

TSE magazine

# EVOLVING JAPAN

2012 August  
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Feature 1:  
A Service Sector  
Venturing Abroad



Feature 2:  
The "Now" in the  
Character Kingdom

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*Osamu Suzuki*



Economic Angle  
*Richard C. Koo*

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海が三つ  
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# A Service Sector Venturing Abroad

by Masamitsu Suzuki



When we think about Japanese companies expanding abroad, what usually comes to mind are automakers, electrical appliance makers and others in the manufacturing industry. However, a new trend is gaining speed. Japan's service sector is also moving overseas. Japan is renowned for its exceptional service, a spirit encapsulated in the Japanese term "*omotenashi*", which can be loosely translated as Japanese hospitality. Different in nature to "Made in Japan", the challenge to make overseas "*omotenashi*" ventures a success has begun.



Watabe Wedding: Chijmes Hall and banquet hall in Singapore



## All Eyes on Asia

"In the past 2 to 3 years, the service industry has globalized rapidly. We are holding seminars across Japan targeting companies in the service industry looking to expand overseas, and all the seminars are fully booked."

According to Hironobu Kitagawa, director of the Service Industry Support Division, Overseas Business Support and Intellectual Property Department at Japan External Trade



Hironobu Kitagawa



JETRO issues pamphlets for companies looking to enter overseas markets.

Organization (JETRO), overseas expansion by the service industry is happening on an unprecedented scale.

The service industry seeks out people's vibrancy and a huge demand for consumption. A growing number of companies from the service sector are looking to enter regions expected to show strong economic growth, especially in Asia. There are many countries in Asia besides China that have extremely large, and, more importantly, young populations such as India and the ASEAN nations. Rapid growth is expected in Asia and the region holds great appeal for the service sector.

However, overseas expansion by the service sector is a rather recent phenomenon. The manufacturing industry has a track record of about 30 years since manufacturers ventured abroad after the yen appreciated due to the Plaza Accord in 1985. In comparison, overseas expansion by the service industry only began in earnest a few years ago. There are few precedents to refer to and no database of information to speak of.

What does it take to be successful? In our attempt to find the key to success, we looked at the experiences of some companies that have ventured abroad.



***Proposing Wedding Culture  
and Pursuing "omotenashi"  
~Watabe Wedding's  
Overseas Strategy~***

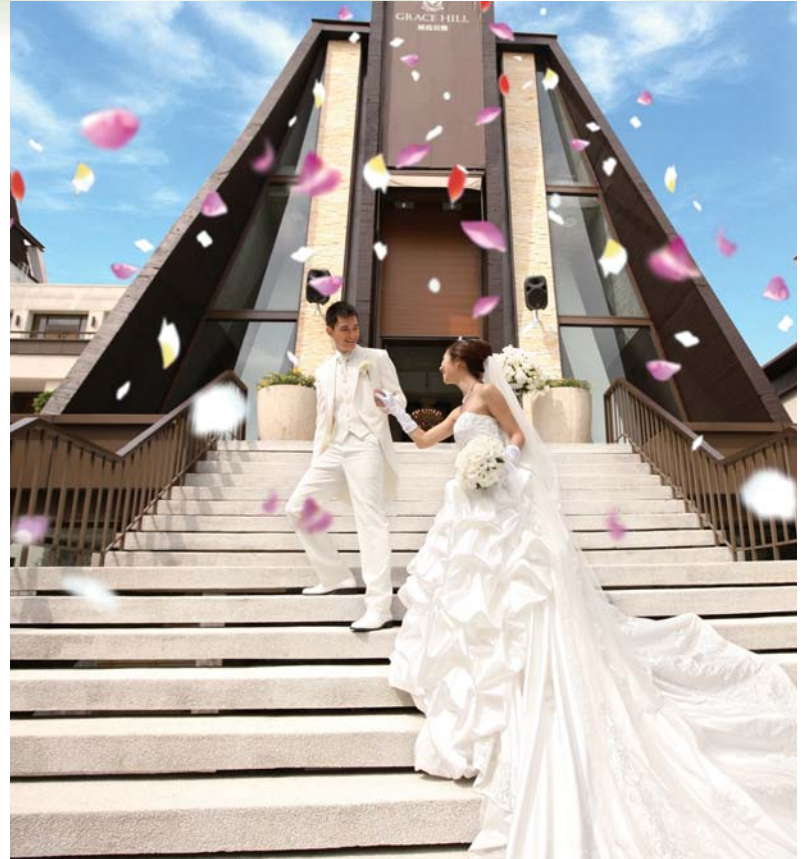
"The wedding boom that Japan experienced during its high growth period is now occurring in Asia. We are looking to offer those markets our heartwarming services developed through the course of our business in Japan."

