

### **Section 3 Toward overseas development of service industry**

In this section, first we overview the current situation and the challenges of Japan's service trade and the outward foreign direct investment of the service industry in light of international comparison with Germany, South Korea, etc. Then, with regard to the overseas business activities of the Japanese service industry, which have been intensifying in recent years mainly in emerging countries, by getting an overview of its features with a few examples, we will indicate the situation of the overseas development, the strategies, and the future view of the "intellectual service industry," which is based on intangible values such as know-how and brands that the Japanese service industry has uniquely cultivated.

Also, with the progress of overseas business activities of the service industry including the "intellectual service industry," we indicate what impact and effect it may have on the Japanese domestic economy, which faces the issue of hollowing out, from the aspects of trade, employment, and consumer investment, as well as what synergetic effect may result from it on the international competitiveness of other industries including the manufacturing industry. Further, by over-viewing the structural change currently underway in Japan's manufacturing industry, we indicate how Japan's manufacturing industry should enhance its services.

#### **1. Current situation and outlook of Japan's service trade**

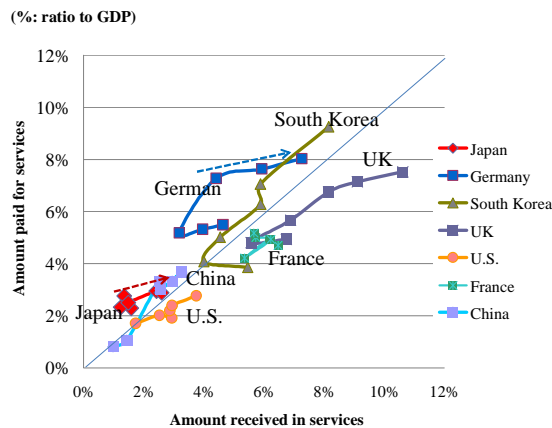
Here, to confirm the current state of Japanese service trade, we overview the payments/receipts in service trades (ratio to GDP) and the balance in services (ratio to GDP) by comparing with other major countries, especially Germany and South Korea. Also, we indicate the future challenges by looking at the change in the balance of outward and inward foreign direct investment (ratio to GDP) of the service industry.

##### **(1) International comparison of service trade, etc.**

First, let us make an international comparison of the ratio of Japanese service trade level to GDP. The ratio of Japanese service trade to GDP has remained in upward trend so far, but it is small in size compared with the United States, the UK, and Germany. In particular, although the ratio of receipt of services to GDP has been slowly increasing, it was only 2% in 2010 and remains at a low level compared with the UK (slightly over 10%), South Korea (8%), and Germany (slightly over 7%), and still at the lowest level among major countries. The ratio of payments in services to GDP was 3% in 2010 in Japan, also remaining at a low level compared with that of South Korea (9%), the UK, and Germany (8%) (Figure 3-3-1-1).

Figure 3-3-1-1

Amount received and paid for trade in services (1985 to 2010)



Note: The above figure shows the absolute amounts of each country in the calendar years 1985, 1990, 1995, 2000, 2005, and 2010 plotted to the upper right. Hong Kong is not included in China.  
Source: *International comparative statistics* (Institute for International Trade and Investment).

## (2) Current status of Japan’s balance in services with Asia, which is becoming profitable

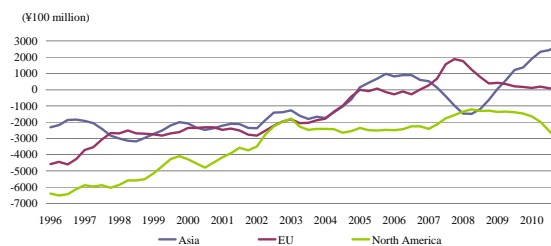
Next, let us look at the trend of the balance in services of Japan. The service balance was in deficit with Asia, the EU, and North America until 2005. However, in recent years, the balance in services with Asia turned to a surplus, and the favorable balance has been continuing to increase, while that with the EU was a small surplus, and that with North America has remained in deficit (Figure 3-3-1-2).

The main cause that the balance in services with Asia turned to surplus is that the “Other profit-making business services, etc.” had turned to surplus, in addition to the increase in the profit from “Patents, etc.” (Figure 3-3-1-3). The main factor for the increase of “Other profit-making business services” was thought to be the expansion of “Intermediary trade services” especially by trading companies, and the expansion of professional technical services including legal, accounting, and R&D services in Asia.

In addition, the deficit in “travel balance” has been reducing along with the increasing number of tourists to Japan, which is another contributing factor.

Figure 3-3-1-2

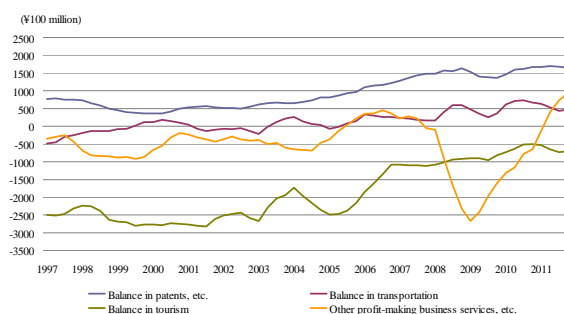
Balance in services for major regions



Note: The above figure shows the moving average of the past four quarters (quarter-by-quarter basis).  
Source: *Balance of payment statistics* (Ministry of Finance).

Figure 3-3-1-3

Balance in services for Asia (by item)



Note: The above figure shows the moving average of the past four quarters. "Other profit-making business services, etc." includes "intermediary trade and other trade-related services," "operational lease," and "Other business/professional technical services."

Source: *Balance of payment statistics* (Ministry of Finance).

(3) Comparison of service trade of Japan with Germany and South Korea

(A) Comparison with Germany

Let us compare the receipt of services of Germany and Japan by industry. Germany is ranked top in the world in the receipt of services in BtoB (business to business), including transportation (world's No. 2), communication (No. 4), information (No. 3), and other profit-making business services (No. 3) (Table 3-3-1-4, Figure 3-3-1-5). Germany is also internationally competitive not only in the manufacturing industry and goods trade but also in the BtoB service trade.

Meanwhile, Japan is ranked relatively high in patents (No. 2), marine transportation (No. 3), and other profit-making business services (No. 6), but ranked at an extremely low level for all the rest (Figure 3-3-1-4). Japan will be required to expand its service trade by strengthening the overseas development of the creative service industry (hereinafter called "intellectual service industry") taking advantage of its intangible values such as know-how, brands, and skills of its own.

Table 3-3-1-4

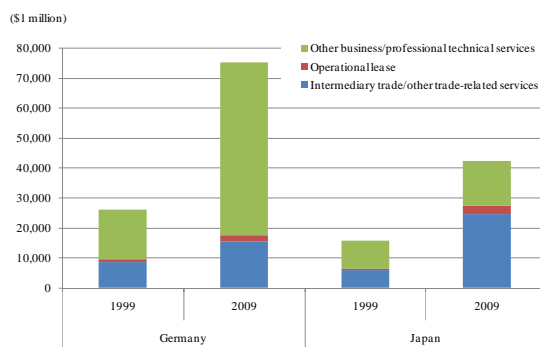
Receipt of services of Japan, Germany, and South Korea by industry (2010 calendar year)

	(\$100 million)		
	Germany	Japan	South Korea
<b>B to B</b>			
○Transportation	575 (2nd)	389 (3rd)	380 (4th)
○Marine transportation	280 (1st)	275 (3rd)	278 (2nd)
○Air transportation	138 (2nd)	21 (14th)	40 (7th)
○Information	163 (3rd)	10 (26th)	2 (38th)
○Patent, etc.	143 (3rd)	266 (2nd)	31 (10th)
○Profit-making business, etc.	745 (3rd)	425 (6th)	139 (20th)
○Communication	54 (4th)	7 (23rd)	7 (21st)
<b>B to C</b>			
○Tourism	345 (6th)	132 (16th)	97 (27th)
○Cultural entertainment	10 (8th)	1 (27th)	6 (11th)
○Total receipt of service	2,378 (3rd)	1,415 (6th)	827 (16th)

Source: *International comparative statistics* (Institute for International Trade and Investment).

Figure 3-3-1-5

Breakdown of “other services” of Germany and Japan



Source: OECD stat.

The receipt of services of Germany has remained at a high level and, in particular, “other profit-making business services” is remarkably expanding (Figure 3-3-1-5). So, let us look at how the “other profit-making business services” is different from that of Japan. First, its structure is different. While the “Other business/Professional and Technical Services” accounts for 80% of the receipt of services in Germany, Japan is characterized by the fact that 70% of it is “Intermediary trade services/other trade-related services” and the percentage of “Other business/Professional and Technical Services” is low (Figure 3-3-1-6). Compared with Germany, the receipt of services in professional and technical services such as legal, accounting, and R&D services is less in Japan. Although the volume of receipt of services has nearly doubled in the past 10 years in Japan (it has more than tripled in Germany in the same period), there is room for Japan to further expand it along with the expansion of overseas development of the manufacturing industry.

**Column 13 Example of BtoB service companies in Germany**

**(A) SAP**

« **Corporate outline** »

- Founded in 1972, worldwide sales of about ¥1.8 trillion with about 50,000 employees.
- SAP is the world’s third largest software company following Microsoft and Oracle, but in the Enterprise Resource Planning (ERP) software market, it is ranked No.1 in terms of money with 23% of the world market share.

« **Service contents** »

- SAP’s system is divided by category of work of the company, such as “Accounting System,” “Logistics System,” “Sales System,” and “Personnel System” and the data protocol of each system is centralized, which facilitates the analysis by linking the information of each system.
- Other than business systems (mission-critical system), it provides solutions in the field of Customer Relationship Management (CRM), Supply Chain Management (SCM), and Product Lifecycle Management (PLM) as well as systems for large companies and solutions targeting second-tier and smaller companies.

## **(B) HEDRICH vacuum Systems**

### **« Corporate outline »**

- Founded in 1963, HEDRICH provides services in manufacturing and developing of machine tools that use the vacuum state, with 290 employees worldwide.
- It has been developing a global distribution system service through its agencies in more than 30 countries and subsidiaries established in Switzerland, China, and the United States.

### **« Service contents »**

- It provides services in design, manufacturing, assembly, and quality test of vacuum-related equipment and after-sales services.
- It has newly set up an application center to provide support to customers from the planning stage.

## **(C) TÜV Rheinland**

### **« Corporate outline »**

- TÜV Rheinland is the world's pre-eminent third-party certifier who globally provides technical services.
- Founded in Cologne, Germany in 1872, currently it has 500 operations bases in 65 countries with 16,000 employees, with annual sales of €1.4 billion.
- Sales component ratio: about 50% in Germany, about 20% in Asia, about 15% in other European countries, and about 15% in the United States.

### **« Service contents »**

- It provides inspection services for industrial equipment, products, and services.
- It also provides support to enterprises in their project management and process construction as well as technical training. These services are supported by the global network between TÜV Rheinland certification labs, testing facilities, and the education center.

## **(D) Roland Berger Strategy Consultants**

### **« Corporate outline »**

- Roland Berger Strategy Consultants is Europe's largest management strategy consulting firm based in Munich, Germany. Founded in 1967, it has 47 offices in 35 countries with more than 2,500 consultants at present.
- The founder, Roland Berger, is one of the most influential business persons in the EU economic zone including Germany. After turning down an offer from Chancellor Gerhard Schroeder (1998–2005) of Germany to become the Minister of Economics, he served as his close advisor for seven years, and served as a board member of INSEAD, a business school, and as a member of advisory boards in various companies including Sony, Fiat, Deutsche Bank, Blackstone Group, and FC Bayern München.

### **« Characteristics of service »**

- “Long-term perspective”: Unlike the United States, which puts top priority on stocks and chases short-term profits, it has achieved long-term stable management.
- “Diversification”: To successfully carry out corporate management in Europe, where various

countries, cultures, and religions are gathered, the idea of respecting diverse culture and values is deeply rooted.

**(B) Comparison with South Korea**

Next, we look at the comparison with South Korea. The South Korean government developed the “measures for service industry to activate entries into overseas markets” in 2010 in order to promote overseas expansion of the service industry and thereby to reduce the service balance deficit. More specifically, they are providing support for the preparation of guidance for the overseas expansion strategy and for the expansion of KOTRA’s function to support overseas expansion under the name of “improvement of overseas development support system.” Also, as a “strengthening of overseas expansion supporting program,” they are expanding support of R&D and the human resource development of importing companies through SME internships. They will also promote education toward overseas employment and follow-up, and the expansion of the mutual authentication between national qualifications as the “overseas expansion base for human resources specializing in services” (Figure 3-3-1-6).

Figure 3-3-1-6

Outline of the South Korean government’s “measures for service industry to activate entries into overseas markets (2010)”

- Scope of the “measures for service industry to activate entries into overseas markets”
- The South Korean government developed the “measures for service industry to activate entries into overseas markets” in 2010, and indicated the direction of related systems and support policies for the activation of overseas export/investment/human resource development of service industry.
  - The idea behind this is that, because the existing measures to expand export were focused on the manufacturing sector, there was a limit to reflect the characteristics of service industry. Therefore, they put forward the measures for the promotion of overseas advance in a more comprehensive and systematic manner.
  - Issues to be promoted
    1. Improvement of support system for overseas development
      - ✓ Preparation of guidance on overseas development strategy  
: Prepare guidance on overseas development strategy by region/by country for service industry
      - ✓ Complement of the function of KOTRA’s overseas development support  
: Strengthen the function of Overseas Development Support Center/Information system of KOTRA headquarters
      - ✓ Expansion of overseas market through WTO/FTA  
: Liberalize the service market through WTO/FTA and expand the advance of the domestic human resources
    2. Strengthening of overseas expansion support programs
      - ✓ Expansion of export finance  
: Increase the credit line for service export companies/Expand the scale of support for the culture export insurance
      - ✓ Expansion of support for R&D in service industry  
: R&D in healthcare/tourism/contents industry/Place priority on the development of composite commodities such as products + service
      - ✓ Human resource development of export companies through SMEs’ internship  
: Matching between international human resources and SMEs through internship
      - ✓ Expansion of support for overseas marketing  
: Support SMEs in marketing/Coupons for consulting on overseas expansion
      - ✓ Development of overseas expansion base in combination with ODA  
: Support in tandem with all the theme of ODA project/Promote dispatching of experts after the completion of projects
    3. Expansion of overseas bases for human resources specializing in services to advance
      - ✓ Improvement of employment service to start work overseas  
: Cooperate with overseas employment placement agencies/Collaboration between KOTRA and the overseas employment general information network
      - ✓ Enhancement of education for overseas employment and follow-up  
: Turn the existing overseas training institutions, mainly large-scale educational institutions (universities, etc.), into an educational center.
      - ✓ Expansion of mutual authentication of qualifications  
: Promote exchange of human resources with expertise and technical capabilities

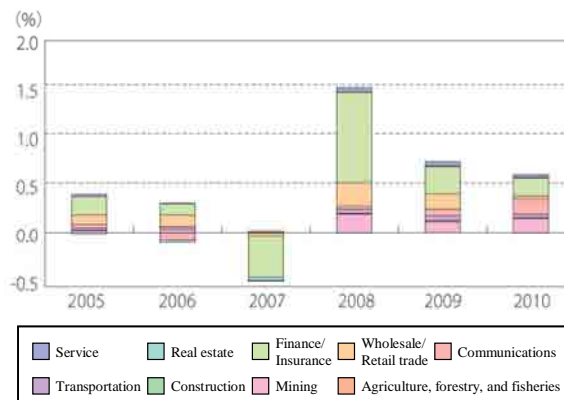
Source: Ministry of Knowledge Economy website.

While such strategies come into practice in South Korea, the comparison of ratio of outward foreign direct investments to GDP of non-manufacturing sectors shows that South Korea has remained higher than that of Japan after 2006 until 2010. In particular, South Korea tends to exceed Japan in mining, wholesale/retail, service, and real estate industries (Figure 3-3-1-7, Figure 3-3-1-8).

Japan should learn from the best practices of South Korea’s support for active overseas development of the service industry. By referring to these examples, Japan will be required to build a support system of its own and to improve the performance of its service industry in overseas development.

Figure 3-3-1-7

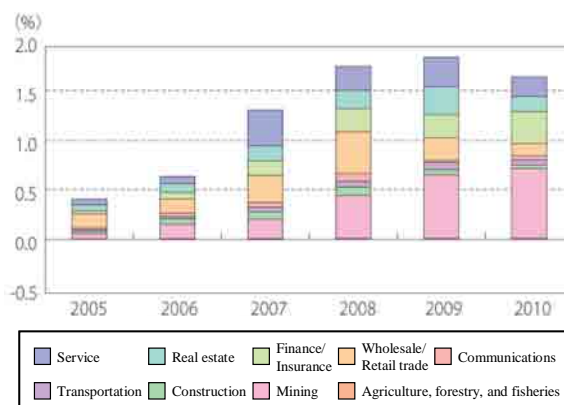
Breakdown of outward foreign direct investments by the Japanese non-manufacturing industry (ratio to nominal GDP)



Source: *Balance of Payments* (Bank of Japan/Ministry of Finance).

Figure 3-3-1-8

Breakdown of outward foreign direct investments by the South Korean non-manufacturing industry (ratio to nominal GDP)



Source: Export-Import Bank of Korea website.

#### (4) Changes in the balance of outward and inward direct investment of the Japanese service industry

Next, let us look at the international comparison of the GDP ratio of the balance of outward and inward direct investment of the Japanese service industry. The ratio of the balance of outward foreign direct investment of the Japanese manufacturing industry to GDP is smaller than that of the UK, same as that of France, but larger than that of Germany, the United States, and South Korea. On the other hand, the ratio of the balance of outward foreign direct investment of the Japanese service industry to GDP is lower compared with that of France, the UK, Germany, and the United States. From an international point of view, the ratio of the balance of outward foreign direct investment of Japan to GDP tends to focus on the manufacturing industry, but from now on, an important task for Japan will be to further expand the outward foreign direct investment of the service industry, not just that of the manufacturing industry (Figure 3-3-1-9).



Next, looking at the ratio of the balance of inward foreign direct investment to GDP, we find that both the manufacturing industry and the service industry are at a low level compared with that of major countries. Japan is at a lower level, not only than that of Europe and the United States but also than that of South Korea in both the manufacturing industry and the service industry. In particular, the gap between the major countries is bigger in the service industry (Figure 3-3-1-10).

