don't give a company major competitive disadvantages in the market, unless the company does not have the size to hire the local staff in foreign markets. This was the case when we started and it was hard for us to work with. During that time we had local distributors but we didn't have anyone on sight.

JABS: Overall, do you see any potential threats in any Asian markets?

A: It would be unrealistic to assume that we aren't always concerned about competitors. Frankly, the scariest competitors are two people in a garage, we've never met. They'll come up with a better idea. Much like we did 25 years ago. So those are the scariest kind of competitors and it's hard to figure out who they are. One thing we do know is that the number of people being educated in engineering in India and in China is far surpassing the number in our country, where it's declining. And that's scary.

JABS: You recently merged with Macromedia. What are the implications of the merger to your Asia business?

A: This merger is a good strategic fit for us. It will also benefit our

Asia business. For example, Asia is one of the leaders in the mobile phone market and Flashplayer is on so many mobile phones in Asia. It gives us yet another platform to be able to produce content, build webpages and provide services with. With this merger, we will have more options and better technology. We can do things now that we couldn't do before. It also gives us more licensing opportunities, as we have agreements with major cell phone manufacturers to preinstall Flashplayers into their phones before they are shipped. These products are hard to pirate because they are tied to the devices.

JABS: What is your price policy in Asia?

A: Our prices vary when we do direct business deals with major corporations that do volume licensing. But in terms of advertised list prices, they are uniform around the world. Because of the Internet and the ability to purchase worldwide, we unified the prices about 4-5 years ago. We have to have it that way. Otherwise, customers in different countries would pay different prices to purchase the same products and that does not work. Once the world is flat, you have to have the pricing flat.

JABS: Can you discuss how you distribute your products in Asia?

A: For our enterprise products we use a direct sales force. For small to medium customers we use distributors. In the past, we have tried to work with smaller distributors, but now we mostly use large ones. Some distributors also add value by bundling with hardware and things like that.

JABS: What is your criteria when you select distributors and how do you work with distributors?

A: They have to be financially viable and need to have a good reputation. They are, to a certain extent, our face in that country. If their reputation isn't good then our reputation suffers. We also try not to have exclusive distributorship relationships, if we can avoid them, because sole distributors have too much power over us.

About 4 or 5 years ago, we also standardized all our distribution contracts. We require that distributors have to give us daily inventory reports electronically. We use standard SAP and distributors have to be able to have the electronic data in SAP. As a result, we literally know within 24 hours what the software distribution is everywhere in the world.

JABS: Overall, were you surprised by anything when doing business in Asia?

A: We did have some surprises when we first went to Japan. We all knew that Japan is an industrialized country and it has very efficient manufacturing process. What we weren't prepared for is the fact that they had so many layers of business distribution. The second thing was that, although we tried very hard to be culturally

sensitive, we still made mistakes. For example, in the early days, we would sometimes send posters to Japan that had white faces on them, our Japanese staff said that we couldn't put the posters up because they had white faces on them. In Japan, a white face is a face of death. There were a lot that we need to learn in that regard. This is why we hired locally, so that we had people that could be sensitive to the local culture.