These are the words of Makoto Fujibayashi, business development manager of WATABE WEDDING CORPORATION's (Watabe Wedding) Asian Business Division, a major player in the wedding industry. Watabe Wedding's





Watabe Wedding: Wedding dress factory in Vietnam



Watabe Wedding: Grace Hill in Taiwan, Flower shower in front of the chapel

overseas business takes two different forms.

One of these is its local ceremony business which involves building ceremony halls in cities overseas, and coordinating the wedding ceremony and reception for local customers. Watabe Wedding began offering its wedding services in Taiwan and Singapore in April 2010 and 2011 respectively. The other is its destination ceremony business of coordinating wedding ceremonies at company-owned facilities in exotic locations such as Okinawa, Guam, and Hawaii. These wedding tourism services are being rolled out in Hong Kong, Taiwan, and Shanghai.

"If you go in thinking that whatever has been done in Japan will also work, then you will fail," says Mr. Fujibayashi about entering overseas markets. He adds that people must go in with the mentality of "a venture company new to the area", learn about the local culture and customs, and find ways to refine themselves while demonstrating the lure and appeal of Japanese-styled weddings.

For example, in Taiwan, Singapore, and China, weddings and receptions did not go beyond inviting relatives and friends to share a meal together. Watabe Wedding created a new trend in these countries by proposing Japanese wedding culture.

"Previously, holding ceremonies wasn't the style of Asian weddings, but there are gradually more couples exchanging vows of eternal love in a chapel, or expressing their gratitude to friends and relatives in weddings with

spiritual ceremonies. In Taiwan, our chapels used to have a 20% operation rate, but recently this has reached 70%. I think this is an indication of wedding culture gaining maturity."

To run a business of promoting a new culture, it was essential for local hires to understand Japanese wedding culture and acquire the spirit of *omotenashi*.

"Even though we say Japanese-styled hospitality or *omotenashi*, it is not easy for locally hired staff to understand the spirit behind it. If they see guests being touched to tears through their work, it will lead to greater job motivation and maybe even bring about the thought that 'this is a great job'."

Of course, the human resource development program for local hires plays a role in success. Japanese staff members are deployed to

simultaneously manage and develop local hires, provide on-the-job guidance, and continuously refine services.

Mr. Kitagawa of JETRO points out that "The success of an overseas venture by a company from the service sector hinges upon this. When we look at companies that are successful overseas, we see them patiently educating local hires on *omotenashi* until they understand."

In the Japanese pursuit of a high degree of customer satisfaction, human resource development and efforts to refine business offerings are even more important overseas.

As Mr. Fujibayashi says, the ultimate goal is for all local hires to "share our perspective of how we can make customers feel joy and satisfaction". This is because that is the origin of *omotenashi*.



MUJI Shenzhen MixC, China



MUJI Xidan Joycity Beijing, China

# MUJI

**An Unchanging Concept  
Draws Followers  
~Behind Ryohin Keikaku's  
International Success~**

Japan's "Mujirushi Ryohin", or better known worldwide by its global brand MUJI, Ryohin Keikaku Co., Ltd. (Ryohin Keikaku) is expanding in China with exceptional speed. This is a rare phenomenon in the history of overseas expansion at Ryohin Keikaku. Managing director for overseas business, Satoru Matsuzaki has this to say about their recent charge.

"Until today, our pace of overseas expansion has been around 1 store per year. In comparison, we have announced our plan of launching more than 25 new stores in a year in China. This is incredible speed."

Other than Chinese economic growth and an expanding customer base, Ryohin Keikaku's expansion plans in China were also driven by their strategy to restructure and step up their overseas business.

Ryohin Keikaku has been trying to transplant its core merchandising and logistics systems to China since 2010. Until then, the company had been running its overseas stores using local systems fit to the region. In China, it tried bringing a system identical to that being applied at the head office in Japan and linking both systems. Operations have been smooth. The company plans to apply a system based on the same concept in Singapore in October this year and roll out a uniform system to operate its network across Asia.

Needless to say, this planned increase in store numbers is sustained by the individual success of each new Chinese store. As MUJI stores stand alongside those of US and European brands, it is attracting fans in the same way as other high-end brands.

"Chinese consumers are very particular, they only buy something for a reason. I think this fits us perfectly. What I mean is, the MUJI concept is finding many followers in China and other parts of Asia who like our concept".

MUJI made its debut in 1980 pushing a concept of being "lower priced for a reason". After more than 30 years, this concept remains unchanged, and its products remain

reasonably priced and maintain their unique design and taste.