Figure 3-3-1-9  
Ratio of outward foreign direct investment balance of manufacturing industry and service industry to GDP in major countries

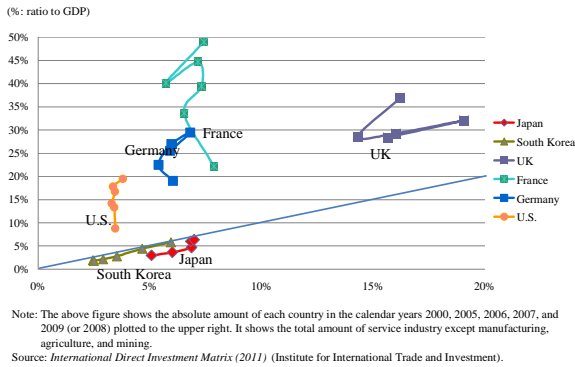
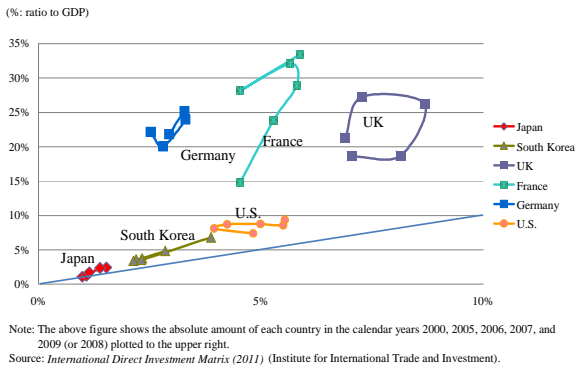


Figure 3-3-1-10  
Ratio of inward foreign direct investment balance of manufacturing industry and service industry to GDP in major countries



**2. Example of overseas business development of service industry**

It is said that the Japanese consumers’ product selection criteria are the most stringent in the world, but by going through the mill of such severe domestic consumers, the quality of services provided by Japanese companies in the service industry has improved. That way, the Japanese service industry has been promoting overseas development by taking advantage of the unique know-how that they have cultivated in the domestic market. While promoting localization in their overseas development, as far as the core part of their businesses is concerned, Japanese companies in the service industry are providing the same services as they provide in Japan with a great deal of success.

Now, let us outline the pioneering cases of overseas business activities of the “intellectual service industry” that are based on intangible values such as know-how and brands unique to Japan.

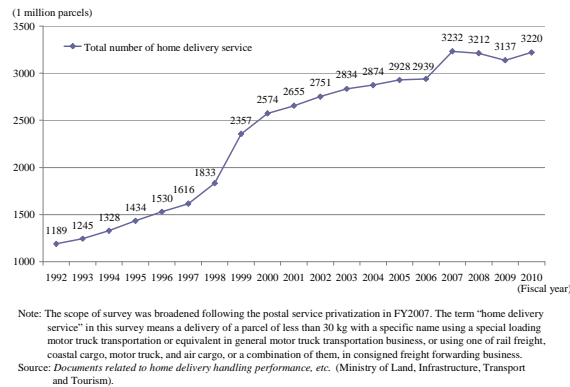
## (1) Overseas business development of logistics industry

### (A) Trend of logistics market in Japan

The changes in the number of home delivery service operations in Japan generally continued to be flat after peaking in 2009. The growth of the home delivery business in Japan began to slow down compared with the growth during the 1990s and the 2000s, and the domestic home delivery service market seems to have matured. However, it is an era where the consumption behavior is changing as seen in rapidly growing Internet shopping, and there is a good opportunity for the domestic home delivery service markets to grow (Figure 3-3-2-1).

Figure 3-3-2-1

#### Home delivery service performance in Japan



On the other hand, the market of Japanese companies is suddenly expanding overseas, mainly in Asia, and there is a pressing need for the service industry to develop markets in Asia, especially in China. According to the Chinese authorities, the number of handling home delivery service in China doubled in 2010 compared with 2006 to 2.4 billion parcels, and the Chinese market has become the world's third largest market following the United States and Japan. One reason behind this is that the distribution of goods has become more frequent between Japan and foreign countries. Amid ongoing globalization of the economy, various industries and businesses are engaged in overseas business development, and in order to provide them with high-quality logistics services, Japanese logistics companies are accelerating their overseas business development. In particular, against the background of remarkable economic growth in the Asian region centering on China, living standards have improved and the market, which requires higher quality and high value-added products, is expected to grow; consequently, the home delivery service market will expand, too. International logistics are getting livelier centering on Asia, and there is a growing call for high quality home delivery services in Asia.

On another front, competition is intense in foreign countries. There are more than 200 local home delivery service companies already in Shanghai, China, which are keeping up with the demand of about 100 million parcels a year. Comparing the delivery charges, some local distributors receive orders at less than half of Japanese companies' rates. However, Japanese companies have a strong

sense that their strength is the quality of service, and they are trying to provide high quality service, which local companies lack. But their competitors are not only the local home delivery service companies, and U.S. and European businesses are accelerating entry into the rapidly growing market. U.S. and European large logistics companies are also rapidly expanding business in China and the competition in the Asian logistics market is intensifying.

### (B) Overseas business development of Yamato Group

The Yamato Group started its home delivery service business in Shanghai and Singapore in January 2010, in Hong Kong in February 2011, then in Malaysia in September of the same year.<sup>62</sup> It is accelerating the expansion of the home delivery service business independently as the group's own business in Asia, where even more economic growth is expected in the future.

The consolidated sales of the Yamato Group are about ¥1.2 trillion in 2010. As for the operating revenues of overseas businesses—¥11.5 billion from the United States, 4 billion yen from Europe, and 8.3 billion yen from Asia—however, there was little operating income from overseas business<sup>63</sup>, as it often happened to home delivery service companies that started full-scale operation of overseas business after 2010, because they spent huge up-front investment and took time to become profitable (Table 3-3-2-2).

Table 3-3-2-2

Yamato Group's sales and operating income by region

	2010					Consolidated
	Japan	U.S.	Europe	Asia	Deleted or entire group	
Operating revenue and operating income						
Operating revenue from customers	1,184,846	8,392	2,564	5,032	-	1,200,834
Operating revenue between segments	4,287	3,139	1,359	3,265	(12,050)	
Total operating revenue	1,189,133	11,531	3,923	8,297	(12,050)	1,200,834
Operating expense	1,127,780	11,347	3,976	8,295	(11,953)	1,139,445
Operating income (loss)	61,353	184	(53)	2	(97)	61,389
Assets	783,363	2,858	1,155	4,607	86,658	878,641

Source: Annual Report of Yamato Holdings.

Meanwhile, 1.08 million parcels<sup>64</sup> were handled in FY2010 in Asia (Shanghai, Singapore, Hong Kong), which increased to 4.79 million parcels<sup>65</sup> in FY2011 (Shanghai, Singapore, Hong Kong, Malaysia), 4.4 times from the previous fiscal year. Looking by cities, it increased about 4.5 times in

62 It had advanced in Taiwan in 2000, but it had ownership of only about 10% and only collected the service consultation fees or royalties for brand usage; however, their share of investment was 65% in Shanghai, 60% in Malaysia, and 100% in Singapore and Hong Kong in their home delivery service and the Yamato Group takes the initiative in the management of local companies.

63 Detailed data are not published in its financial statements.

64 From April 2010 to March 2011

65 From April 2011 to March 2012

Shanghai and about 2.3 times in Singapore from the previous fiscal year. In the medium-term management plan, they set a target of handling 120 million parcels<sup>66</sup> overseas for the fiscal 2013 and a ratio of overseas sales of more than 20% for the fiscal 2019.

However, today, there are home delivery services in every country/region in Asia, and the Yamato Group, which was late in entering the market, is trying to differentiate itself from other local companies by providing value-added products based on their quality of service and unique know-how. While many large U.S. and European logistics companies are outsourcing the collection and delivery service to local companies, the Yamato Group hires its own delivery staff through a local company in order to make a difference. Also, they are making efforts in human resource development; for example, for the training of sales drivers who have direct contact with customers, they send the best active sales drivers from Japan as trainers and teach local staff how important the courteous customer service attitude is and so on. They also provide value-added services in Asia, such as frozen/chilled food delivery, payment on delivery, delivering at specified times, etc., which has become common in Japan.

In this way, it is not uncommon that services taken for granted in Japan could be new services in foreign countries. As one example, Yamato Transport ran a “Send ice cream” campaign in Singapore. There had been no such service as delivery of frozen foods for general consumers in Singapore, and the delivery of cold ice cream to homes has gained popularity (Figure 3-3-2-3).

The overseas business development of the Yamato Group has created new businesses and merits in foreign countries through business transactions with Japanese companies utilizing abundant know-how of logistics including home delivery service. Many mail order business operators of Japan have begun to consider advancing into Asia, where no reliable logistics network was in place in the past. Those Japanese companies, such as a company that began business to sell fresh and safe vegetables to Japanese people living in Singapore, a manufacturer and seller of cosmetics made from natural materials that promote a safe image, an apparel maker who wants to sell its goods not to miss the timing of selling hot fashion items, are developing overseas markets in Asia by using the Yamato Group’s home delivery service network. Also, there is a case that, as the sales of healthy foods began to increase in Shanghai, China and the number of mail orders has increased, they entrusted the delivery of the products to the Yamato Group. Today, they send a part of the products by using frozen/chilled food delivery service and increasing sales. Thus, the overseas business development of the Yamato Group has brought significant benefits to Japanese companies.

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66 The target number includes the number of parcels handled in Taiwan (note that the business in Taiwan is not a 100%-owned unit of the Yamato Group)

Figure 3-3-2-3

Yamato Transport's overseas business activities



Photo: Yamato Transport Co., Ltd.

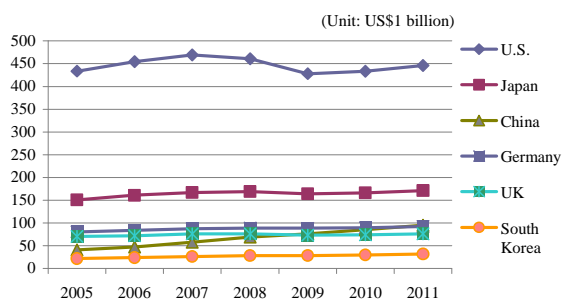
## (2) Overseas business development of contents industry

### (A) Expansion of market scale of contents industry

The market scale of the Japanese contents industry<sup>67</sup> including movies, animated films, TV programs, games, books, etc., is about 12 trillion yen, second in the world following the United States (2009) (Figure 3-3-2-4). The scale of the domestic market has been contracting in recent years because of dwindling birthrate and aging population as well as the business trend, but from a global viewpoint, it is expected to greatly expand in the future.

Figure 3-3-2-4

Market scale of contents industry in major countries



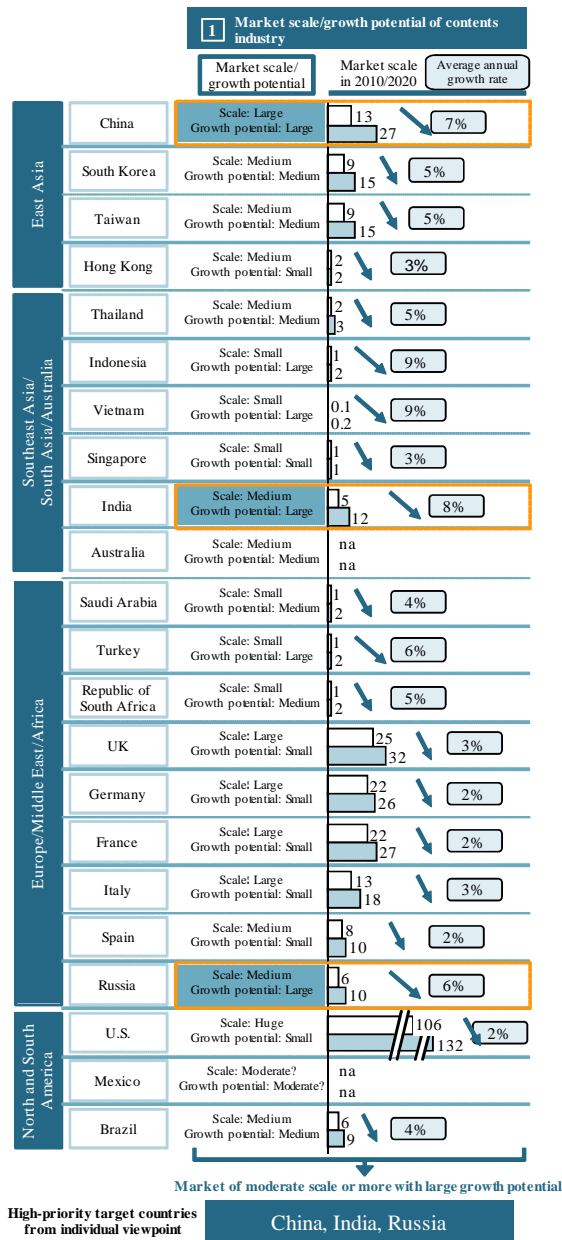
Note: Figures after 2010 are predicted figures.  
Source: *Global Entertainment and Media Outlook: 2010-2014* (PWC).

By country/region, the markets in emerging countries in particular are expected to grow. In addition to China, India, and Russia, which already have mid- to large scale markets, significant growth is expected in Indonesia and Vietnam, whose market scales are small at present (Figure 3-3-2-5).

<sup>67</sup> The definition of the contents industry is an industry that produces/distributes projected images (movie films, animated films, and dramas), music, games, books, etc.

Figure 3-3-2-5

Market analysis for major countries/economies

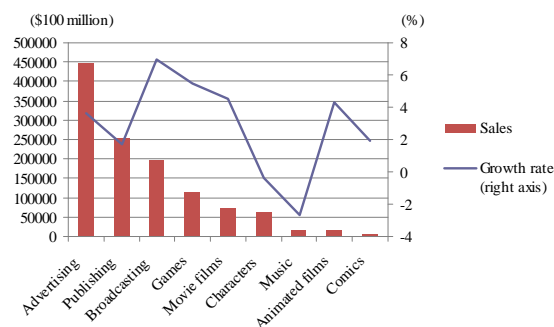


Source: Ministry of Economy, Trade and Industry.

Looking at the market trend of the contents industry by division, broadcasting (TV programs such as dramas, excluding advertisement) is expected to significantly grow during 2009 to 2014 by an annual average of 7.0%, as well as games (5.5%), movies (4.5%), and animated films (4.3%), while the music and character division is expected to remain in negative growth (Figure 3-3-2-6).

Figure 3-3-2-6

Market scale (2009) and growth rate (2009 to 2014) of the contents industry in the world by division



Source: South Korean content promotion measures and analysis of direct/indirect effects in overseas market (JETRO, 2011).

### (B) Contents industry market of Japan

The scale of the contents industry market in Japan, as described above, has remained flat as it is facing a plunging birthrate, aging society, and business depression, and the market scale slightly contracted to 12.641 trillion yen in 2010, a 0.8% plunge from the year before. By division, the advertising costs of four mass media (TV, radio, magazines, and newspapers), which had supported the contents production costs, have been greatly decreasing. On the other hand, contents industry such as contents distribution over the Internet or on mobile phones is in upward trend; in particular, sales of “Avatar items”<sup>68</sup> of mobile games and video distribution service have increased by 210.7% and by 44.6% respectively from the previous year (both in 2010).<sup>69</sup>

### (C) Example of overseas development of the Japanese contents industry

#### (a) Shogakukan, Shueisha, and Shogakukan–Shueisha Productions

Next, in the publishing business, Shogakukan, Shueisha, and ShoPro have established a joint venture VIZ Media, which has been actively developing business in the United States and Europe. VIZ Media has been enjoying high popularity by publishing and broadcasting Japanese comics and animated films, which are edited and localized (translation and cutting out of contents considered to be inappropriate for the country it advanced in), such as a local version of Weekly Shonen Jump. For example, 7 out of the top 10 sales of comics in 2011 in the United States, including TOP3, are published by VIZ Medias (Figure 3-3-2-7).<sup>70</sup> Meanwhile, the headquarters of Shogakukan, Shueisha, and ShoPro are respectively leading business development in the markets in emerging countries in Asia and other countries.

68 “Avatar items” are items that a character or virtual self (avatar) carries in Internet games.

69 *Digital Content White Paper 2011*, P.22–23 (Digital Content Association of Japan, 2011)

70 ICV2 Website. <http://www.icv2.com/articles/news/22203.html>

Figure 3-3-2-7

2011 manga sales top 10 in the United States

Top 25 Manga Properties - 2011		
Rank	Title	Publisher
1	Naruto	Viz Media
2	Bleach	Viz Media
3	Vampire Knight	Viz Media
4	Sailor Moon	Kodansha Comics
5	Black Butler	Yen Press
6	Blackbird	Viz Media
7	Fullmetal Alchemist	Viz Media
8	Rosario + Vampire	Viz Media
9	Soul Eater	Yen Press
10	One Piece	Viz Media

Source: ICV2 website.

### (b) Kodansha

Kodansha has decided to broadcast an Indian version of “Giants’ Star” in India in 2012 (plan). The title is “Rising Star,” and the stage of the story is not Japan but India, and the main subject is not baseball, which is not so popular in India, but cricket, which is very popular in India.

Kodansha, with a view to the promotion of Japanese manga artists and commercialization of related goods, wants to get a foothold to make a full-scale entry into the market in India.

It is pointed out that the strength of Japanese games, animated films, and manga comics is the unique world created by various elements including violence that is “all jumbled together” because there is no restriction on using all manner of music that has various historical roots, or religious restrictions.<sup>71</sup> This unique world has attained popularity, especially in the United States and Europe, as “Cool Japan.”

### (D) Challenges in overseas business activities of the Japanese contents industry

However, we would have to say that their overseas business development is not enough. As of 2008, the export ratio of contents industry remained at 5%, which is only about 30% of the United States (17.8%).<sup>72</sup>

Also in the United States, the sales of manga comics/animated films itself is stagnant. The sales of Japanese manga comics in the United States reached \$210 million in 2007, but after that, it has been on a downward trend to \$140 million in 2009 perhaps because of the world economic crisis, and the TV broadcasting of animated films and the sales of DVD also have dipped after peaking in 2006.<sup>73</sup>

The major causes that it does not lead to sales despite the high popularity in foreign countries are (1) widespread piracy and illegal downloading, (2) contents operators lack funds for production and human resources while the contents distribution sector is in oligopoly situation, (3) China, South Korea, and other countries implemented their promotion policies to enter into the contents industry,

71 Remark made by Kenji Eno in the symposium titled “Net Kids Pop” (2004) held by the Ministry of Internal Affairs and Communications

72 Current status of contents industry and growth potential (Ministry of Economy, Trade and Industry, 2010)

73 *Digital Content White Paper 2011*, P.30-54 (Digital Content Association of Japan, 2011), *Hitotsubashi Business Review 2010WIN* (Toyo Keizai, Inc., 2010)



the majority of which had been dominated by Japan and the United States<sup>74</sup> and (4) transaction cost, such as localization cost, is huge when a contents company tries to develop overseas business by itself.

**(E) Market scale and measures for promoting the contents industry of each country**

Market expansion is expected in various regions, and measures to promote the contents industry are taken in various countries.