"Our most valuable asset is our MUJI concept. When we mention 'MUJI' even overseas, it brings to mind not only our products but also environmental-friendliness and a simplistic lifestyle. The core of the concept lies in the essence of the Japanese view that 'simple is good'. Being a brand that makes our customers think about their lifestyles is a huge factor that differentiates us from other brands."

MUJI spends very little on advertising. Advertising reportedly only accounts for



MUJI products (organic cotton washed-out shirt, markable umbrella, hard carry travel suitcase, and PET bottle)



MUJI's concept displayed behind a cashier (MUJI SM Mall Xiamen, China)



MUJI to GO Hong Kong International Airport

around 2% of sales in Japan and 1% of that overseas. This is because the MUJI concept is based on the idea of promotion not through advertisements, but information from the stores themselves.

"We use our stores to communicate our ideas to our customers and promote our products. That is the foundation of our business. In this sense, a striking feature of our overseas stores is the 'What is MUJI?' explanation (of the MUJI concept) on the wall behind the cashiers."

For MUJI, the store is a place where the concept is shared. In the store, you see the brand, its products, the store, and its customers all linked by a single concept.

This structure works toward distributing information in a way that does not require advertising. That is, every single customer that enters the store has a user experience, buys a product, and becomes a source of information. For example, some countries have close to 2,000 "MUJI" corners on Facebook. The company opened its first store in Malaysia earlier this year. Word on the opening spread on Facebook and long lines formed at its new flagship store.

This is how the MUJI concept inspires people, influences their thoughts, and draws them in. It is indeed a brand's lifeline. This is a prime example of how a concept that can be supported beyond borders is able to be a powerful ally, upon venturing to countries and regions of different cultures and languages.



Chinese edition of "Kodomo Challenge" offered by Benesse



**Fostering Ties with Customers  
to come up with Services  
Tailored to Local Needs  
~Benesse's Success Strategy~**

Japanese companies in the direct marketing business are also making their move.

Education services provider Benesse Group (Benesse) ventured abroad in 1989. The company had begun to roll out "Kodomo (kids) Challenge"\* in Taiwan, a product that had just been developed in Japan. The product

was subsequently launched in Korea and China. In the same way as the two companies mentioned earlier, Benesse's Chinese business is showing the fastest growth with current enrollment at about 500,000. The company plans to double this to 1,000,000 members by 2015.

Restrictions on foreign investment in publishing companies in China meant that Benesse had to enter the Chinese market by tying up a partnership and licensing agreement with the China Welfare Institute to publish a Chinese edition of "Kodomo Challenge".

"We are not looking at a Chinese edition which is a translation of the Japanese text. We began with the idea of doing research together with Chinese experts on the stages of development



Mini concert at a shop



The highly popular *Qiaohu* concert is held about 100 times a year.



Grandview Mall, Guangzhou

among Chinese children to come up with educational material tailored to Chinese culture and lifestyles. We visited families and held sessions, listening carefully to opinions directly from customers themselves. This process of product development is the same as that in Japan. This is Benesse's way of doing things. We build close ties with our customers and create products and services together with them." says Takashi Matsuhira, President of Benesse's Global Education Business Division and China Business Division.

Increasing sales and memberships in China is more of a challenge. Unlike publishing, since foreign companies are allowed to sell published material, Benesse established a local subsidiary to purchase and sell educational materials published by the China Welfare Institute, and began promotion activities.

"We had absolutely zero product recognition, and there was no concept of 'correspondence courses' present in Japan. Consumer practices such as buying only after handling the actual product was also different. From our experience in Taiwan, we thought that we could not apply the sales method used in Japan which centered on television commer-

cials and direct mail. After considering various aspects, we ended up adopting telemarketing where we distribute samples and phone each and every prospective customer to explain our products. "

Besides this, Benesse also set up shops at sales venues to let people have a hands-on experience of using their educational materials. Today, there are more than 100 such shops across China.

When we talk about "Kodomo Challenge", we think of the tiger character "*Shimajiro*". *Shimajiro* known as *Qiaohu* in Chinese, is also popular in China. Leveraging *Qiaohu*'s popularity, the group also holds about 100 *Qiaohu* concerts every year as part of its promotion activities. Despite the entrance fee, the concerts are always sold out and it has contributed to contract renewals and growing enrollment.

Beneath the steady growth in enrollment numbers lies a worry from when the group began its Chinese business. There was a view that Chinese are extremely enthusiastic about raising the learning ability of their children, and may not warm to the "Kodomo Challenge" concept of "supporting overall person-

ality development". This fear, however, proved to be unfounded.

"For example, cleaning up, saying thank you, queuing up...there is a strong desire in the Chinese family toward instilling such daily habits, but both parents are busy with work and do not have sufficient time to communicate with their children. There was also no suitable educational material. There lay the demand."

Before the Chinese edition of "Kodomo Challenge" appeared on the scene, nobody thought about teaching these things through DVDs or picture books.

"When *Qiaohu* said 'Let's brush our teeth after eating!' in DVDs, children started to enjoy brushing their teeth. Once this happened, many people thought 'This is great!'"

Benesse held fast to the Japanese "Kodomo Challenge" concept of "supporting overall personality development", approached the Chinese market in an unassuming and careful manner, adapted the actual content of their products and sales methods, and created new products tailored to local society.

"They eagerly await next month's package. When it arrives, they open the educational material. The child and the parent use it together and there is communication. They then feel that they grow together as parent and child. This entire process was a whole new experience for all Chinese families."

The success of Benesse's "Kodomo Challenge" is proof that the stance toward



A growing number of families in China look forward to receiving "Kodomo Challenge" in the mail every month.

approaching customers and the processes of structuring the service, both of which have been cultivated in the Japanese service industry, are truly invaluable.

(\*Note) Kodomo Challenge is a preschool curriculum developed and provided by Benesse for children 6 months old and older.

## The Key to the Service Sector's Overseas Success

The 3 success stories highlighted in this article share a common thread – "they are all able to demonstrate their competitive advantage in local markets".

Watabe Wedding's "proposal of wedding culture and *omotenashi*", Ryohin Keikaku's "concept-based brand development and store power", and Benesse's "ability to carefully build close ties with customers to create products and services". Even as we recognize the importance of the competitive advantage of the products and services themselves, the secret to success lies in the sources and processes from which they are born and if companies tapping into overseas markets can possess an overwhelming advantage over local peers.

However, refined or sophisticated, bringing the Japanese model as is overseas may simply result in failure. Companies cannot avoid doing their homework of unearthing local demand. As JETRO's Mr. Kitagawa says, "Since you only realize some things after you live in that society, for the service sector, it is

important to gain an understanding of the local customs, business practices, pricing methods and other aspects of the society as if you lived there for about 1 year."

After that, there must be effective localization to build upon a sturdy foundation established through surveys and local partnerships. The words of Benesse's Matsuhira echo this point.

"Localization does not only involve making something suited to the needs of the country or region. It is also a question of how to approach the needs that remain unsatisfied."

If the Japanese service sector goes about its business with such a mindset, it will no doubt bring new value to the many lands and peoples to which it ventures.



JETRO issues pamphlets introducing lifestyles and business in major Asian cities.

## WATABE WEDDING CORPORATION

<http://www.watabe-wedding.co.jp/corporate/ir/en/>

Watabe Wedding Corporation (Watabe Wedding) is the largest wedding company in Japan, serving 26,000 couples annually. Founded in 1953, the company began with a wedding costume rental business. It then expanded its operations into a wedding business and became a pioneer of overseas wedding services. Watabe Wedding focuses on "Resort Weddings" overseas as well as the growing wedding business in Asia.

- TSE/4696 Bloomberg/4696:JP REUTERS/4696.T
- Total Outstanding Shares (May 31 '12): 9,909,400 shares
- Shares per Trading Unit: 100 shares
- Date of listing: Nov. 21 '00

(¥MIL)	Sales	Operating Profit	Ordinary Profit	Net Income
'12.3	48,929	1,241	1,423	423
'13.3*	50,600	1,500	1,550	700
	Earnings per Share(¥)	Dividend per Share(¥)	ROE(%)	ROA(%)
'12.3	42.79	30.00	2.9	1.7
'13.3*	70.64	30.00		

## Ryohin Keikaku Co., Ltd.

<http://ryohin-keikaku.jp/eng/corporate/>

Ryohin Keikaku Co., Ltd. is a retail company engaged in the planning, development, manufacturing, and distribution/sale of its "MUJI" brand goods. In addition to household goods, it has a diverse product lineup which includes apparel, food, furniture, stationery, and electrical appliances. The company has been working positively to expand its overseas operations and increasing the number of stores, particularly in China.

- TSE/7453 Bloomberg/7453:JP REUTERS/7453.T
- Total Outstanding Shares (May 31 '12): 28,078,000 shares
- Shares per Trading Unit: 100 shares
- Date of listing: Dec. 14 '98

(¥MIL)	Sales	Operating Profit	Ordinary Profit	Net Income
'12.2	178,186	15,438	16,135	8,850
'13.2*	190,810	18,040	18,100	10,690
	Earnings per Share(¥)	Dividend per Share(¥)	ROE(%)	ROA(%)
'12.2	330.35	110.00	10.8	8.7
'13.2*	399.02	110.00		

## Benesse Holdings, Inc.

<http://www.benesse-hd.co.jp/en/>

Benesse Holdings, Inc. is the holding company of the Benesse Group (Benesse). Benesse is engaged in the education business for infants to college students, lifestyle-related business which offers a range of lifestyle products and services to support women in everyday life, languages/global leadership training, and senior/nursing care business. Already in Taiwan, South Korea and China, Benesse plans to expand its education business to other regions.