Especially in Europe, promotion of the contents industry is thriving. The UK government has been providing support for artistic culture, pop culture, sports, etc. both financially and in terms of human resources since 1998 under the slogan “Cool Britannia.” The French government has been supporting development of contents and human resources based on special funding of about 50 billion yen a year to further expand its traditionally strong culture industry policy. The German government has been attracting foreign filmmakers by providing tax credits to international co-production of films using its abundant budget for supporting the film industry of a total \$360 million a year.



There are countries in Asia that have been implementing similar measures. The South Korean government has been promoting its measures to enhance the contents industry and export promotion aiming to strengthen the competitiveness of Korean products such as electronics devices. The Chinese government has implemented its policy to support the contents industry by establishing Chinese culture industry investment funds of a total 10 billion yuan under the “Cultural Industry Promotion Plan.” The Hong Kong government provides support for the cost of film production, and the Media Development Authority of the Singapore government has established an international fund in cooperation with TV production offices to promote co-production of animated films (Figure 3-3-2-8).

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74 Media and Content Industry Division, Ministry of Economy, Trade and Industry (2005), *Digital Content White Paper 2011*, P.62 (Digital Content Association of Japan, 2011)

Figure 3-3-2-8

### Measures for promoting the contents industry in the country

-  [United States: Public-private sector collaboration for the development and export promotion of content industry under the slogan "Trade Follows the Films"](#)
- After the First World War, the United States has promoted the film industry and export of American products taking advantage of movies under the idea "Trade Follows the Films." (Department of Commerce: Every foot of film put out overseas adds \$1 in selling American products.)
  - In "Conlon Report (1959)," the Senate Foreign Relations Committee focused attention on the improved Japanese media environment and that the Japanese culture was changing and going through a standardization process. It recommended that they should introduce more mass literary/entertainment works that Japanese middle-class people could afford to buy.
-  [United Kingdom: Put emphasis on the development of creative industry and enhancement of financial function as two wheels of a cart under the slogan "Cool Britannia"](#)
- Putting up a slogan "Cool Britannia (1998)," the UK has actively developed creative industry strategies. In 2001, it set a target to make the digital content industry to grow to encompass 10% of GDP.
  - In "Creative Britain (2008)," it announced a strategy to develop creative industry focusing on the human resources/businesses development as well as the creation and protection of intellectual property rights.
-  [France: Further enhancement of traditionally powerful cultural industry policy by "Digital France"](#)
- Since the 1980s, the culture-related budgets were expanded, which has been maintained at a high level compared with other nations. It is characterized by various subsidies/preferential tax systems and a system that financial resources are redistributed within the industry centering on the film industry.
  - Announced "Digital France 2012" (October 2008). It enhanced support for the development of the creative industry and content production using new technologies.
-  [China: Set up a China Cultural Industry Investment Fund and has been providing support for the cultural industry under the slogan "Cultural industry Promotion Plan"](#)
- The central government of the People's Republic of China announced the Cultural Industry Promotion Plan (September 2009). As its purpose, it posted "Maintain strong market competitiveness by business management cutting across regions and business sectors, and create business enterprises with production of more than 10 billion yuan (about ¥130 billion)."
  - Established the "China Cultural Industry Investment Fund" in 2011. It plans to invest in publishing, movie films, TV, Internet industries, etc. The purpose is to promote its cultural industry through the government investment that would encourage investment from other sources. The scale of the fund is 20 billion yuan (about ¥250 billion).
-  [South Korea: Intensively develop the content industry with a view to strengthening the competitiveness of South Korean products riding on the Korean boom](#)
- In the "Presidential Proclamation on Culture (1998)," it posted the purpose "to become one of the five major content creating nations by 2007." Established the content promotion fund (about ¥50 billion). After that, it achieved annual growth rate of 9%.
  - It announced a measure to promote art and culture for the long-term growth of the Korean boom called "Cultural and artistic development strategy of Republic of Korea working together with the world (2012)," the contents of which are "development of leading cultural and artistic content," "fostering of professionals who lead the culture and arts," "creation through culture/arts and industrial technology," and "cultural and artistic exchanges to maintain the current interest in Korean pop culture."

Source: Reprint from the *Current status and potential of future development of the content industry* (Ministry of Economy, Trade and Industry).

### (F) Background/contents of measures for promoting the contents industry of South Korea

Of all others, South Korea is one of the most aggressive countries in promoting contents industry. In the background of South Korea's efforts to promote the contents industry and to promote export, there is a purpose to expand the trade surplus. By exporting the contents from South Korea, it can bring in South Korean pop culture to importing countries, thus increasing its sales of South Korean consumer products and related goods. Eventually, it will expand consumer interest in South Korea itself and produce positive images, which may strengthen diplomatic power through soft power as well.

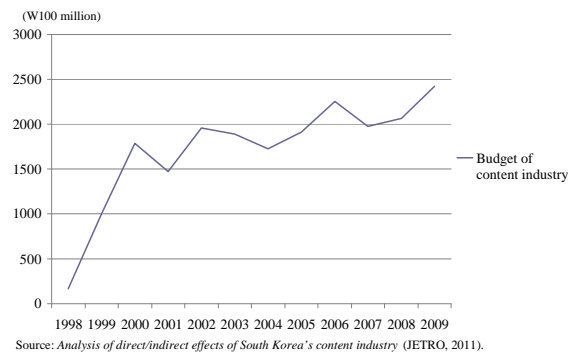
As concrete measures for promotion, it provides support for the reproduction cost of TV programs for export, support for participation and exhibition in overseas trade fairs and international broadcast video fairs, support for developing new markets, and support for international co-production, etc.

We can see how these measures are being worked on from the changes in the budgets for the contents industry. Since they spent 100 billion won in fiscal 1999, slightly more than five times that of

fiscal 1998, a huge sum has been spent, and in fiscal 2009, 242.2 billion won (about 15 billion yen)<sup>75</sup> was used (budget for contents industry in Japan was about 1.8 billion yen in 2009)<sup>76</sup> (Figure 3-3-2-9).

Figure 3-3-2-9

Budget compilation in the contents industry



**(G) Effects of measures for promoting the contents industry of South Korea**

Now let us look at what effects South Korea obtained from the measures for promoting the contents industry.

First, regarding the economic effect, export value of the contents industry itself has increased (increase by an annual average of 15.1% since 2005)<sup>77</sup>, and the economic effect other than contents industry has drastically increased riding on the Korean star boom; tourism has grown rapidly in 2011, an 8.8% increase over the previous year, and the effect was seen in the sales of food, electronics, and cosmetics manufacturing industries. Not only that, but positive effects have become visible, such as an increase in South Korean language students, an escalation of interest in Korean food, an improved image of South Korea itself, and so on.<sup>78</sup>

As we have seen above, the contents industry is an industry whose market scale has a high potential to expand worldwide and each country is implementing various measures to capture the contents industry market. Japan is also required to capture the market by actively implementing measures for promoting the contents industry.

**(3) Overseas business development of the food service industry**

**(A) Trends and market scale of the food service industry**

The food service industry of Japan has come to operate diverse businesses to meet various needs of consumers along with the change in family composition and lifestyle due to the progress in aging and women's social advancement, such as declining birthrate/trend toward the nuclear family, increasing number of households consisting of single persons and couples without children. Diverse businesses

75 Calculated at W1 = ¥0.07.

76 Anime!Anime!Biz website <http://www.animeanime.biz/all/2009123001/> (Article of December 30, 2009)

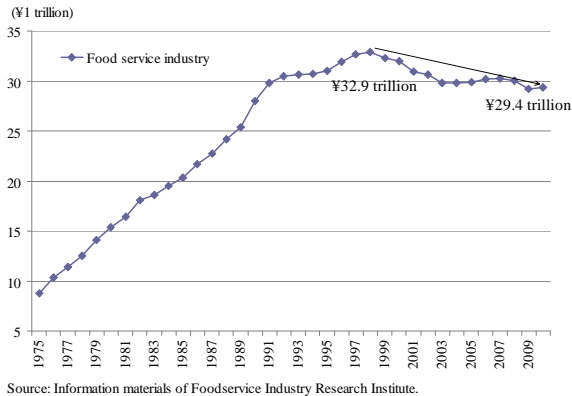
77 Figures are as of 2008 from Measures for promoting contents industry of South Korea and analysis of direct/indirect effects in overseas market (JETRO 2011).

78 *Yonhap News* (Article of March 7, 2012), Jnto website

have grown and the food service industry has developed in Japan such as now-common overseas fast food chains and family restaurants as well as the cafe market, which has been gaining popularity in recent years.

However, the market scale of the food service industry has been declining annually after 1998 and it dropped below 30 trillion yen in 2010. In 1998, when it reached its peak, the market scale was approximately 32.9 trillion yen, but in 2010, it decreased by more than 3 trillion yen to 29.4 trillion yen (Figure 3-3-2-10).

Figure 3-3-2-10  
Market scale of Japan’s food service industry



The international comparison of the market scale of the food service industry shows that the Japanese market is largely similar to that of China in fiscal 2010, about 30 trillion yen. However, while it increased by 0.5% over the previous year in Japan, it increased by 7.0% in China, and it is considered that the market scale of food service industry in Asia will expand far more than Japan (Table 3-3-2-11).

Table 3-3-2-11  
International comparison of food service market scale

	FY2010	Percent change from the previous year
Japan	¥29.3609 trillion	0.5% increase
U.S.	¥51.1932 trillion	3.0% increase
China	¥29.2570 trillion	7.0% increase

Source: Estimates of scale of food service industry (including retail of small dishes) (Foodservice Industry Research Institute), Global Market Information Database (National Restaurant Association).

Thus, while the domestic food service market is reaching a saturation point, Japan’s food service industry is aggressively advancing into Asia, which is continuing strong economic growth. Living standards have improved not only in the United States and Europe but also in Asian countries/regions in recent years, and Japanese foods are more appreciated as high quality, delicious, and healthy. Moreover, the demand for service of good quality is increasing in Asia, and more and more fast food businesses are advancing overseas in recent years as further demand is no longer expected in Japan.

Fast food has spread in Japan centering on the foreign fast food chains after 1970. After 1972, Japanese fast food chains that copied the business model of foreign chains like Mos Food Services, Inc. appeared on the scene. Further, in the following year, some fast food chains introduced fast food by using Japan's unique cuisine menus. A typical example of it is the Yoshinoya Beef Bowl chain that started franchising in 1971; since then, a unique Japanese style fast food market has been formed including Yoshinoya.

Hereafter, we examine more specifically the overseas development of the food service industry focusing on Yoshinoya and Mos Food Services, which are developing unique Japan-style fast food businesses overseas.

### **(B) Yoshinoya's overseas business development**

The overseas development of Yoshinoya Beef Bowl chain stores has expanded faster than competitors, and it had 512 stores overseas as of the end of February 2012. Yoshinoya opened its first overseas store in the United States in 1975, and became the first in the Japanese food service industry that set out overseas development. Since then, it promoted overseas business development centering on Asia. In the late 1990s, in the wake of the Asian currency crisis, it had temporarily withdrawn from South Korea, Thailand, and Indonesia, but from the early 2000s, it expanded into China, then to Indonesia from 2010, from where it had once withdrawn, and began to advance again to Thailand from 2011, and also opened stores in Southeast Asian countries. The number of overseas stores in China is the largest, more than 300 stores as of the end of 2011. The second is the United States, where it operated 98 stores (as of the end of 2011) (Figure 3-3-2-12, Figure 3-3-2-13).

Thus, the company has a large number of overseas stores; however, perhaps because of the franchise chain strategy, the contribution of the overseas business is not large, and the overseas sales ratio remains about 6%.

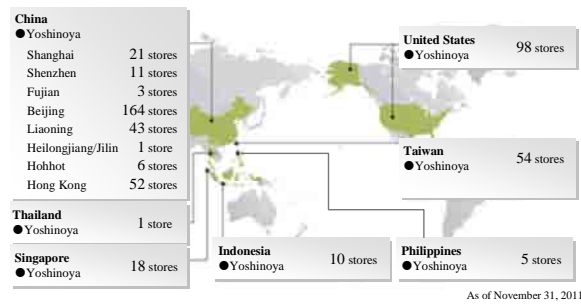
The beef bowl Yoshinoya is selling in the world is a traditional dish, and the image of Japanese food itself is established in the world as value-added food that is safe and secure.

Yoshinoya has its own foodstuffs, sauces, and recipes handed down in its history of more than 100 years. They produce a sense of trust and safety as the Yoshinoya Brand, differentiate themselves from the competitors, and use them as their own know-how in developing overseas business.

Having dissolved its capital tie-up with a trading company last year, Yoshinoya is promoting its overseas business independently at present. The way it develops its business reflects its stance to get closer to the local culture. For instance, when they find from a market survey that a sweet and salty taste is popular in Indonesia, they add a menu seasoned to create such taste in addition to the beef bowls; besides, they try to provide service appropriate to local culture, such as using only Halal foodstuffs (food that Muslims are allowed to eat) and beef slaughtered properly according to Islamic law.

Figure 3-3-2-12

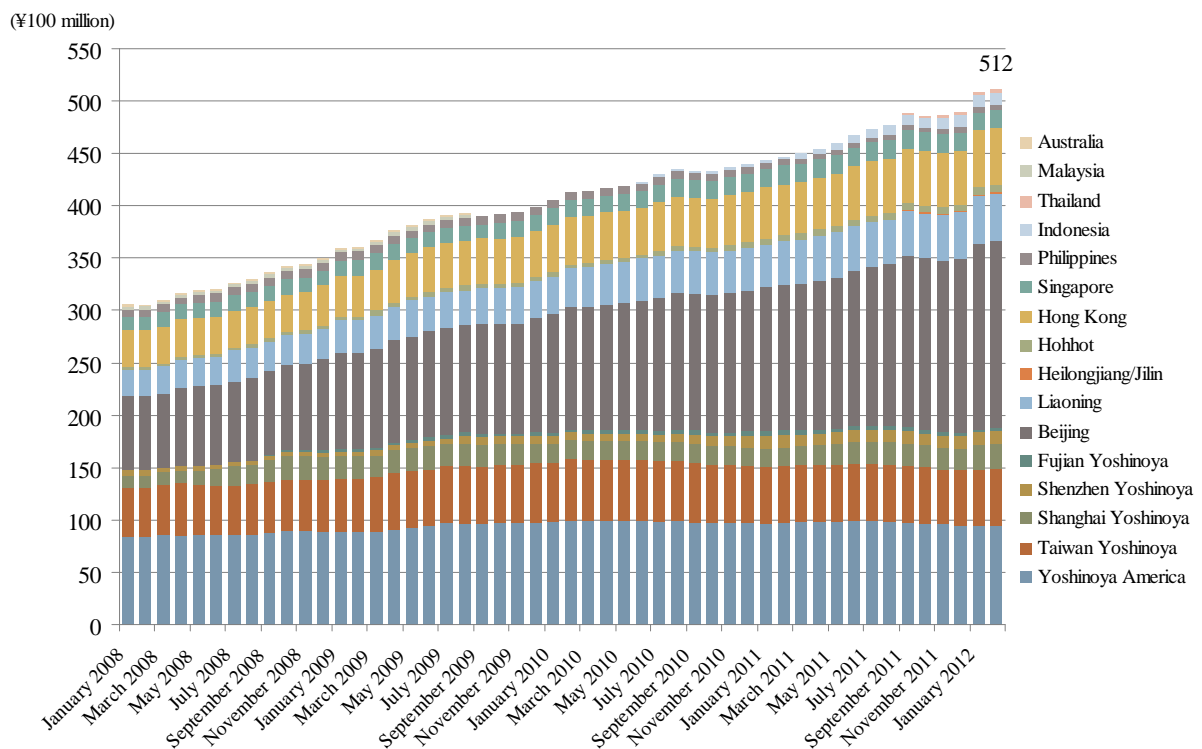
Yoshinoya's overseas development (as of October 31, 2011)



Source: Yoshinoya Holdings website.

Figure 3-3-2-13

Number of Yoshinoya's overseas outlets (as of the end of April 2012)



Source: Yoshinoya Holdings website.

### (C) Mos Burger's overseas business development

Mos Burger has established a joint venture company in Taiwan in 1990 and started a full-scale expansion overseas. Since then, it advanced to eight countries/regions, Singapore, Hong Kong, Thailand, Indonesia, China, Australia, and South Korea, and now the number of overseas stores reached 293 (as of the end of March, 2012) (Table 3-3-2-14).

Table 3-3-2-14

Mos Burger’s overseas outlet development

Country/Region	Number of stores
Taiwan	218
Singapore	26
Hong Kong	16
Thailand	7
Indonesia	4
China	17
Australia	4
South Korea	1
Total	293

Note: As of April 2012.

Source: Hearing with Mos Burger.

The sales of overseas stores in fiscal 2010 was about 12.1 billion yen, and the share of overseas business accounted for more than 10% in the sales of all domestic and overseas stores of about 112.7 billion yen. They set a goal for overseas business to have 1,800 overseas stores and the sales of overseas stores to 100 billion yen (about 30% of overseas sales) by 2019.

Since its foundation, Mos Burger has been sticking to “deliciousness” and built its brand by clearly differentiating itself from other companies. It pursued “deliciousness” by adopting the “after order system,” meaning burgers are cooked only after the order is taken, which was unusual for a fast food chain restaurant. Also, even during the time when the competitors became involved in low price competition, Mos Burger did not mark down much and followed its own course, which is high quality, high-value added, and clearly differentiated its brand from other competitors.

Mos Burger’s hamburgers seem to be enjoying high popularity overseas, especially in Asia, with their delicate taste.. Mos Burger is trying to introduce items filled with Japanese food culture. For example, in Asian regions, where the staple food is rice, “rice burgers,” which use rice instead of the buns they sell in Japan, are more popular than in Japan. While they sell their core menus in all countries, they also have developed menus unique to each country or region in cooperation with local affiliates. Meanwhile, there is a case where they reimport menus that have become popular in foreign countries, which contributes to the activation of stores in Japan.

Not only to serve “deliciousness” but also to serve the “spirit of good service,” a distinctive characteristic of Japanese companies, has become the key in their overseas business development. In order to provide Japanese-style quality service, they also focus on the education of employees; the executives of overseas affiliates such as store managers in countries where they opened new stores are sent to Japan to receive training, and the locally hired employees and part-timers receive training overseas. Education tools such as manuals and orientation videos are translated into the local languages, and in addition, they focus on spreading the corporate philosophy and corporate objectives in overseas stores by always placing expatriates from Japan headquarters in overseas affiliates.

After going through such efforts, Mos Burger has accumulated unique know-how and it intends to

establish a global chain, not just in Asia, by taking advantage of this strength in their overseas business development.

**(4) Overseas business development of the tourism industry**

**(A) Competitive market of international tourism surrounding Japan**

Facing the dwindling birthrate and an aging population, it is expected that the increase of foreign tourists has a significant effect on revitalization of the domestic economy and creation of employment opportunities in Japan. Japan has been promoting the “Visit Japan” project since 2003 in cooperation with the private sector, which played a major role in increasing foreign tourists to Japan, mainly from Asian countries.