- TSE/9783 Bloomberg/9783:JP REUTERS/9783.T
- Total Outstanding Shares (May 31 '12): 104,153,453 shares
- Shares per Trading Unit: 100 shares
- Date of listing: Mar. 1 '00

(¥MIL)	Sales	Operating Profit	Ordinary Profit	Net Income
'12.3	423,706	33,797	34,698	16,369
'13.3*	459,000	40,000	40,300	20,800
	Earnings per Share(¥)	Dividend per Share(¥)	ROE(%)	ROA(%)
'12.3	167.79	95.00	8.7	3.8
'13.3*	213.96	95.00		

\*Forecast

# Giving Cars a New Edge

**TOP**  
MANAGEMENT  
INTERVIEW

Osamu Suzuki



Suzuki Motor Corporation  
Chairman & CEO

# Osamu Suzuki

Ranked 10<sup>th</sup> globally by automobile sales volume (FY 2011), Suzuki Motor Corporation (Suzuki) continues to demonstrate its ability to shine in the development and production of compact cars at low cost. Suzuki's production methods and philosophy are also gaining worldwide acclaim as the shift in the automobile industry toward emerging economies gains pace. Leading Suzuki with a top-down approach for 34 years, Chairman and CEO Osamu Suzuki shares his ideas on a concept of "giving cars a new edge" that defies convention.

Automobile makers worldwide are sharpening their edge in the race to develop eco-cars. In November last year, Suzuki launched the "Alto Eco", a gasoline-powered car of world-class fuel efficiency. Developed based on the Alto kei\* car, the Alto Eco boasts fuel efficiency of 30.2 km/l (JC08 mode).

(\*Japanese 660 cc small cars)

In addition to stopping the engine when the car is at rest, the Alto Eco adopts an innovative idle-stop system which stops the engine as the car slows down just before a complete stop. We rigorously reviewed all car parts to reduce car body weight, and sought ways to reduce running resistance. The result is a 30% improvement in fuel efficiency in comparison with existing models. Even as we earn high praise for the running fuel efficiency of cars which combine the best of Suzuki's fuel efficiency technologies, we want to bring your attention to a new way of thinking about energy efficiency.

## Lifetime energy consumption

Running fuel efficiency is an indicator of the rate of energy consumption when you use a car. However, energy is also consumed before you can even start using a car. When we think about the global energy problem, I think that we should not only consider running energy consumption, but also the initial energy used in the production process. That is, we should be looking at a concept of "lifetime energy consumption" which encompasses all processes related to a car in its entire lifetime.

The time will come for us to present car users with more than just running fuel efficiency, and provide them with lifetime energy consumption so that they can con-

sider their choice in terms of environmental impact, economy, and user-friendliness. Suzuki has sought to reduce initial energy consumption, lower production process cost, and decrease raw material use. This is where we will demonstrate our competitive edge.

The epitome of the "Suzuki way" is presented in our "ideal plant". The Sagara 4-wheeled vehicle assembly plant, opened in Shizuoka prefecture in 2008, lines up the pressing, fusing, painting, and assembly processes in a straight line in that order. The plant is 800 meters long. The reason for building a narrow, elongated plant is to minimize the movement of parts within the plant as far as possible. By spreading out the unloading areas along the length of the plant, parts can be unloaded at points nearest to where they are to be used in the assembly process and moved immediately to the production line.

Along the many conveyor belts used throughout the plant, part racks are inclined slightly so that the parts naturally slide on to the belt and are then moved on to the production line. By utilizing the weight of the parts themselves, there is no need for a conveyor belt and electricity. Natural light comes in through the roof of the plant and if the plant itself is designed to allow light to travel, it reduces lighting expenses. Gravity and sunlight are free and no costs are incurred.



SOLIO BLACK & WHITE



ALTO ECO



"Regina" embodies the vision of a fuel-efficient low-emission next-generation global compact car borne from the pursuit of lighter weight and superior aerodynamics. Powered by a gasoline engine, it achieves fuel economy of at least 32 km/l (JC08 mode) and CO<sub>2</sub> emission as low as 70 g/km (New European Driving Cycle).