In the “Travel & Tourism Competitiveness Report 2011” published by the World Economic Forum, Japan was ranked 22nd (among 139 countries) in general assessment, 5th in the Asian region, moved up three places from 25th (among 133 countries) in 2009. While Japan has a good reputation in the quality of transportation infrastructure such as railways, cultural resources, and the human resources who are engaged in tourism industry, it is ranked low in terms of preparedness in accepting foreign tourists, price competitiveness, marketing/branding power, and policies and regulations. In light of these challenges under the growing competition surrounding Japan in Asian countries/regions, Japan will need to strengthen international competitiveness by leveraging Japan’s strength while absorbing economic growth in Asian countries (Table 3-3-2-15).

According to the Japan Tourism Agency document, the number of foreign tourists in 2010 in Japan was 8.61 million (up 26.8% from the previous year), and it has shown rapid growth but ranked 30th in the world and 8th in Asia. Various regulations have been abolished; for example, Japan signed a memorandum with China Union Pay that handles “China Union Pay card” in July 2010 toward expansion of Chinese tourists and in February 2011, a positive approach has been taken toward issuance of medical visa to foreign tourists, which is contributing to the increase in foreign tourists.

Table 3-3-2-15  
World tourism competitiveness ranking

	1st	2nd	3rd	Japan (in 139 countries)
Land transport infrastructure	Hong Kong	Singapore	Germany	6th
Cultural resources	Sweden	Spain	UK	12th
Aviation infrastructure	Canada	U.S.	Australia	22nd
Human resources	Switzerland	Singapore	Iceland	22nd
Tourism infrastructure	Austria Cyprus, Italy	-	-	48th
Regulatory/policy aspects	Singapore	Hong Kong	New Zealand	51st
Marketing/Branding capability	United Arab Emirates	Austria	Rwanda	67th
Affinity to the tourism	Lebanon	Barbados	Albania	131st
Price competitiveness	Brunei	Gambia	Malaysia	137th
<b>Overall ranking</b>	<b>Switzerland</b>	<b>Germany</b>	<b>France</b>	<b>22nd</b>

Note: Green columns show the areas where Japan is highly ranked and blue columns are areas where Japan is ranked low.  
Source: The Travel & Tourism Competitiveness Report 2011 (World Economic Forum).

However, in 2011, due to the impact of the Great East Japan Earthquake, the number of foreign tourists to Japan drastically decreased to 6.22 million, down 27.8% from the previous year. Looking at



the change in the number of foreign tourists to Japan by month, it decreased by 73% from the same period last year immediately after the earthquake, but the rate of decline has been steadily shrinking, and in March 2012, it was down 4.4% compared to the same month two years ago, and it is recovering from the impact of the earthquake and the nuclear power plant accident. But it does not mean that the market is completely restored from the slump after the earthquake and there are markets that are slow in terms of recovery such as South Korea, and an even greater effort is essential for further expansion of demand. Below, we examine the overseas business development based on the concrete examples of the hotels/inns industry that is closely connected with the tourism industry.

**(B) Overseas business development of the hotels/inns industry**

According to the White Paper on Leisure 2011<sup>79</sup>, the market scale of hotels has remained flat for a long time at about 1 trillion yen. On the other hand, the market scale of inns, which was more than ¥3 trillion in 1991, has been shrinking, to less than 1.5 trillion yen in 2010 (Figure 3-3-2-16).

The number of lodging facilities has declined over the long term, but the total number of guest rooms of hotels/inns has consistently remained flat at about 1.6 million rooms until 2010. The number of hotel rooms exceeded the number of rooms of inns in 2009, and the gap between them expanded further in 2010 (Figure 3-3-2-17).

Figure 3-3-2-16  
Market scale of hotels/inns in Japan

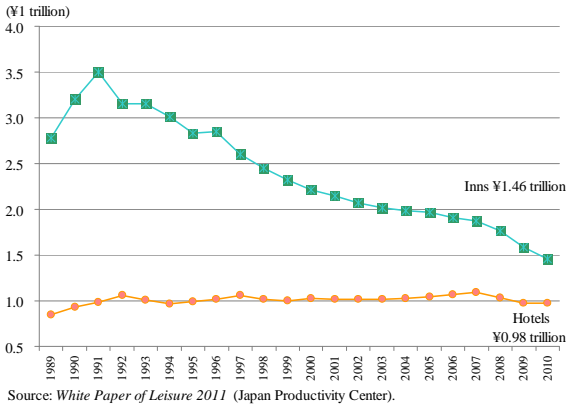
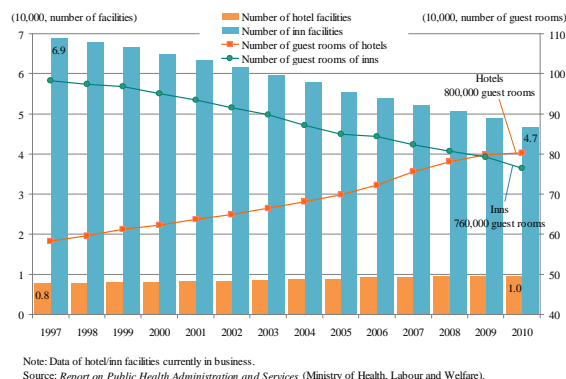


Figure 3-3-2-17

Number of hotels/inns and rooms in Japan



While the lodging market such as the inn business is shrinking year by year, foreign hotels that are expanding international business are accelerating advance into Japan. All of them are planning to develop luxury hotels in the Kansai area targeting Asian tourists. They are advancing in cooperation with Japanese companies by taking opportunities such as urban development projects, and Japanese hotels and existing foreign hotels in the region are making efforts, such as renovation of facilities, differentiating themselves from others, etc., and it is expected that the competition between Japanese hotels and foreign hotels will be further intensified on hotel occupation rates, room charges, facilities, etc. (Table 3-3-2-18).

Comparing the sales of Japanese hotels with that of foreign hotels, the sales scale of major Japanese hotels is about 60 billion yen while that of large foreign hotels is more than 100 billion yen. Looking at the overseas business development, a Japanese hotel, JAL Hotels<sup>80</sup>, runs 36 hotels in Japan and 19 hotels overseas. The countries it has developed overseas business in are China, Taiwan, Vietnam, etc., and it has focused on overseas business development by continuously opening hotels in Asia since 2011. On the other hand, most of the other major Japanese hotels are developing business within Japan. Large foreign hotels are developing overseas business running more than 3,000 hotels worldwide in 100 countries<sup>81</sup>, which shows that the scale of Japanese hotels is still small compared with that of foreign hotels in terms of both overseas business development and sales (Table 3-3-2-19).

Looking at the ways of overseas business development of hotels, Shangri-La Asia, a foreign hotel, is developing overseas business by employing a direct management system, which is also employed by most Japanese hotels. So, comparing the sales (over the previous year) of Hotel Okura and Shangri-La Asia, we find that the sales of Hotel Okura are consistently less than that of Shangri-La. It tells us that there is a possibility to make much more profit by increasing the number of overseas business development or focusing on specific locations, even if they employ the same direct management system (Figure 3-3-2-20).

80 It runs two brands, “Nikko Hotels International” and “Hotel JAL City”

81 The number of countries into which InterContinental Hotels Group, Starwood Hotels and Resorts Worldwide advanced

Table 3-3-2-18

## Foreign hotels scheduled to enter the Kansai region

Hotels	Location	Scheduled opening period	Characteristics
Four Seasons Hotel	Kyoto	2014	It plans to provide advanced medical technology and physical checkups to the guests in collaboration with a group of hospitals in Kyoto.
The Ritz-Carlton	Kyoto	February 2014	It will be built on the site of the former "Hotel Fujita." Sekisui House Co. attracted the construction of the hotel.
Marriott Hotel*	Osaka (Abeno)	Spring 2014	Kinki Nippon Railway Co., Ltd. advanced into Kansai area for the first time aiming to open in spring 2014 in the Terminal Tower, which is now under construction. Being located immediately above the Terminal Tower, to which people can go without transferring trains from Kansai International Airport, it is convenient for foreign visitors, such as those from Asian countries.
InterContinental Hotels Group	Osaka (Umeda)	2013	It will move into the former site of the railway switching yard on the north side of JR Osaka station following the redevelopment plan. In addition to hotel floors, it will build a service apartment for long-term stays.

Note: Marriott Hotel will operate in double branding with Miyako Hotel as "Osaka Marriott Miyako Hotel".

Source: According to various press releases.

Table 3-3-2-19

## Sales and overseas development of Japanese and foreign hotels

Number of overseas hotels and sales of major Japanese hotel brands

	Japan	Worldwide	Asia	Sales
JAL Hotels (Nikko)	36	19	13	¥11.5 billion
Hotel Okura	15	7	4	¥54.6 billion
Prince Hotel	46	7	4	N.A.
Hotel New Otani	16	2	1	¥59.8 billion
Miyako Hotels & Resorts	20	2	0	N.A.

Number of overseas hotels and sales of major foreign hotel brands

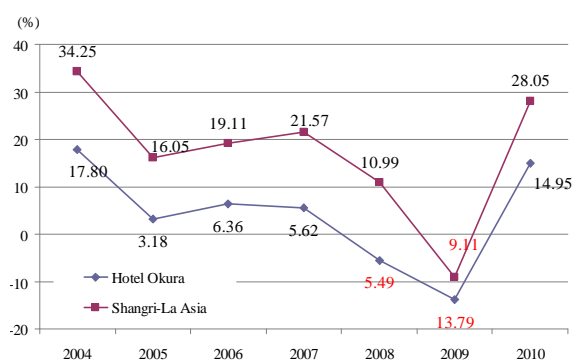
	Worldwide	Asia	Sales
Marriott International	3204	125	¥952.7 billion
InterContinental Hotels Group	4437	285	¥132.7 billion
Four Seasons Hotels & Resort	87	21	N.A.
Shangri-La Hotels & Resorts	72	62	¥142.4 billion
The Peninsula Hotels	9	6	¥49.3 billion

Note: The sales are FY2010 performance. The sales amount of Shangri-La Hotel is the total of three projects. The domestic hotels of Miyako Hotels & Resorts include chain hotels. Applied exchange rates are as of end of December 2010, US\$1 = ¥81.49 and HK\$1 = ¥10.47. The numbers of hotels were the most up-to-date data at the time of survey.

Source: Financial reports and annual reports of each company.

Figure 3-3-2-20

## Year-on-year sales change of Hotel Okura and Shangri-La Asia



Source: Financial reports and annual reports of the hotels.

Shangri-La Asia is characterized by its way of expanding hotel business mainly through direct management while many other foreign hotel chains are advancing through management contracts

(MC).<sup>82</sup> Direct management is one form of hotel management in which the hotel itself owns the land, building, and the management rights, so it can provide high level service over the mid- to long term without sticking to short-term profit. Although the risk is high, it can focus on the strategy to maintain a high level of service over the mid- to long term or on education of personnel as intended. Almost all Japanese hotels and inns employ this direct management system.

One reason that most of the lodging industry in Japan employs the direct management method is that hotels have a close connection to the flow of history of inns that are Japan's unique lodging facilities. The lodging industry in Japan that has been driven by Japanese-style inns is shrinking year after year, but the human resources, unique know-how, brand, and high quality of service have been realized because it was a direct management system, and these will lead to better service as the strength in overseas business development.

### **(C) Example of overseas business development of the inns industry**

Kagaya in Wakura hot springs area in Ishikawa Prefecture advanced to Taiwan on December 18, 2010. Although there were some examples of large Japanese hotel chains advancing overseas, there were few cases where Japanese-style inns had advanced overseas, so we want to discuss it as one of the good examples of overseas advance of the tourism industry that we should not overlook.

The basic concept of Kagaya is to carry on the tradition and preserve the same style of Kagaya in Japan and the entire hotel is run Japanese-style, and (Taiwanese) attendants wear kimonos in serving dinners in guest rooms. They also focus on cultivating human resources; for example, having Japanese staff stay in the hotel to provide training to the local staff, recruiting local people for housekeeping staff on the condition that they have language skills at JLPT (Japanese Language Proficiency Test) Level 2 or above in order to secure employees who can understand Japan more smoothly, and so on.

However, it is not easy to provide the same "good service" in Taiwan as they do in Japan Kagaya. Sometimes in inns, fine-tuned services or services that cannot be expressed in words are required, and it takes time for Taiwanese staff to understand them all and put into practice. However, if they can provide such "good services" overseas, it will give a high possibility for Kagaya to differentiate itself as a Japan Brand, which could also provide an important clue to the challenges Japanese hotel industry is facing today and to the Japanese lodging industry's overseas business development (Figure 3-3-2-21).

As for the trend of hotel guests, 70% are Taiwanese, 20% are Japanese, and 10% are others, and in 2011, about 25% (ratio to all Taiwanese guests) of Taiwanese guests who stayed in Kagaya Taiwan also stayed in Kagaya in Japan, which is in Wakura hot springs area. Overseas business development can also lead to brand advertising in foreign countries and actually generate inbound demand to Japan.

The 2011 sales performance was 440 million New Taiwan Dollars (about 1.23 billion yen), about 80% of the initial sales plan. It was caused by the weak distribution of information throughout Taiwan,

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82 The method employed by most foreign hotels, in which the land/building owners sign the agreement with a hotel chain and entrust operation/management of the hotel facilities. Although the risk is low, when profits decline due to no management right, often the owner puts pressure to improve short-term profitability. Sometimes short-term profit increase causes hotel staff shortage or quality decline.

greater seasonal variation than predicted and that the room rates were set too high for Taiwan (¥32,000 and up per night with two meals). In the sales plan for 2012, they set the target at ¥1.4 billion, up by ¥170 million from the previous year.

Figure 3-3-2-21  
Kagaya in Taiwan



Photo: Kagaya

The spillover effect of Kagaya’s advance into Taiwan on the domestic economy was slightly less than ¥3 billion in total, and it tells us that the overseas advance not only increases the company’s profit and number of stores but also has a significant spillover effect on the domestic economy (Table 3-3-2-22).

Table 3-3-2-22  
Domestic economic spillover resulting from Kagaya’s presence in Taiwan

1	Construction, design, interior materials, etc. (made in Japan)	Approx. ¥1.5 billion
2	Equipment such as kitchen equipment, fire-fighting equipment, etc. (made in Japan)	Approx. ¥400 million
3	Furniture and equipment, decorative fixtures, etc. (made in Japan)	Approx. ¥400 million
4	Japanese foodstuffs, craft products for sale, etc.	Approx. ¥150 million
5	Trademark use fee	Approx. ¥200 million
6	Opening/operation consultation and staffing costs	Approx. ¥200 million
7	Annual management consultation fee	3% of sales of each year

Note: No. 4 is the amount for a year and No. 5 is the amount for a 15-year contract.

Source: Hearing with Kagaya.

Further, Kagaya’s advance into Taiwan has created not only economic spillover in Japan that is directly recorded in GDP, but also a high-value added export of “good service,” or hospitality unique to Japan. It has sent out to the world the “spirit of good service,” including bowing that is common in Japan, as a “Japan Brand” and suggested one possibility of creating a new service industry.

While evaluating its business in Taiwan, Kagaya is planning for its future overseas business development to open 5 inns in 5 years and a total of 15 inns worldwide in 10 years, by accumulating

know-how to independently develop business overseas, such as different building standards from that of Japan, unexpected events that could occur only in foreign countries, and so forth. Currently (as of March 6, 2012), they have received invitations for joint venture investment, requests for management, or consulting; six from China, two from Bali, one each from Vietnam, Thailand, and Bulgaria. By exporting Kagaya's "good service" model to the world, a new service industry will be established starting from Japan in the future (Figure 3-3-2-23).

Figure 3-3-2-23

Guests receiving picture in Taiwan's Kagaya



Photo: Kagaya

**(5) Overseas business development of the retail industry**

**(A) Current status of retail industry**

The trend of total retail sales in Japan peaked in the late 1990s but its growth reached a plateau along with the decline in the number of customers and the average customer spend due to the declining birthrate and aging society (Figure 3-3-2-24).

In light of this situation, department stores, GMS<sup>83</sup>, and some convenience stores (licensing scheme) advanced into a part of Asia such as advanced ASEAN countries since the mid-1990s, but in the early 2000s, Japanese retail stores were experiencing severe competition from their Western rivals, such as Carrefour (France), Wal-Mart (the United States), and others, who rushed into Asia.

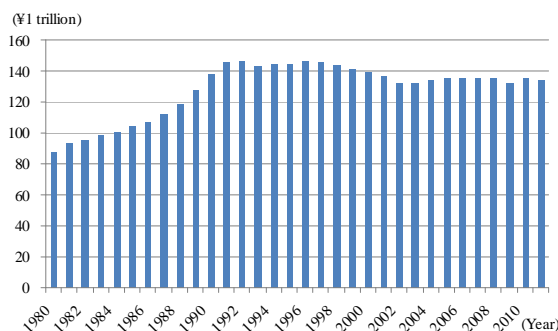
The situation of foreign countries' overseas presence is such that mega-chains with over 2,000 stores in the world with sales of more than \$90 billion advanced one after another; Wal-Mart with 9,600 stores in 28 countries, Carrefour with 15,900 stores in 33 countries, followed by Tesco of the UK, Metro of Germany, etc. While the large number of stores demonstrates the strength of the enterprise's presence in one way, it is very effective in promoting brand awareness and securing a favorable position in sales and procurement.

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83 GMS = General Merchandise Store

Figure 3-3-2-24

Retail sales until 2011 in Japan



Source: Distribution Economics Institute of Japan.  
 (Source) Statistical Survey on the Trend of Commerce (Ministry of Economy, Trade and Industry)

However, in recent years, along with the expansion of the middle-class population and rapidly progressing urbanization<sup>84</sup>, the desired form of retail stores has been changing in emerging countries including those in Asia. Against this backdrop, the Japanese retail industry is giving a series of directions to actively advance overseas centering on the convenience stores that capture the urban lifestyle.

**(B) Convenience stores**

The number of 7-Eleven stores has surpassed 40,000 worldwide in 2011 and Lawson is intending to open stores in India, Myanmar, Vietnam, and Hawaii in addition to the stores already opened in China and Indonesia setting a goal to open 10,000 stores each in China and other regions by 2020. The number of overseas stores of FamilyMart exceeded the number of its domestic stores in 2009 and it is aiming to open 40,000 stores combining overseas and domestic stores by 2020. If all goes according to plan, the total number of overseas stores of the convenience store industry will exceed the total number of domestic stores in 2012.

The convenience stores in Japan have established a business model that is unparalleled in the world and it is said that the uniqueness and strength of the Japanese style retail industry is the strength of Japanese style convenience stores. At its core, there are carefully thought-out marketing and merchandise management to realize “convenience,” a high added value new to the retail industry.