# Top-down is Cost-down

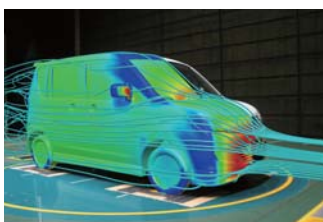
## Cost reduction the Suzuki way

Cost reduction at Suzuki is sometimes known within the company as "the stingy strategy". The roots of cost reduction were planted when Suzuki, which made and sold motorcycles, first entered the automobile industry. Our efforts to reduce cost continue as production centers around kei cars and compact cars. In the 60s, I was sent to the US to assume the post of CEO of our US sales subsidiary, US Suzuki Motor Corporation. My predecessor owned a car, a General Motors Cadillac. It was 4 times as heavy as a kei car. Even the trunk or boot itself was the size of a kei car. I realized that "it probably costs 4 times as much as a kei (car) and uses 4 times as much steel". No profit or benefits would come from making affordable compact cars in the same way as large ones. We had to make compact cars using a method suited to compact cars. This is the underlying idea behind cost reduction at Suzuki.

### Major improvements for better fuel efficiency



In the exterior design stage, Suzuki does its best to reduce air resistance by utilizing flow simulation to come up with a body shape that allows smooth airflow around the vehicle body.



For example, at Suzuki we have a "1g lighter, 1 yen cost reduction per part campaign". A car is, on average, made up of 20,000 parts. Suzuki's consolidated net profit for the period ended March 2012 is JPY 53.9 billion, with automobile sales of approximately 2,560,000 units. That comes to about JPY 20,000 profit per vehicle sold. This means that for each part, the profit is only 1 yen. Cutting costs by 1 yen per part would double profits. If we also reduce the weight of each part by 1g, we would end up with a car that is 20 kg lighter.

We also reduced the capacity of the gasoline tank on the Alto Eco to 20 liters from 30 liters in conventional models. The relative density of gasoline to water is 0.75, so a full tank of gasoline is now lighter by 7.5 kg. In any case, the Alto Eco's fuel efficiency of 30.2 km/l means it can go quite far even on 10 liters of gasoline. Also, Japanese car users used to fill up their gasoline tanks but recently they only put in the amount that they need to use. Since that is the case, we made the gasoline tank smaller. That's the mentality at Suzuki.

## Being "a grand old man at an SME"

Minute cost reductions across processes is not unrelated to the idea that "Suzuki still remains a small and medium-sized enterprise today". When I became CEO in 1978, Suzuki's consolidated sales stood at JPY 323.2 billion (FY1978). 30 years later, sales reached JPY 3.5024 trillion in FY2007 before the Lehman Shock occurred. If you look only at these figures, you might consider us a large corporation. However, the sales figures of an automobile maker only indicate "transaction volume".

The added value generated by the company is the residual amount after deducting payments to suppliers from the amount of sales in our accounts. If we consider this, Suzuki's sales performance would be around JPY 300 to 500 billion and people would never consider Suzuki a large corporation. If we do not accumulate each gram and yen in our "1g lighter, 1 yen cheaper per

part campaign", we will not survive as an SME.

For example, this cup right in front of us. The function of the cup does not change even if we made the mouth narrower by 1 mm. If the saucer were slightly thinner, we would reduce material costs, and I think this would make for more careful handling and lead to less breakage. This has always been my mindset.

At Suzuki, it's "top-down is cost-down". Rather than spending time on just discussion, instructions are given from the top, and withdrawal in the event of misjudgment is immediate without time wasted to make up reasons or listen to excuses. This is how things are done by "a grand old man at an SME". All our energy is channeled into competing with our larger rivals and challenging the limits as we make compact cars.

## Asian aspirations

Our efforts to reduce cost in all areas will result in lower energy consumption in the overall lifetime of an automobile. The market that will be most suitable for this concept of lifetime energy consumption is Asia.

"If we cannot become No. 1 in Japan, then let's go to

In February 2012, Maruti Suzuki achieved cumulative sales of 10 million vehicles. Suzuki has enjoyed high popularity in India since its entry into the market 30 years ago.



Suzuki has 21 overseas production bases across Asia.  
(Above)  
Maruti Suzuki's Manesar plant, India  
(Below)  
Pak Suzuki Motor's plant, Pakistan

a country where we can." In 1983, Suzuki became the first Japanese company to venture to India. Since then, Indian subsidiary Maruti Suzuki has maintained its top position with unrivalled market share. Competition in India has intensified, with international rivals and local automakers recently entering the fray. There is no winner without competition. Of course, I welcome competition, but there is something else I personally hope to achieve in Asia other than positioning it as a market to generate profit.