Convenience stores are run in small stores in urban areas displaying goods that suit the needs of consumers in an efficient manner, and order/inventory control are closely and timely made through the automatic order/inventory control systems. Therefore, even if the same brand convenience stores are located within a distance of only several hundred meters, merchandise they handle may differ from one another in some ways. In addition, convenience stores have acquired various functions as a hub of regional service beyond the framework of a simple retail store by introducing various services, such as copy machines and ATMs are installed within the store, utilities payment services, handling of home

84 The United Nations estimates that all 8 cities with more than 10 million people that will be newly added by 2020 are in emerging countries. Also, 77 out of 93 cities with population between 1 and 5 million that are estimated to be added by 2020 are in emerging countries.

delivery services, etc. Service hubs are in place every several hundred meters with around-the-clock services, and people can get as many as goods they want—such a “convenience” is the value added convenience store business model of Japan as described above. Convenience stores basically sell products at fixed prices, and do not put on discount like other supermarkets, but they are accepted by the middle-class people in urban areas who prize convenience over price, and they are steadily increasing the number of stores in the urban areas of emerging countries.

In addition to the role of providing high-level IT systems and as service hubs, the strength of convenience store chains of Japan is “careful consideration” unique to Japanese companies that can be seen in the merchandise displays made after thorough research on the flow of customers in the store and the human resources who contact customers in a courteous manner, strict hygiene management, etc. In particular, public confidence in the safety of convenience stores’ foods is high. For instance, when FamilyMart first advanced into Taiwan, there were many food stalls and the convenience stores’ core product “home-meal replacement”<sup>85</sup> was not very much accepted at first, but the sales rapidly increased after SARS broke out. As mentioned above, the core of the profit of convenience store business is the products related to this “home-meal replacement” (bento lunch boxes, onigiri rice balls, deep-fried foods, etc.) and the quality and number control are closely supervised by making full use of IT in every process: production, refrigeration, freezing, delivery, storage, defrosting, and sales, under strict hygiene control. The know-how of Japanese convenience stores on the logistics of these processes is the strength against the local competitors.

On the other hand, it is generally said that it is hard for a retail store including a convenience store to advance on its own. The reason is that it is important to understand the local preference and secure the sales space/distribution network in foreign countries and, especially in emerging countries, it is essential to team up with local partners in order to avoid restrictions on foreign investment. For example, FamilyMart, which started overseas development quite early with opening a store in Taiwan in 1988 as its first move, has not advanced alone but maintained its policy to establish a joint venture in foreign countries. However, in the case of teaming up with a local company or taking franchise system with local companies for each store, it may have to depend on the general level of the service industry in foreign countries in terms of the quality of service. While partnerships with local companies are a basic condition, the difficulty in maintaining quality service unique to Japanese companies is an issue commonly raised in the overseas development, not only for the convenience stores but also for the retail industry, and the Japanese government will be required to actively implement measures such as to make a proposal to the partner countries to abolish the foreign investment restrictions or to support human resource development toward spreading Japanese-style services in foreign countries.

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85 A pattern of meals by taking out cooked foods and eating at home or office. It is a term coined to refer to a meal pattern between “Eat at home,” cook and eat at home, and “Eat out,” eat cooked foods outside home. It refers to the bento lunch boxes, precooked meals or frozen food of convenience stores and supermarkets, home delivery pizza, etc.



### **(C) Supermarkets/Shopping centers, etc.**

There are retail businesses other than convenience stores that had advanced overseas with a market strategy to capture the urban lifestyle. For instance, AEON opened a small supermarket store under the name of “Maxvalu Tanjai” in Thailand in February 2011. Tanjai means “quickly and satisfactory” in Thai, and it is an urban-type supermarket that enhanced convenience so that the customers can buy only what they need in a short time by making the store space compact to less than half the normal space (around 300 m<sup>2</sup>) and align products suited to the local needs. Also, Ito-Yokado, which operates 13 stores at present in Beijing and Chengdu, China, has begun a construction plan in Chengdu to build a mall-type shopping center with various specialty shops, such as clothing and variety stores, centering on the general merchandise store. Currently in China, the number of people who enjoy spending time shopping is increasing with the rising income levels, and by opening such shopping centers combined with specialty shops, it intends to capture the growing middle-class demand.

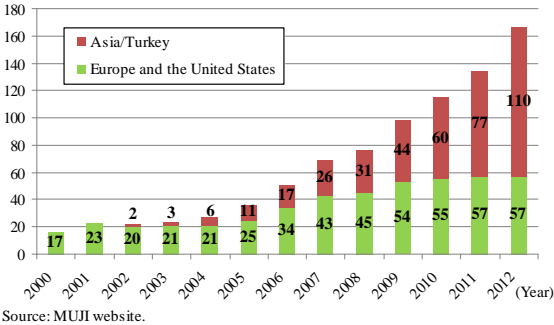
### **Column 14 Overseas development of Mujirushi Ryohin**

Ryohin Keikaku Co., Ltd., which runs the “Mujirushi Ryohin” brand in Japan, handles a wide variety of items from food and clothing to home electric appliances and is gaining broad acceptance on its unique strategy to suggest a simple and functional lifestyle through the selling of all kinds of goods necessary for daily life under one brand. Ryohin Keikaku is currently running 163 stores in 20 countries worldwide.

In the past, the “daily necessities” sector in the retail industry was said to be a highly “regional” industry, and it has been dominated by local companies, who know about the local culture and needs. However, Ryohin Keikaku, while providing a new lifestyle concept, has solved a problem that many brands have experienced—how to communicate the unique philosophy and sensitivity through the brand in the diversified market—and has been steadily increasing overseas stores by taking advantage of the fact that the critical points (simple, functional, etc.) are common in every scene of using daily necessities even if the culture and customs are different. Ryohin Keikaku has been employing a strategy to open stores in the most modern area of large cities in countries where it expanded and, particularly in China, which it sets its highest priority, it unveiled its policy to expand its stores to 100 in the fiscal 2013. To respond to such rapid overseas development, Ryohin Keikaku has expanded the capacity of its distribution centers in Shanghai in 2013 and has been promoting reductions in procurement costs by placing priority on the overseas shipping system, improving timely procurement of products, and streamlining the commercial distribution.

Column Figure 14-1

Number of overseas outlets of Mujirushi Ryohin



The strength of Mujirushi Ryohin is the lifestyle itself that it suggests. In Mujirushi Ryohin stores, the product development philosophy such as “Amiable life at reasonable cost” or “the point of view of manufacturing (selection of material, inspection of process, simplified packaging)” are put on the website or posters, and it differentiates itself from competitors by offering ideas and concepts as added value. Meanwhile, for Mujirushi Ryohin, whose appeal points are not prices and designs, the development of products that make people think “It would be nice if there is such an item” is of crucial significance. In other words, marketing that exposes invisible needs and product development capabilities are the keystone to Mujirushi Ryohin’s lifestyle-themed business. To that end, Mujirushi Ryohin has opened a “Good living products lab” on its website and promotes products development by considering what makes for good products through two-way exchanges of information with customers. Also, it has been engaged in a variety of efforts, for example, setting up “my MUJI,” a word-of-mouth platform to identify the needs of people through exchange of information between consumers on social media.

**(6) Overseas business development of the education industry**

**(A) Situation surrounding the Japanese education industry**

With the expected decline of the younger generation, industrial restructuring is occurring in the Japanese education industry through business tie-ups and acquisitions. Under such circumstances, Kumon Educational Japan Co., Ltd. (hereinafter called “KUMON”) and Benesse Holdings, Inc. (hereinafter called “Benesse”) have been increasing the number of students overseas using their know-how and marketing approaches unique to Japanese companies (hereinafter, the numbers of KUMON students are called “number of students” and that of Benesse is called “number of members”).

**(B) Example of overseas business development of KUMON**

**(a) Reasons that made their overseas development possible**

KUMON is currently operating in 47 countries and regions worldwide including Japan (as of March 2012) with a total of 4.43 million students, among which 1.49 million students are in Japan and 2.93

million students<sup>86</sup> are overseas, i.e., the number of students overseas exceeds the number of students in Japan. Why was the KUMON method accepted in the world? The KUMON method is a form of “self-learning”<sup>87</sup> starting from the “just right” level while reviewing lessons as necessary, which is a unique know-how created by KUMON. The teaching materials for arithmetic/mathematics are the same as those used in Japan<sup>88</sup>, i.e., universal, but the linguistic materials are arranged in accordance with the local characteristics, so to speak, localized (Figure 3-3-2-25).

#### **(b) Development in Brazil/Educational situation of Brazil**

KUMON started overseas development from 1974 in the U.S. and then in Brazil in 1977. Since the late 1980s, in order to widely spread in Brazil, it strengthened the strategy of targeting Brazilians and opened branch offices in regions where not many Japanese were living, and tried to increase classes. Now, there are about 1,600 classrooms in Brazil and the number of students has increased by 15% over the previous year in 2011. There are still wide income gaps in Brazil, and most KUMON students are from the so-called wealthy class, but along with the growing economy, students from upper middle-class families are increasing in classes. The education at schools in Brazil lacks in school facilities because of too many children, and the public schools take three shifts, in the morning, midday, and evening, as a result, an environment is in place for students to go to KUMON after school<sup>89</sup>. The philosophy of KUMON is to contribute to the society by fostering sound and capable human resources<sup>90</sup>. One of its learning method characteristics is individualized education tailored to each child’s academic achievement and ability. A unique aspect of KUMON is that the children can study at their own pace compared with the group study<sup>91</sup> in schools.

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86 The numbers are rounded down to nearest the 10,000 students.

87 Frequently appears on KUMON website <http://www.kumon.ne.jp/> and publications related to KUMON.

88 Examples and questions are translated.

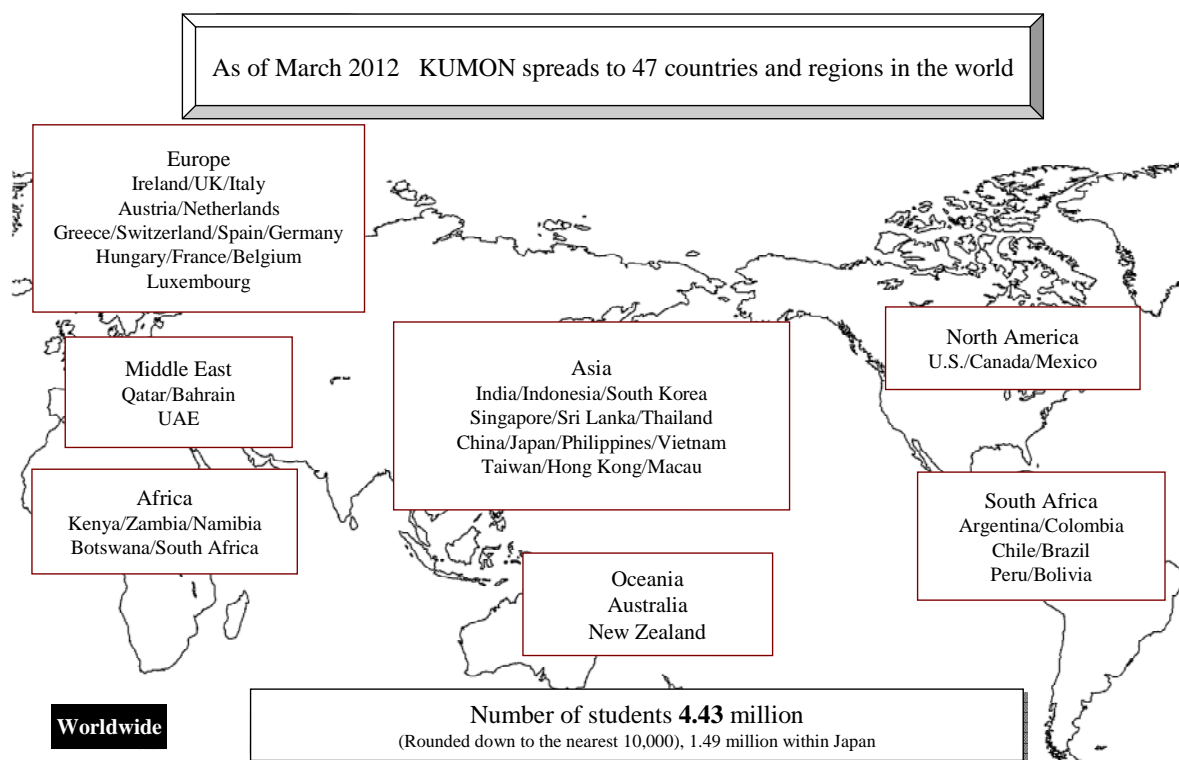
89 Private school students go to KUMON immediately after school.

90 Full text is “By discovering the potential of each individual, and developing his or her ability to the maximum, we aim to foster sound, capable people, and thus contribute to the global community.”

91 Study in a group at the same time. Frequently appears on the KUMON website.

Figure 3-3-2-25

Number of KUMON students and KUMON-developed countries/regions (including Japan)



Note: The number of students is the total number of students for all subjects. Spread status is different depending on the country and region.

### (c) Efforts to extend the enrollment period

The average enrollment period in KUMON is shorter in Brazil than in Japan and this has become a problem. In general, Western nations tend to want quick results and the people in Brazil as well. To solve this issue, instructors are trying to improve the quality of teaching by mutually sharing the know-how and specific skills of better pupil guidance based on the successful cases of classes that have longer periods of enrollment. In addition, they provide parents with detailed feedback on the students' learning context.

### (d) Support for franchisees (instructors)

Basically, it is the same as that of Japan; before opening classrooms, instructors are invited to receive group training at the headquarters in Brazil first, then complete training at home, and lastly receive one-on-one training with area managers. In parallel with this training, they receive practical training in a model classroom in order to learn how to actually guide students. Also, as a post-opening training, they receive support in carrying out classes such as one-on-one training on how to deal with students, how to communicate with parents, and receive advice on financial matters while continuing group training and training at home. In this way, by reinforcing/enhancing the contents of the training to franchisees, it increases the satisfaction of franchisees and helps them win trust from parents and students, which is also one of their important measures against competitors. The key to the success of their business is to continuously provide finely-tuned support after meeting three conditions: select superior human resources who feel great empathy with the KUMON method, provide appropriate

training, and select a proper location for a classroom.

**(e) Sharing of instruction methods and brainstorming**

In KUMON, after sharing the basic instruction guidelines, instructors mutually help learning and improving skills by exchanging wisdom and ideas generated in each classroom. Also, six regional headquarters<sup>92</sup> in the world hold an “Instructors Conference” annually to provide instructors with opportunities of “Knowledge sharing” across borders.

**(f) Strength of KUMON**

The philosophy of KUMON is to help children acquire higher basic academic skills through a self-learning method tailored to the individual academic achievement and ability, and eventually to turn out capable human resources, and this philosophy seems to have been accepted. Another aspect is that instructors mutually learn and improve their skills by the experience and ideas they have acquired in the classroom, which can be called a kind of localization.

**(C) Example of overseas business development of Benesse**

**(a) Development before advancing into China**

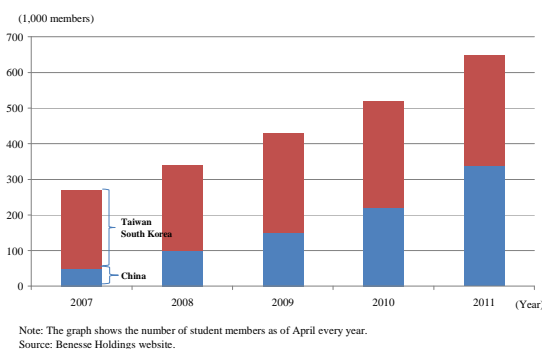
Overseas business activities of Benesse started in the U.S. in 1981 when it founded a local corporation, FIP (Fukutake Information & Publishing Inc.) in New York, and formed a business partnership with the Metropolitan Museum of Art. In 1988, it opened the Taipei Branch (Taiwan) and started the business of study-at-home material for pre-school children called the “Kodomo Challenge” (“巧連智” in Taiwan) from the following year, then expanded the target school age (currently, there are infant courses, early elementary grades version for first- and second-grade primary school students, and the version for third to sixth grades). Later, it shifted its strategy to focus on Asia and started the business of the “I-challenge” in South Korea from March 2006 and “樂智小天地” and the “Kodomo challenge” (for infants) in China in June the same year. As Figure 3-3-2-26 shows the trend of the number of members after 2007, the growth is remarkable especially in the Chinese market, which doubled in 2008, and 50% growth after that. It had planned to advance into China for a long time but it started business from Taiwan, which had already achieved economic development, and waited for the right time to advance into China while gradually building up more and more work and know-how in Taiwan.

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92 Kumon North America, Kumon South America, Kumon Educational Japan, Kumon Asia & Oceania, Kumon China, and Kumon Educational U.K.

Figure 3-3-2-26

Number of overseas members of Benesse Corporation in April



According to Benesse Holdings’ financial statements (Fiscal 57<sup>th</sup>: April 1, 2010, to March 31, 2011), the number of members in 2011 was 340,000 in China, 170,000 in Taiwan, and 140,000 in South Korea (650,000 in total). The Benesse Corporation website says that the members in China exceeded 400,000 in September 2011<sup>93</sup>.

**(b) Development in China**

The first business in China was “樂智小天地 (Chinese version of the Kodomo challenge),” the second was the local procurement of educational tools/toys through local firms in Hong Kong and Shenzhen, and the third was the call-center business through a local group company VCS (Value Communication Services (Shanghai) Inc., a 100% local company established by Benesse as a consulting firm to meet with the foreign investment restrictions stipulated in the Telecommunications Act of China<sup>94</sup>). Its background is as follows. The promotion strategy of Benesse in Japan was focused on TV commercials and direct mails (DM), but its name recognition was almost zero in China. For Chinese people, actual goods come first (they do not buy expensive goods without actually seeing them. If they have no way to tell if it is really appropriate, they would rather select “cheap” items when shopping on the Internet); therefore, Benesse quit simply sending DMs and created a unique marketing approach using its own know-how, which is sending sample products to customers. Following customer recognition, Benesse had the above-mentioned call center make a call and explain the concept and features of the products according to each family situation. In addition, any foreign companies, even if it is a joint venture, are prohibited to be engaged in the publishing business, so the local partner, China Welfare Institute, undertakes the publishing business on license agreement. While the license agreement is a one-year free contract and China Welfare Institute receives royalty, Benesse concentrates all of its intellectual property rights in Japan, except local production of picture books, DVDs, and toys (the intellectual property right of parents guide books has been transferred to China).