Near the end of World War II in May 1945, at the age of 15, I entered the Takarazuka Navy Air Squadron as a student of the Japanese Naval Preparatory Flight Training Program, so I have some military experience. After the war, during the coming-of-age ceremony when I turned 20, the mayor of my hometown told us "to rebuild Japan from the ashes of war". We obeyed his instruction to the letter, battling single-mindedly with a fierce desire to "catch up and surpass the US and Europe" and reconstruct our country. No one will deny the fact that we had immense support from the US during that time. What we should do going forward is to support the emerging and developing countries in Asia and coexist in harmony with them. This, I think, will return the favor.

The energy situation in Asia cannot be considered ample. Emerging and developing countries are the ones in need of the idea of minimizing the lifetime energy consumption of a car. Suzuki will present our ideal model of lifetime energy consumption to Asia, work together from an Asian perspective, and seek to both generate profit and return it to our customers. We have already secured land to build new plants throughout the region from India, Indonesia, Thailand, Vietnam, to the Philippines. There is no time to waste in overseas capital investment. When Suzuki's compact car production finally takes off across Asia, I hope that the Asian market will become the stage to demonstrate Suzuki's greatest strength, our concept of lifetime energy consumption, to the world.

## SUZUKI MOTOR CORPORATION

<http://www.globalsuzuki.com/>

■ TSE/7269 Bloomberg/7269:JP REUTERS/7269.T

■ Total Outstanding Shares (May 31 '12): 561,047,304 shares

■ Shares per Trading Unit: 100 shares

■ Date of listing: May 16 '49

(¥Mil.)	Sales	Operating Profit	Ordinary Profit	Net Income
'12.3	2,512,186	119,304	130,553	53,887
'13.3*	2,600,000	120,000	135,000	70,000

	Earnings per Share(¥)	Dividend per Share(¥)	ROE (%)	ROA (%)
'12.3	96.06	15.00	5.5	2.3
'13.3*	124.79	15.00		

\* Forecast

Washi Designer

Eriko  
Horiki

Born in Kyoto in 1962, Ms. Horiki created her original brand SHIMUS in 1987. In 2000, she established Eriko Horiki & Associates. Her company's operations cover a wide span, from original washi production to the planning, creation, and installation of washi-made interior artwork. In addition to making lighting-walls and partitions for hotels and restaurants, the company is pro-actively engaged in collaborations with overseas artists, including "Yo-Yo Ma's Silk Road Project" and the Milano Salone "Baccarat Highlights".



PROFILE

## Fusing Tradition and the Future The World of Handcrafted Japanese Paper

Soft textures and colors, with excellent durability. Japan's traditional art of handcrafted paper, or washi, was once an essential part of people's lives. In the present day where machine-manufactured paper dominates, washi's place has evolved into that of a special luxury item.

However, a pioneer is attempting to hammer out a new role for washi, so that this tradition can once again be a part of modern life. We took a look at the future of handcrafted Japanese paper through washi-designer Eriko Horiki's activities.

### Supporting the Respected Place of Washi Craftsmen



Resting past seven gates which glow in rainbow hues, a cocoon appears to float in the center of a ring of light. Titled "The Prayer of Washi", the sheer scale of this piece of art exceeds expectations. Though it is clearly made from washi, a specialized coating makes its surface quite different from the fluffy touch of Japanese paper. Visitors often exclaim "This is paper? Unbelievable!" driving home the fact that this is a new step for the craft.

"What I want to express is not just the beauty of washi. I want to create an atmosphere born from washi and communicate the presence that lies beyond the paper," says Eriko Horiki.

Ms. Horiki was first captivated by the world of washi when she worked as part of the accounting staff at a washi product developer in her 20s. Actually, the word "captivated" might not be entirely correct. Let's hear it in her own words.

"When I first set foot on the workshop floor, it was a cold winter day and I was shocked by the craftsmen soaking their hands in ice-cold water throughout the day to make paper. To think that people have been diligently working in this trade for 1500 years in Japan, I felt the strong desire to support both this tradition and the craftsmen who continue it."

However, in comparison to machine-manufactured paper which is produced from large quantities of wood-pulp, there

are high costs associated with handcrafted washi. Eventually, this washi company was forced to close. That such a valuable thing could disappear simply due to price competition troubled Ms. Horiki deeply. It was then that she decided to start a washi production company of her own.

"Handcrafted washi is not only beautiful; it also has the benefits of a texture which improves with use and durability which persists over time. However, these benefits are hard to appreciate through use as letter or wrapping paper alone. So how can the quality of washi be expressed in a modern form? After much thought, I arrived at the idea of making practical washi products for use in architecture and interior design."