**(c) Sales techniques in China**

While a local affiliate company (Benesse Corporation China<sup>95</sup>) is responsible for the sales (partly commissioned to an agency), it established a branch office in Beijing in 2010, and in Guangzhou in

93 Benesse Corporation website: <http://www.benesse.co.jp/kyouiku/about/>

94 Telecommunications Act: Prohibits foreign companies to operate a call-center business in China.

95 Founded in 2008. [http://www.benesse.co.jp/newsrelease/20100412\\_001.html](http://www.benesse.co.jp/newsrelease/20100412_001.html)

January the next year. Further, it launched a project featuring “Shimajiro” (“Qiaohu” in Chinese), a popular character among children in Japan, which also became popular in China through word-of-mouth, and from 2010, started a children’s play concert. This is the same marketing approach that only Benesse has implemented in Japan. The theme of the year was “Parent-child attachment” and it performed the play 40 times in 6 cities across the country attracting 45,000 people. In 2011, it performed 94 times in 16 cities and attracted 78,181 people. And in September, it started broadcasting the TV program “Qiaohu TV”<sup>96</sup> on Shanghai Education Channel. As the media exposure increases, the name recognition also increases; thus, it has been producing a synergistic effect. Also, it sells products in stores (86 stores as of the end of December 2011) by employing a method to let customers see and understand the products in stores (have children touch the products so that the parents can judge by looking at their children enjoying). Further, it is making efforts to raise its profile by holding mini-events such as the shake hands with “Qiaohu” event.

#### **(d) Preparation of teaching materials**

In preparing teaching materials, as people in China tend to seek materials that have an academic progress effect or high quality materials, the local editors/supervisors conduct research on needs, carry out planning and editing, and revise as they think proper, with the emphasis on the customers’ demands (localization of teaching materials). The basic concept is based on its own know-how, which is not only to pursue academic skills but also to incorporate themes related to child’s personality formation and good habits such as “thank you,” “I’m sorry,” “putting things away,” as well as “parent-child communication” considering two-income families. There were no such product concepts in China. In China, picture books for infant education (about 8 yuan) or DVDs (about 5 yuan) are sold separately, but there were no teaching materials sold in a package (and of a high-priced brand), which was accepted by Chinese people.

#### **(e) Targeted income group customers**

When it started business in China, it targeted the upper middle-income group and wealthy class, which it envisioned to be 10% of the entire population, but along with the growing economy, those classes expanded to 20%, and it posted a goal of 480,000 members for the last half of FY2011. To operate a business over such a big area may be less efficient, but it has covered all the provinces, and there are members even in Tibet.

#### **(f) Strength of Benesse**

Benesse has stuck to its original style for the core part of its business such as teaching materials, , and pursued thorough localization tailored to the different culture and business environment (“actual good comes first” principle, call-center business, logistics, cash payment method, etc.), which led to successful overseas development. It appears to be considering further expansion to other countries in the future<sup>97</sup>, and we should watch its moves.

### **(7) Overseas development of medical services/technologies**

In emerging countries including Asia, along with economic growth and aging, it is expected that the

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96 Broadcast every Saturday (from 16:50). Reruns are on Sundays (from 10:00)

97 Benesse Annual Report Digest 2011 <http://www.benesse-hd.co.jp/ja/ir/ar2011/>

needs will rapidly increase in the medical/nursing care/health-related industries. Japan is an advanced country having not only an aging society<sup>98</sup> but also world-leading medical technology, and, by accommodating these emerging countries' demands, it will be able to contribute internationally and achieve both ensuring the quality of medical care and reducing social security expenses under the pressure to suppress the growth in social security costs.

In this section, we analyze the trend of international development of the medical industry and that of Japan, and illustrate the potential of medical service/technology of Japan in overseas development.

#### **(A) Rapidly increasing global needs for medical care**

According to WHO, the total medical care expenditure in the world reached US\$ 6.0 trillion on purchasing power parity (PPP) base as of 2008<sup>99</sup>. Also, according to the OECD statement, the average growth rate of medical costs per person in Asia in real terms was 4.9% during 1998 and 2008, higher than that of OECD countries (4.1%). In particular, it has been increasing even more sharply in Vietnam (9.7%), China (9.2%), South Korea (9.2%), and Cambodia (9.1%)<sup>100</sup>, and medical needs are expected to expand particularly in emerging countries where the medical service system is in the stage of development.

#### **(B) Overseas development of medical service coupled with technology**

Looking at the scale of the medical equipment market in the world, the advanced countries including the U.S., Europe, and Japan are ranked top at present; however, the growth rate of the medical equipment market is larger in emerging countries, and manufacturers of each country are actively promoting overseas business development (Figure 3-3-2-27).

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98 According to the estimates of the National Institute of Population and Social Security Research (JPSS), the population of age 65 and above will reach one-third of the total population by 2034.

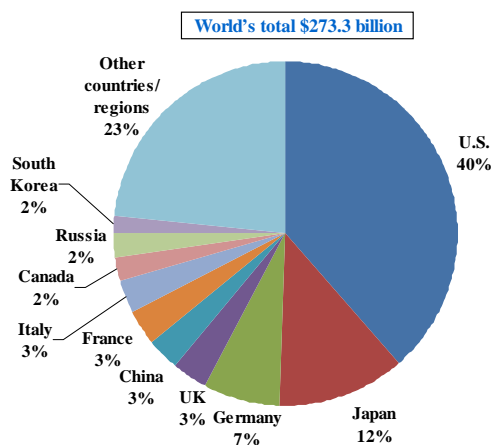
99 *Policy recommendations to expand collaboration and interaction with Asia in medical technology* (Medical Engineering Technology Industrial Strategy Consortium and Japan Federation of Medical Devices Associations, 2011) from the original data, *National Health Accounts database* (WHO, 2011).

100 *Health at a Glance Asia/Pacific* (OECD, 2010)



Figure 3-3-2-27

Scale of the medical equipment market (2011)



Source: *Medistat Worldwide Medical Market Forecasts To 2016* (Espicom, 2011).

First, U.S. and European makers have been promoting sales by improving the environment of U.S. and European universities and research institutes which many students and interns from emerging countries visit, or by cooperating in the human resource development of local medical personnel, thus actively providing opportunities for the people to get familiar with them from an early stage with their medical equipment made in their own countries.

Also, some cases are seen in which medical equipment makers actually build overseas bases and promote overseas development by working together with medical service businesses. For example, St. Jude Medical (U.S.) opened a technology center in Beijing, China, in March 2011, and has been providing technical training to the local medical personnel in cooperation with physicians (for example, providing opportunities to receive training targeting more than 2,000 internal medicine specialists a year). Siemens AG went further and established a diagnostic center itself in Abu Dhabi, UAE in October 2010, and has been providing early diagnosis of cancer, cardiac diseases, and nervous system diseases in collaboration with the Johns Hopkins University Hospital in Maryland, U.S.

Thus, it is considered that providing medical services and medical equipment in a unified manner through the cooperation between medical equipment makers and medical organizations is necessary to increase competitiveness, especially in emerging countries, where medical technology itself is underdeveloped in many regions.

### (C) Concept of overseas development of Japanese medical services/technologies

The overseas development of the Japanese medical sector has fallen behind the U.S. and Europe<sup>101</sup>, but Japan maintains the world's top level in medical technology and hospitality and, by collaborating with these medical service sectors, it is considered that Japan could enhance its international competitiveness in the medical equipment, medical products, and the peripheral businesses industry

101 As for the sales of medical equipment makers in the world as of 2009, Japan was ranked low: Olympus (16<sup>th</sup>), Toshiba (19<sup>th</sup>), and Terumo (20<sup>th</sup>).

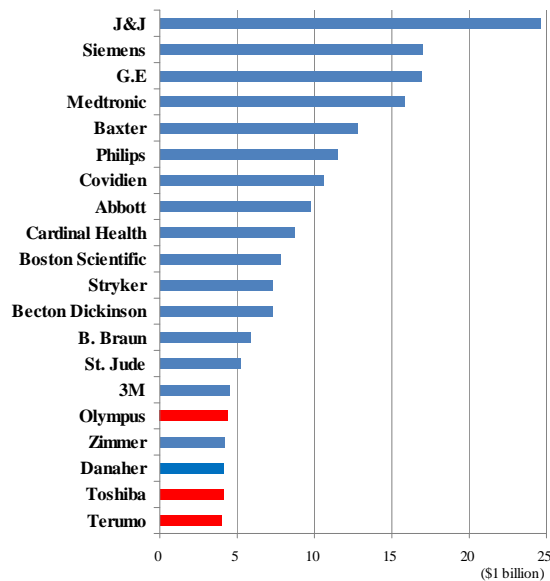
(Figure 3-3-2-28, Figure 3-3-2-29).

For the overseas development of medical services/technologies, it is absolutely necessary to negotiate with the government and authorities of the country into which they advance, as there are various systems and regulations in each country, and in order to promote overseas development of medical services/technologies in the future, concerted action between the government and medical industry, e.g., medical institutions and medical equipment makers, will become important.

Also, while promoting overseas development of medical services/technologies, it is expected that the needs will increase from the patients who want to visit Japan from overseas for treatment. A part of the measures has already been taken such as issuance of medical visas, but an all-Japan effort to expand the international businesses of medical services/technologies through the cooperation among government, industry, doctors, and academia will be required, e.g., fostering of coordinators who work as a bridge between foreign patients and domestic medical institutions and interpreters with medical knowledge.

Figure 3-3-2-28

Sales of the top 20 medical equipment makers in the world



Source: Reprinted from the Growth Strategy of Medical Equipment Makers (Mizuho Corporate Bank, Ltd., 2012).  
 Note: The green bars indicate Japanese companies. Sales of medical equipment only.

Figure 3-3-2-29

Example of overseas development of medical service/technology subject to METI's FY2011 demonstration survey

Example of overseas development of Japanese medical institutions
<b><u>Russia</u></b>
• Dissemination/Education project of Japanese-style medical services (Moscow)
• Project to provide diagnostic imaging services (Vladivostok)
<b><u>China</u></b>
• Project to provide diabetes treatment services (Shanghai)
• Project to provide advanced diagnostic services (Beijing)
• Japan–China Dental Technology Cooperation and Training Center Project (Beijing)
<b><u>Vietnam</u></b>
• Project to provide telepathology/diagnostic imaging services
<b><u>Cambodia</u></b>
• Demonstration experiment for providing advanced medical treatment service and healthcare education (Phnom Penh)
<b><u>Turkey</u></b>
• Hospital PPP (Public–Private Partnership) Project

Source: Ministry of Economy, Trade and Industry.

## (8) Summary

We have outlined the pioneering examples of overseas development of the Japanese service industry. As we have seen in the logistics industry and retail industry, it is likely that there are many technologies and know-how that will lead to overseas business development hidden in Japan, such as, services that are common for Japanese consumers can be an innovative service for overseas consumers. An effort should be made to promote overseas business development by discovering enterprises that are focusing on domestic operations despite having unique technologies and know-how that can be accepted by the world.

Also, as we have seen in the tourism industry and food service industry, the Japanese service industry has acquired a good image from overseas on its high technological capability and strong safety culture. If the Japanese service industry further spreads all over the world by taking advantage of such good images, it will not only bring profits to the companies concerned but it will also create an environment that makes it easier for the entire service industry to develop overseas, and even further expansion of overseas businesses can be expected.

## 3. Overseas development strategy of the service industry

So far, we have seen the examples of overseas business activities of the Japanese service industry utilizing unique know-how and brands. Now, let us illustrate the strategies to accelerate the service industry's overseas business activities. More specifically, it is about (A) the use of external M&A, (B) overseas business development through the alliance with foreign companies, and (C) response to external demand through the synergetic effect of the contents and consumer items.

### (1) Overseas development of the service industry—External acquisitions spread in the service industry—

We have described above that the external acquisitions drove the external M&As of Japan last year. Here, we look at the current situation of external acquisition by Japan, the U.S., and Germany by industry in terms of market expansion.

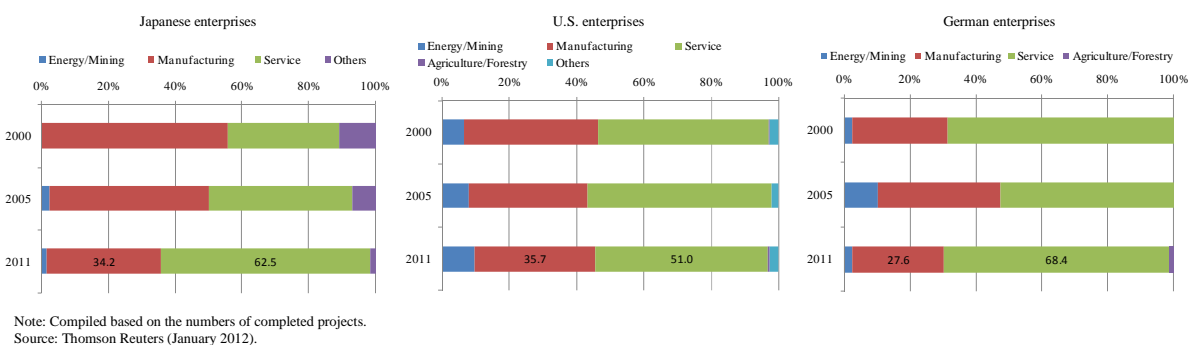
First, if we divide the business categories into manufacturing, service, energy/mining, agriculture, and forest industry, the ratio of external acquisition by Japanese companies in the manufacturing industry decreased in 2011 to the lowest one-third after 2000, and that of the service industry increased to the highest more than 60% (Figure 3-3-3-1). On another front, more than half of the external acquisitions by U.S. and German companies were historically accounted for by the service industry. In particular, among external acquisitions by German companies in 2011, manufacturing industry accounted for only about 28%, the lowest in the three countries while the service industry accounted for about 70%.

The main factor of increased percentage of Japanese companies in the service industry may be the increased business categories and increase in external acquisition in the wholesale/retail sectors.

More specifically, looking at the external acquisition by the Japanese service industry by business category/sector, we find that, while the mainstream was information and communication industry in 2005, the acquisition deals increased in all sectors in 2011 and especially expanded in a wide variety of fields such as living-related and personal services, aviation/transportation, education, accommodation/restaurants, human resource services, etc. (Figure 3-3-3-2). Behind this background, there may have been the growing interest in external M&A in the service industry, but the survey<sup>102</sup> conducted in February this year shows that the ratio of companies who answered that the external M&As were positioned as management/business strategy after fiscal 2009 was 26% in the manufacturing industry while that of the non-manufacturing industry was 45% (Figure 3-3-3-3). From this, it is considered that there were many companies in the service industry that had implemented external M&A during 2010 and 2011 in response to their strategies.

Figure 3-3-3-1

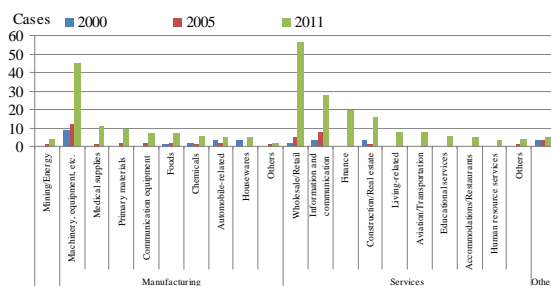
Share of industry-by-industry external acquisitions by Japanese, U.S., and German enterprises



102 *Survey on Japanese companies' overseas strategies* (Mitsubishi UFJ Research and Consulting Co., Ltd., 2012)

Figure 3-3-3-2

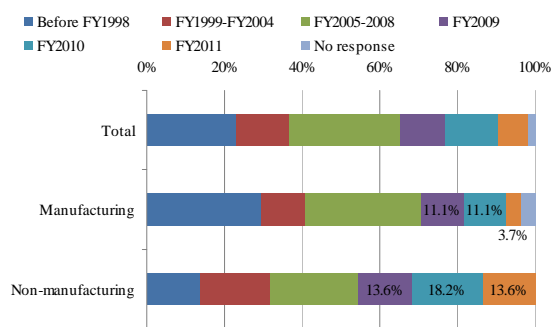
Number of sector-by-sector external acquisitions by Japanese enterprises



Note: Classified the completed projects based mainly on Japan Standard Industry Classification.  
Source: Thomson Reuters (January, 2012).

Figure 3-3-3-3

Period when external M&As are positioned as management/business strategy



Source: Survey on Japanese companies' overseas strategies (Mitsubishi UFJ Research and Consulting Co., Ltd.).

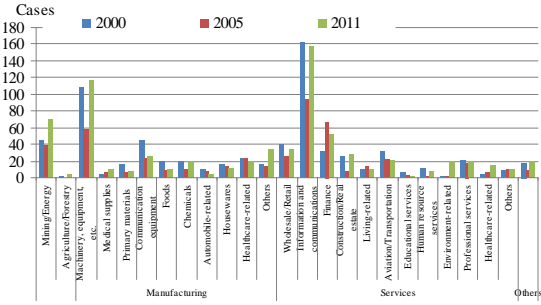
In particular, it was the wholesale/retail sector that had driven external M&A in the service industry. One of the factors that caused the wholesale/retail sectors to rapidly increase was that the trading companies, etc., actively engaged in external acquisitions. It may imply that the investment activities that had been positioned in the midterm business plans<sup>103</sup> were successfully practiced<sup>104</sup>. Another factor was the increase in the external acquisition by retail industry such as drug stores. Historically, external acquisitions were actively made in the information and communication services industry (Figure 3-3-3-4, Figure 3-3-3-5); in particular, Japanese companies were actively engaged in external acquisitions in 2011 centering on Internet-related firms, software companies, and IT consulting firms. These are the sectors that should continue to take prompt actions. One of the factors of the increase in

103 The midterm business plan is usually developed for the period of 3 to 5 years including capital expenditure program, etc. According to the hearing survey conducted in October through December 2011, many people insisted that the external acquisitions were made based on the midterm business plan, not due to the impact of the strong yen, as trading companies, etc., conventionally hedge the currency risk in implementing external M&As.

104 Note that, although the trading companies are classified in "Trading Companies & Distributors, etc.," it may have included the external acquisitions in the energy/mining, manufacturing, and infrastructure sectors.

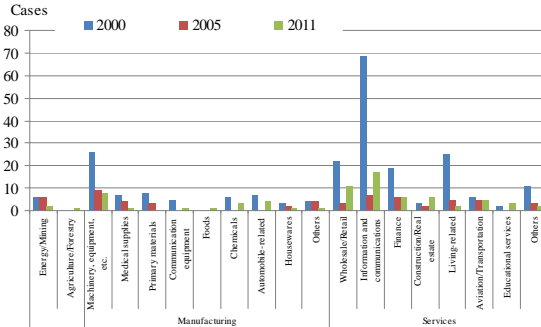
external acquisitions that followed in financial sectors was caused by the growth of non-life insurance and REIT<sup>105</sup>. In addition, external acquisitions by the construction sector, including housing, and the engineering sector were active.

Figure 3-3-3-4  
Number of sector-by-sector external acquisitions by U.S. enterprises



Note: Classified the completed projects based mainly on Japan Standard Industry Classification.  
Source: Thomson Reuters (January, 2012).

Figure 3-3-3-5  
Number of sector-by-sector external acquisitions by German enterprises



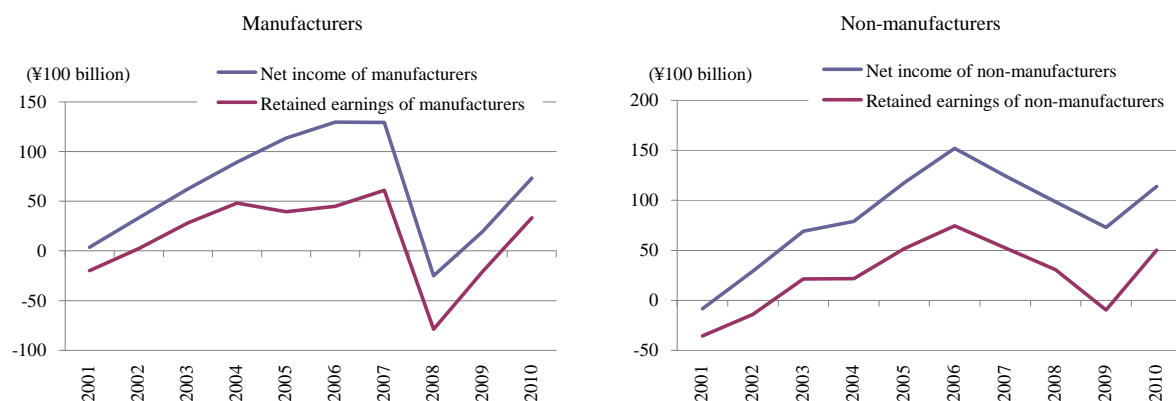
Note: Classified the completed projects based mainly on Japan Standard Industry Classification.  
Source: Thomson Reuters (January, 2012).

In the backdrop, there probably was greater financial capacity because the impact of the world economic crisis on the corporate performance was limited for the non-manufacturing industry compared to that of manufacturing industry (Figure 3-3-3-6).

105 An abbreviation for real estate investment trusts. An investment trust company organized for making investments in real estates.

Figure 3-3-3-6

Net income and retained earnings of manufacturer and non-manufacturer



Source: *Financial Statements Statistics of Corporations by Industry, October 2011* (Ministry of Finance).

Next, looking at the external acquisition by the U.S. service industry, the information and communication sector accounted for the majority of it previously and it had driven the external acquisitions (Figure 3-3-3-4). In such a situation, in 2011, external acquisition expanded to environment-related service and healthcare-related service sectors in addition to the professional services such as research/consulting and advertising, which have become one of characteristics. Specific cases are as follows: a company founded to run a cleaning service business expanded its business to sanitation-related and environment-related businesses throughout North America, and, aiming at further development, implemented several external M&As in 2011; a medical waste disposal company expanded business to a sector, such as recalled medical equipment collection service, and then, developed to Europe, Central and South America, and Asia, and as part of development, implemented several external M&As<sup>106</sup>.

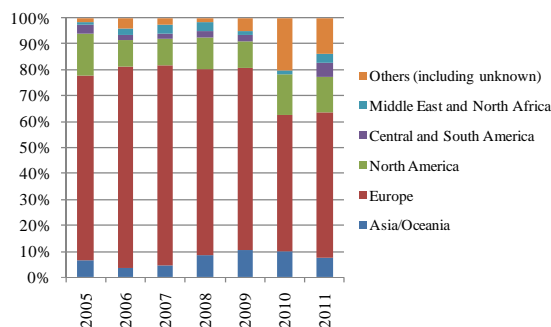
Also, in Germany, the number of external acquisitions was highest in the information and communication service sector in 2011, but compared to that of 2000 and by focusing on the information and communications services and living-related and personal services, external acquisitions were decreasing in almost all sectors, which tells us that the external acquisitions were inactive as opposed to that of Japan and the U.S. A likely explanation is that the external acquisition of German companies was concentrated in the European region, and German companies and European economy were directly affected by Lehman's fall and European debt problems (Figure 3-3-3-7).

So far, we have seen the external acquisitions of three countries by sector, but we found that problems still remain in the external acquisitions by Japanese companies if we compare the number and monetary value, although it seems to be going strong with expanded ground. In 2011, the number of external acquisitions by Japan was less than that of the U.S. by 30% and less by 20% in monetary value (Figure 3-3-3-8). Taking the GDP scale into consideration, one of the challenges for Japan in the future will be the quantitative expansion of external acquisition.

106 Thomson Reuters (January 2012) and website of each firm.

Figure 3-3-3-7

Share of region-by-region external acquisitions by German enterprises



Note: Projects completed basis. Compiled based on the numbers of completed projects.  
Source: Thomson Reuters (January 2012).

## (2) The service industry accelerates alliance with Taiwanese companies

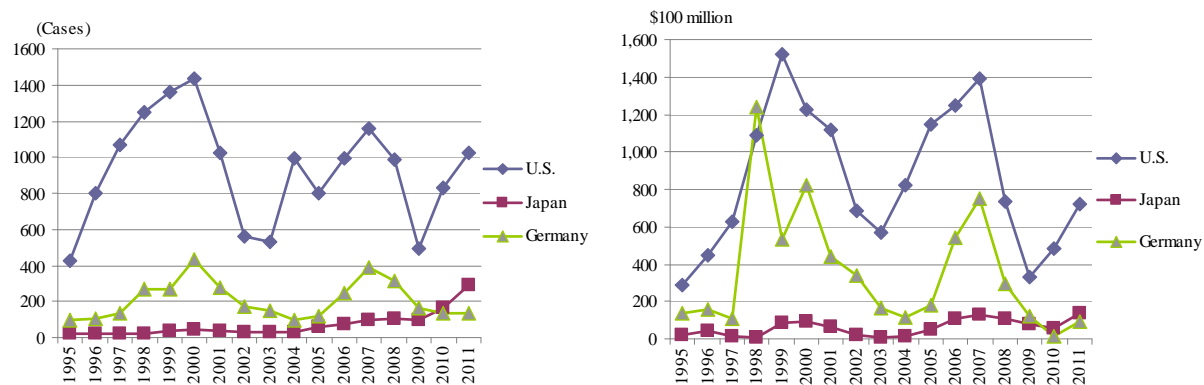
One of the strategies to expand the overseas business development of Japanese companies is to build partnerships with foreign companies, with which we can expect to have a significant effect. In recent years, Japanese companies, not only in the manufacturing industry but also in the service industry, expanded business in the global markets in alliance with Taiwanese companies, and such cases are increasing.

### (A) Overseas business development of the Taiwanese service industry

For years, parts of Japan's manufacturing industry such as electronic makers have advanced in Taiwan, and Taiwanese companies will become strong partners for the service industry, too, when they advance into China.

Figure 3-3-3-8

Number of external acquisitions by Japanese, U.S., and German enterprises and the amount



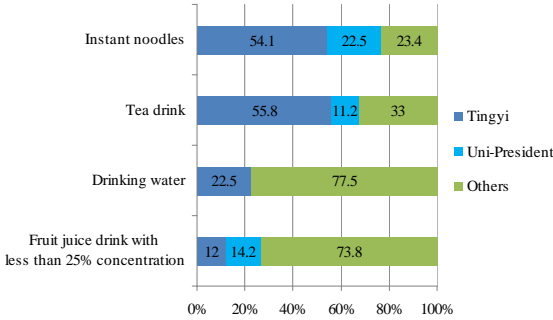
Note: Projects completed basis. Compiled based on the published amount.  
Source: Thomson Reuters (January 2012).

First, there are strong historical and cultural ties between Taiwan and China, and Taiwanese companies have historically advanced into China through the ages. Taiwanese companies have a strong presence in China in a wide area of sectors from the manufacturing industry, such as electronics,



to the service industry, such as logistics. For example, 8 of the top 10 exporting companies in China are accounted for by Taiwanese companies such as Hon Hai Precision Industry (Foxconn), and in the food industry, Taiwanese companies have won a large share of the Chinese market, such as Tingyi, Uni-President, etc. (Figure 3-3-3-9).

Figure 3-3-3-9  
Share of Taiwan in the Chinese food/beverage market



Source: *Why Taiwan now?* (Mizuho Corporate Bank, Ltd., Taiwan Branch, 2012.)

Further, in recent years, under the favorable political climate, cross-straits relations have become closer. In 2010, the ECFA (Economic Cooperation Framework Agreement) was signed and the mutual reduction in tariffs was decided starting from items subject to early relaxation (the so-called Early Harvest). Also, in the service industry, 11 business categories of China and 9 business categories of Taiwan were included in the Early Harvest program (Figure 3-3-3-10).

Figure 3-3-3-10  
Businesses subject to the early harvest program in the service sector

China side: Eleven business categories	Taiwan side: Nine business categories
Accounting/Audit/Bookkeeping services	R&D services
Computer service	Conference services
Natural science/Optical engineering R&D	Exhibition services
Conference services	Specific design services (excluding interior designs)
Professional design services	Mandarin Chinese/Joint film shooting
Removal of import quota to Taiwanese Mandarin films	Broker service (excluding live animals)
Hospital services	Sports/Leisure services
Aircraft maintenance	Aviation service/PC seat reservation service
Insurance business	Banking business
Banking business	
Securities/Futures trading	

Source: *[Special topic] Bridge to the global market partnering with Taiwan* (JETRO Censor) (JETRO, 2011).

**(B) Benefits of partnership with Taiwanese companies to the Japanese service industry**

Then, what merit will Japanese companies gain by forming alliances with Taiwanese companies that have enhanced their presence in China? First and foremost, Japanese companies can expect to use Taiwanese companies’ networks. The business connections will be more important in China, where legal systems and its implementation are underdeveloped compared with that of advanced countries. In such circumstances, by utilizing the network built by Taiwanese companies, whose members share the

same culture and language, it makes it possible for Japanese businesses to penetrate deeper into the Chinese market.

Further, as Taiwanese companies deeply understand the Japanese service industry, by forming an alliance with Taiwanese companies, a Japanese company would be able to market itself more effectively in the Chinese market relying on Taiwanese companies to act as intermediaries. In Taiwan, many people feel a strong affinity toward Japan<sup>107</sup> and Japanese culture, food, and contents have spread and a huge variety of the service industry including the retail industry, convenience stores, and department stores in addition to the manufacturing sector have already advanced. The Uni-President Group has been in alliance with trading companies including Mitsubishi Corp. and Mitsui & Co. and has been operating stores such as 7-Eleven, Mujirushi Ryohin, etc. The Ting Hsin Group, taking advantage of its food manufacturing know-how and distribution networks cultivated in its instant noodle business, has been operating a retail business with Asahi Breweries and FamilyMart in mainland China under the capital and business alliance with Itochu Corp. Want Want Group, a rice confectionery maker, has been engaged in diversified businesses and, in addition to the alliance with Marubeni, jointly set up a TV production company with Nippon Television (Figure 3-3-3-11).

Figure 3-3-3-11  
Example of the partnership between Taiwanese enterprises and Japanese enterprises

	Main business	Japanese partners
Uni-President Enterprises Corporation	Logistics	Mitsubishi Corporation, Mitsui & Co., Ltd., Seven-Eleven, MUJI
Ting Hsin Group	Instant noodles/ Beverage	ITOCHU Corp., Asahi Breweries, FamilyMart Co., Ltd.
Want Want Group	Rice confectionery	Marubeni Corporation, Nippon Television

Source: Compiled by Ministry of Economy, Trade and Industry from various news releases.

107 For example, according to the poll conducted in Taiwan (by Interchange Association, Japan, 2010), 52% answered “Japan” to the question of what their favorite country is.

## Overseas business development of the Japanese service industry in partnership with Taiwanese enterprises

- Production of TV programs (Nippon Television)  
Nippon Television jointly established “CNplus Production, Inc.” with CTI Television Incorporation, Taiwan’s leading TV station in May 2011. It produces TV programs aiming to enter into Chinese market as its greatest goal.
- Translation of comics (Kodansha)  
It established an affiliate company in Taiwan in 2011. In Taiwan, it creates high quality translated versions by translators who have mastered Japanese to a native level. Such a Taiwanese version serves as a useful reference when it creates Chinese versions, because it does not handle secondhand translations and needs to separately translate from Japanese to Pekingese. The high quality translation is possible only because Japanese culture has deeply penetrated into Taiwan.
- Support for Japan–Taiwan co-production of films (Japan Research Institute)  
Regulation on import quotas for the films produced in Taiwan was abolished as part of the ECFA Early Harvest Program. Japan Research Institute, in collaboration with the Think Tank III of Taiwan, is supporting the launch of joint filmmaking projects of Japanese and Taiwanese companies. The projects have begun to start such as “Sun Yat-sen,” a 3D animated film for theaters.
- Convenience stores (FamilyMart)  
Using the distribution network owned by its business partner, Ting Hsin Group, FamilyMart is widely expanding FamilyMart stores in China. Not limited to distribution network, they take advantage of the Want Want Group’s network to find real estate for opening stores.

Compared with the manufacturing industry, the service industry requires more understanding of local society and culture, and it is effective to ally with Taiwanese companies in Taiwan where Japanese culture has spread. By doing so, the Japanese service industry would be able to refine its ways of promoting Japanese-style services in Taiwan where people more readily tend to find the Japanese service industry attractive, before entering into the target market including China. Also, the Japan Taiwan Investment Agreement signed in September 2011 strengthened the protection and promotion of investment from Japan to Taiwan, and further expansion of investment into Taiwan is expected. It is also expected that the advance into Taiwan will prepare a gateway to the huge markets in East Asia.

### **(3) Response to external demand through the synergetic effect of contents and consumer items**

While the Japanese contents industry has been enjoying worldwide popularity, sales in foreign countries have been sluggish, and new strategies to expand overseas business are being explored<sup>108</sup>.

Recently, with widespread Internet use, the contents industry, particularly image products in the visual sector (TV, movies), has spread to the world at an explosive pace. However, many illegal video

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108 For the trend of the contents industry, see Chapter 3, Section 2.

sites were opened and a situation has arisen where the products are shared, ignoring copyrights<sup>109</sup>. Such illegal sharing of products has been hindering contents production companies from generating income in overseas development. In addition, there are restrictions on foreign companies depending on the region, or on the contents of broadcasting or distribution, and it has become a big issue for contents production companies how to respond to such problems to generate income. Under such circumstances, efforts are being promoted to gain large returns not based on the business models relying on income generation based only from the contents themselves but by selling the contents combined with consumer items. Here, let us introduce a case that focuses on providing the right to use characters.

Sanrio Co., Ltd. changed its business model to increase incomes from royalties and actively promoted licensing by taking advantage of its high profile overseas. In particular, Hello Kitty has high visibility worldwide and is used not only for toys but also for the prestige brand, Swarovski

On the other hand, it closed all of its 30 wholly-owned outlets in the U.S., reduced fixed costs, and improved profitability. In the past, it was falling behind in the sales of character goods because of growing concern about pirated copies getting into circulation, but it has become more positive in licensing anticipating that people's preferences are shifting to wanting to purchase genuine articles, as opposed to cheaper copies, as the middle class are increasing in emerging countries. In 2006, sales of the licensing division in Europe were \$4 million, but in 2009, they rapidly expanded to \$61 million, and in 2010, they grown to more than \$100 million combined with those of the use U.S. (Figure 3-3-3-12).

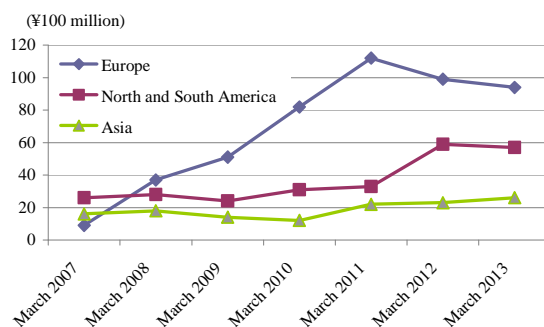
In this way, an overseas business that combines contents and consumer items is expected to grow further in the future. Along with the technology development, the situation is such that illegal sharing of contents itself is increasing, but it is presumed that the consumer items such as character goods will not be easily copied compared with the contents themselves. Also, as the middle and wealthy classes are increasing in emerging countries, the number of people wanting to purchase genuine articles will increase and the demand for authentic character goods will further increase. It will become more important to respond to demand by combining contents and consumer items.

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109 According to a TV station, when they visit foreign countries to promote TV programs, local people often express their impression of some TV programs that are not on the air in that region (hearing survey).

Figure 3-3-3-12

Sales of Sanrio’s license division in the U.S. and Europe



Note: Figures for 2010 are estimates.  
 Source: *Sanrio Business Model throughout the world* (Sanrio Co., Ltd., 2010).

4. Overseas development of the service industry and domestic economy

Now, we will analyze the impact that the Japanese service industry’s overseas business could have on the domestic economy. More specifically, we will look in more detail at the (A) potential of the export inducement effect, (B) flow of overseas income back to Japan, (C) impact on domestic employment, and (D) benefits of overseas business activities to Japan by discussing the business model of service industry, especially that of trading companies.

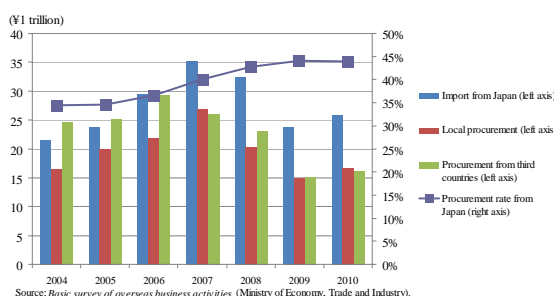
(1) Export inducement effect of the service industry’s overseas development (increased procurement from Japan)

Now, we look at what impact overseas development of the Japanese service industry could have on the domestic economy of Japan.

Looking at the trend of procurement amount of local subsidiaries of Japanese wholesalers, among local procurement, procurement from a third country, and import from Japan, the largest was procurement from Japan after 2006, and the ratio of procurement from Japan increased from 35% in 2004 to 44% in 2010. It can be said that, the more wholesalers’ development expands in foreign countries, the more the procurement ratio and amount from Japan increase (Figure 3-3-4-1).

Figure 3-3-4-1

Fund, etc., procured from Japan by overseas subsidiaries (wholesalers) (all regions)



Source: *Basic survey of overseas business activities* (Ministry of Economy, Trade and Industry).

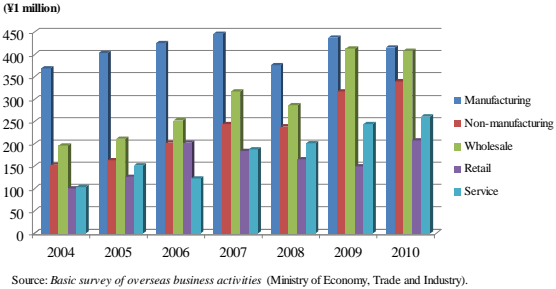
**(2) Trend of payment of dividends/royalties, etc., to the parent company and the use of dividends from overseas affiliates in Japan**

**(A) Trend of payment of dividends/royalties, etc., to the parent company**

Looking at the payment of dividends/royalties, etc., to the parent company per overseas affiliate, there was a large gap between the manufacturing industry and non-manufacturing industry in 2004, but later, payment of the non-manufacturing industry increased, and in 2010, they were almost at the same level, and the payment of the service industry and retail industry has been steadily increasing.

In order for the Japanese economy to absorb the economic growth in Asia, it has become more important to flow back a certain amount of profits gained in foreign countries to Japan, and it indicates that the overseas development of not only the manufacturing industry but also the non-manufacturing industry will be increasingly important in the future (Figure 3-3-4-2).

Figure 3-3-4-2  
Payment of dividends/royalties, etc., to the parent company per overseas affiliate

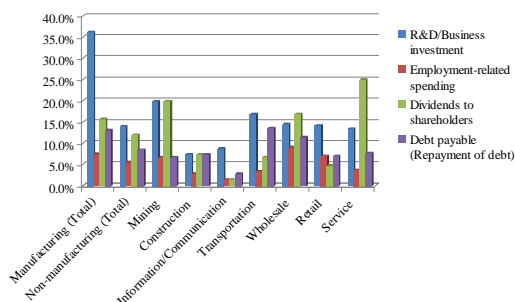


**(B) Use of dividends from overseas affiliates in Japan**

According to the “Basic survey of overseas business activities” (2012), in the hearing with large companies about the use of the dividends from their overseas affiliates, it was found that the wholesale and service industry use more for “Dividends to shareholders” (17%, 25%) than for “Investment in R&D and equipment” (14.5%, 13.5%). On the contrary, in the retail industry, they use more for “Investment in R&D and equipment” (14.3%) than for “Dividends to shareholders” (4.8%). It is important that those dividends flowed back to Japan produce positive effects on the domestic economy through the induction of consumption and investment (Figure 3-3-4-3).

Figure 3-3-4-3

Use of dividends from overseas affiliates in Japan (large enterprises)



Note: Hearing with large enterprises about the use of dividends from overseas affiliates over a medium term (3 to 5 years).  
 Source: Basic survey of overseas business activities (Ministry of Economy, Trade and Industry).

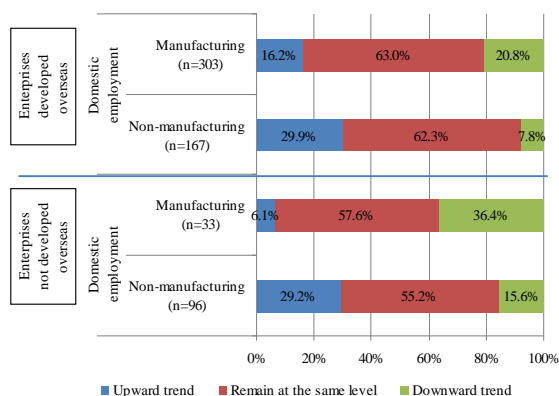
(3) Relationship with employment

(A) Comparison of outlook for the number of employees of enterprises developed overseas and enterprises not developed overseas

According to the “Questionnaire survey of overseas business strategy of Japanese enterprises” (2012), in the hearing with enterprises developed overseas (note: it refers to enterprises engaged in any of export, outward foreign direct investment, or consignment to foreign firms) and enterprises not developed overseas about the outlook for the number of employees in the coming three years, 33% of non-manufacturers developed overseas answered “upward trend” and 6% answered “downward trend.” As for the enterprises not developed overseas, while 29% of non-manufacturers answered “upward trend,” 16% answered “downward trend,” and we can see from this that the enterprises developed overseas are more likely to increase employment and, at the same time, less likely to decrease employment (Figure 3-3-4-4).

Figure 3-3-4-4

Outlook for employment (number of employees) of enterprises developed overseas and enterprises not developed overseas



Note: The above is a compilation of answers about the outlook for the numbers of employees in the next three years, which are either “upward trend,” “remain at the same level,” or “downward trend.”  
 Source: Survey on Japanese companies’ overseas strategy (Mitsubishi UFJ Research and Consulting Co., Ltd.).

Next, comparing the above figures with that of the manufacturing sector enterprises developed overseas, we find that there are more non-manufacturers that increased employment than manufacturers and, at the same time, the number of non-manufacturers that decreased employment are less. This implies that non-manufacturers are less affected by overseas development than manufacturers on decreasing employment.

Based on the above, and from the viewpoint of effect on employment, it is considered to be more reasonable for Japan to further increase the outward foreign direct investment balance of the non-manufacturing industry (service industry), which is extremely small at present compared with that of other major countries.

**(B) Comparison of number of employees between enterprises that started outward foreign direct investment and enterprises that did not start outward foreign direct investment**

Comparing the trend of the number of employees of enterprises that started outward foreign direct investment and enterprises that did not in the “Basic survey of corporate activities,” there was no big difference in the manufacturing industry, but in the non-manufacturing industry, it indicates that enterprises that started outward foreign direct investment increased the number of employees more than those of enterprises that did not in the wholesale and service industry (however, such a trend is not necessarily seen in the retail industry) (Figure 3-3-4-5–Figure 3-3-4-7).

Figure 3-3-4-5  
Comparison of number of employees between enterprises that started outward foreign direct investment and enterprises that did not start outward foreign direct investment in the manufacturing industry

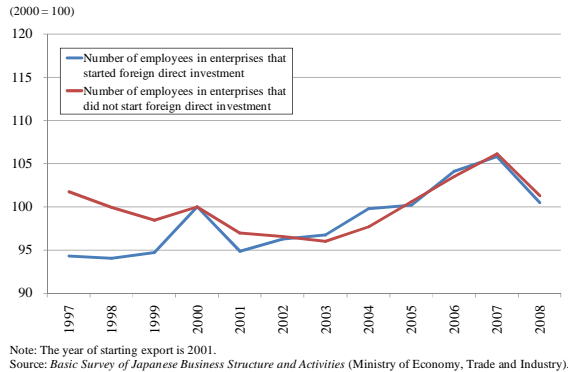
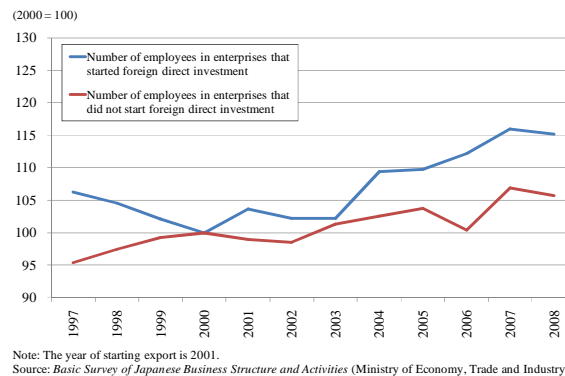




Figure 3-3-4-6

Comparison of number of employees between enterprises that started outward foreign direct investment and enterprises that did not start outward foreign direct investment in the wholesale sector



**(C) Comparison of outlook for the number of domestic employees of enterprises developed overseas business by number**

Further, let us check for differences in the outlook for the number of domestic employees of the enterprises developed overseas (manufacturing and non-manufacturing industries) by number. The “Questionnaire survey of overseas business strategy of Japanese enterprises” (2012) shows the trend as follows (Figure 3-3-4-8, Figure 3-3-4-9).

Figure 3-3-4-7

Comparison of number of employees between enterprises that started outward foreign direct investment and enterprises that did not start outward foreign direct investment in the service industry

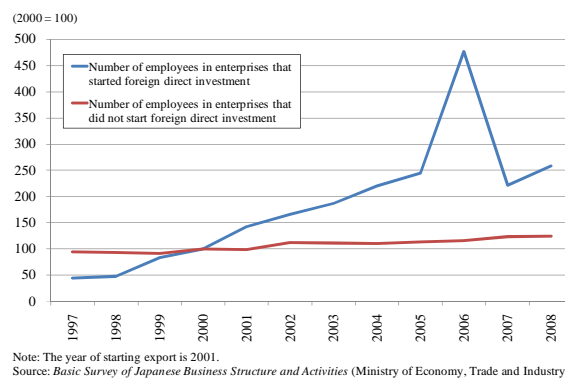
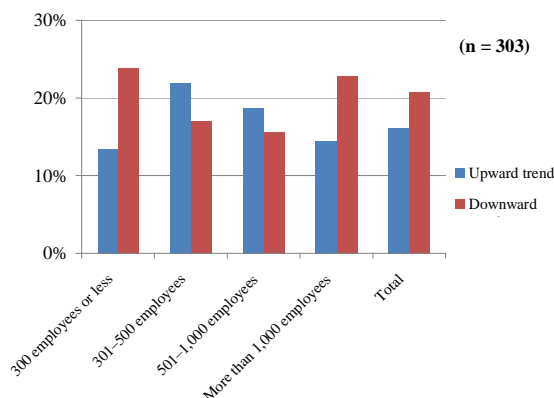


Figure 3-3-4-8

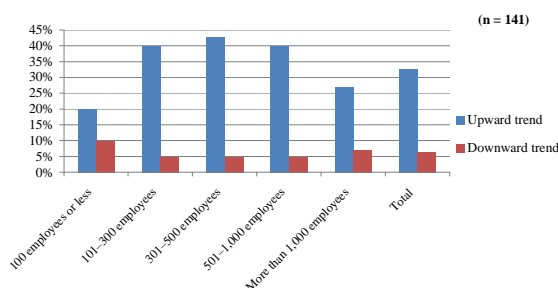
Outlook for number of domestic employees by employees of enterprises that developed overseas (manufacturing industry) (in the next 3 years)



Source: Survey on Japanese companies' overseas strategy (Mitsubishi UFJ Research and Consulting Co., Ltd.).

Figure 3-3-4-9

Outlook for number of domestic employees by employees of enterprises that developed overseas (non-manufacturing industry) (in the next 3 years)



Source: Survey on Japanese companies' overseas strategy (Mitsubishi UFJ Research and Consulting Co., Ltd.).

It indicates that, in both the manufacturing and non-manufacturing industries, mid-sized enterprises developed overseas have been driving domestic employment, and in general, non-manufacturing industry is more likely to increase domestic employment along with overseas development than manufacturing industry.

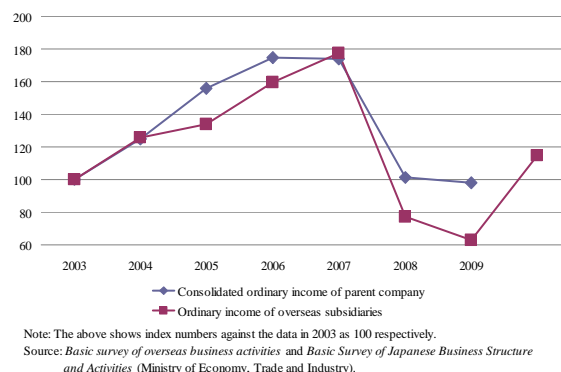
#### (4) Benefits (dividends to shareholders, corporate tax, etc., contribution to domestic employment) of the trading company model

##### (A) Relationship of ordinary income between the parent company and overseas subsidiaries in the wholesale sector

Next, we examine how the profits of overseas businesses of trading companies are returned to Japan. Comparing the trend of the ordinary income of overseas subsidiaries with the consolidated ordinary income of their parent company in the wholesale sector including trading companies, we find that both of them move relative to one another (Figure 3-3-4-10).

Figure 3-3-4-10

Ordinary income of the parent company and overseas subsidiaries in the wholesale sector



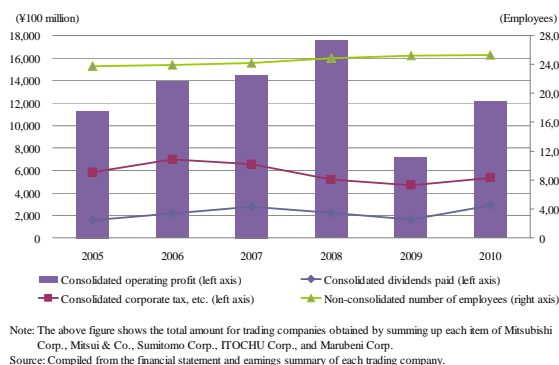
From this, we find that the income of overseas subsidiaries determines a good part of the consolidated income of the parent company in the wholesale industry. Actually, in trading companies, in some cases, the overseas subsidiaries' income accounts for 70–80% of consolidated income.

### (B) Benefits of income of trading companies' overseas subsidiaries to domestic economy

Let us look at the trend of total figures of consolidated operating profit, dividend payments to shareholders, consolidated corporate taxes, and the number of employees of five trading companies. During 2005 and 2008, the consolidated operating profit of trading companies increased, but then significantly decreased in 2009; however, in 2010, it increased again. In such a situation, the dividend payments to shareholders remained 200-300 billion yen range, and corporate taxes remained at the 400- 700 billion yen range. Also, the number of domestic employees of parent companies in Japan (excluding temporary workers) steadily increased although slowly, during 2005 and 2010 (Figure 3-3-4-11).

Figure 3-3-4-11

Operating profit, dividend distribution, corporate taxes, and number of employees of trading companies



It is considered that, even a trading company, the major profit of which comes from overseas, is stimulating domestic demand such as consumer spending through dividend distribution to

shareholders and by increasing the number of domestic employees. Thus, it is very important that the income from overseas secured by the non-manufacturing sector benefits the domestic economy through various routes. Following the introduction of the Foreign Dividend Exclusion System (FDES) in 2009, the environment has improved and it has become easier to return the income gained overseas to Japan, but it is important now and in the future to continue working on measures to promote the return of income gained overseas by Japanese companies to help the domestic economy.

## **5. Concept of offering services for the manufacturing sector**

Today, the environment has become one where not only some advanced but also emerging countries can easily mass-produce industrial products at low cost. The “age of too many things” has come, and the customers demand solution-added products. That is, the added value of a product is not only the function or specification of the product itself, but the value of a product is shifting to the quality of service. Given this, Japan’s manufacturing industry has embarked on service businesses overseas in order to provide reputable services.

Below, we look at individual cases: (A) a case where a manufacturer differentiated itself by adding service functions and (B) a case where a manufacturer successfully diversified its business category to service business.

### **(1) A case where a manufacturer differentiated itself by adding service functions**

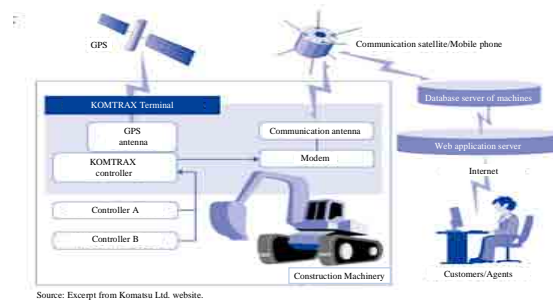
There is a strategy to further improve a product’s value by creating and adding unique know-how in aftersales and concierge services, etc. In order to develop markets in emerging countries, customized services are required in responding to local customers, and to that end, additional services using unique know-how may be an important factor. Here, let us introduce the cases of Komatsu and Shiseido.

#### **Case 1: Komatsu Ltd.**

There are companies that introduce service management systems using IT and RT (Robot Technology), “visualize” the customer’s behaviors and provide solutions of high value (offering of maintenance/repair service). One such example is Komatsu. Komatsu is not just one of those hardware makers who simply sell construction machines. It invented an information gathering and transmitting sensor system called “KOMTRAX” (Figure 3-3-5-1) to be integrated in construction machines. This will enable the collection of information in real time on where in the world your hydraulic shovels are, doing what kind of work, and for how many hours a day, and quickly identifies troubles for quick repair. Komatsu provides such information to customers and agencies and makes good use of them in making proposals that may lead to improved productivity and marketing.

Figure 3-3-5-1

Outline of Komatsu's information gathering and transmission system ("KOMTRAX")



### Case 2: Shiseido

Shiseido not only sells high-quality safe and secure cosmetics, which is one of the strengths of Japan, but also differentiated itself from others by creating a “unique sense of beauty and added value” that other countries cannot easily imitate. To be more precise, as one of the pillars of the overseas development strategies, it maximizes customer satisfaction by Japanese-style “spirit of good service” to expand its customer base. It fosters local training managers in each country, who in turn teach local beauty experts and give advice on store decor and customer service.

### (2) A case where a manufacturer successfully diversified its business category to service business

It is important to have a strategy, not only to produce and sell products, but also to strengthen relations with and provide solutions to customers, and to secure competitive advantages. It is a critical strategy to differentiate from the competitors and to improve profitability in emerging countries, a case that may be true to any manufacturers more or less. Here, let us introduce the case of Fujitsu as a successful case of diversifying business from manufacturing to service to provide solutions.

### Case: Fujitsu

Fujitsu is a manufacturer and seller of a wide variety of IT devices, from supercomputers to high-performance servers, PCs, and mobile phones, and it is promoting a solutions business in which it provides not only products but also solution services, i.e., services to solve the problems customers are facing in a comprehensive manner. Most recently, it is engaged in a business as its medium-term vision to build a society called a “Human Centric Intelligent Society,” a wealthy society realized by using IT. As part of such business, it has created a new service business based on the knowledge obtained through the process of visualization, analysis, prediction, and optimization of large amounts of information collected from mobile terminals and sensors, and by transforming them to knowledge. For example, the Smart City brand is an idea that is supposed to realize the effective use of energy, the creation of a so-called “Sixth Industry” of the agriculture sector that combines agriculture and IT, and traffic guidance services for alleviating traffic jams and safe driving using real-time information. Also, as a base to support such services, it is promoting the advancement of cloud computing technology and globally operating data centers that are implemented with these advanced technologies, and providing customers with a variety of services.

Figure 3-3-5-2

Concept of “Field Innovation” at Fujitsu

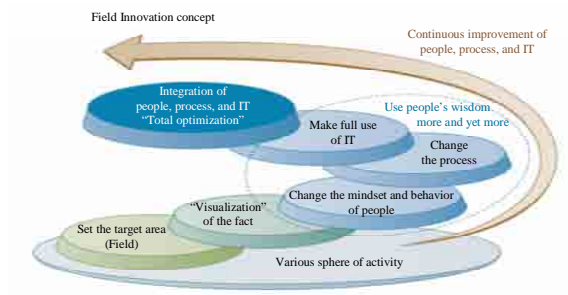
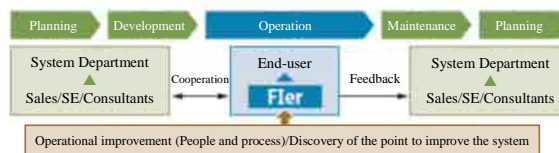


Figure 3-3-5-3

“Do not leave produced systems unattended” model at Fujitsu



Source: Excerpt from 2011 Sustainability Report and Annual Report 2011 of Fujitsu Group.