Until that point, 180 x 90cm had been the largest accepted size in the washi industry. However, Ms. Horiki decided upon a size almost three-times that, at 270 x 210 cm, for her minimum size. She set out to break away from the stereotype that washi's territory in the modern, Western-influenced home was limited to sliding screens and lanterns.

"I was always told by the craftsmen I worked with 'That's impossible,' when I would voice a new idea. But 'impossible' isn't in my vocabulary. Because my roots are neither as a craftsman nor designer, my 'ignorance' is my greatest asset. If methods of the past can't help, I will think of a new approach and try it for myself. Upon seeing this, the real craftsmen will say 'That's terrible. Let me do it,' and provide the assistance needed to expand the idea's potential."



The road to hope. The gates are made with 7 colors of silk thread, symbolizing hope with a rainbow motif.



Traditional gigaku masks made from washi with a flower-spirit motif. Gigaku is an ancient masked drama performance said to have come to Japan from the mainland in the 7th and 8th centuries.



## The Aesthetics of a Modern Transience

If washi cannot be incorporated into everyday life, there is no place for it to remain as a useful part of the modern world. Ms. Horiki wants to express a universal value that transcends time through washi. At the root of this is the feeling and elegance of the Japanese homes of old and their atmosphere which changes with time and season.

“For example, Japanese sliding screens hold the appeal of softly incorporating the changing angle of the sun or the colors of outdoors as they shift with the seasons. In order to create this type of “transient washi”, I devised a “thin-layer” method. Because handcrafted washi can be spread

↑  
Exhibition title  
“The Prayer of Washi”  
Past the gates, a cocoon awaits wreathed in the sun's light. The cocoon represents a prayer for “the birth of life” as well as “a vessel to the next world”. The ring of light encircling the cocoon represents “the spread of things”. This piece was created using an original technique involving sprinkling the washi with water drops.

thinly and evenly, the use of many layers coupled with a dimmer control can change the atmosphere produced by the washi according to the angle of light. I hope to relate the traditional culture of transience through washi and establish it as part of modern living. Europe and other countries overseas have a very high-level of environmental awareness, so I think they understand.”

Her basic stance for production is not based on delivering her own piece of work but on responding to what her clients want. A customer stating “I want this” is, in itself, the expression of a modern need.

“Washi which does not burn, does not rip, does not get dirty. I've developed techniques to respond to all customer requests. Though I've been asked before ‘What can an amateur like you do?’, if you look back to the past, everyone was a creator. In the ages where there were no vocational schools or universities, people made clay figures and pyramids. Furthermore, the source of creative efforts has always been found in prayers for nature and life. In Japan, it is thought that ‘paper’ is connected to the ‘gods’ (both words are homophones in Japanese) and that pure white paper has the power to cleanse away impurities. I would like to convey the unique Japanese spirituality and aesthetic through my washi.”

Handcrafted washi is no longer relegated to Japan's past. It is an aesthetic aspiration which will shape the lifestyles of tomorrow.



Photo: Kenji Miura  
Photograph cooperation: waraku

Photo: Shinkenichiku-sha

←  
Patterns are created by spreading water droplets with a scrub brush.

←  
Craftsmen labor to make unconventional sizes of washi. Patterns are created through a process of layering. A single piece could take up to several months to complete. Pictured here, a 16 x 6m sheet (the largest size) is being created at her Kyoto workshop.

(Meg Michiyuki)



The Japanese economy, which has long faced the balance sheet recession now plaguing the US and Eurozone economies, is approaching the exit from its troubles. Corporations are growing stronger after fortifying their finances, and if the government enacts proper policy, the Japanese economy is also poised to recover. The key to unlocking corporate growth is cooperating with companies and individuals in neighboring countries that are skilled at detecting what the global market wants.



**Richard C. Koo**

Nomura Research Institute, Ltd.  
Chief Economist

# Japan is facing the “exit problem” of Balance Sheet Recession

## Technologically and Financially Sound Japanese Companies Need Business Allies

### The Path Forward for Japan

I began using the phrase “balance sheet recession” to describe the Japanese economy following the burst of Japan’s bubble economy. This term refers to the recession caused by corporations and households minimizing debt following the bursting of a nationwide asset price bubble financed with debt. Their refusal to borrow, even at extremely low interest rates, stems from the fact that their balance sheets were destroyed when asset prices collapsed but the liabilities remained. In such a situation, the government must borrow and spend the unborrowed private sector savings to keep the GDP from imploding. After the 2008 Financial Crisis, the United States and Eurozone economies also plunged into balance sheet recessions.

Despite having almost exited from its own balance sheet recession, Japan tumbled back into such conditions with corporations massively increasing savings in self-defense in the wake of the

Lehman Shock. However, in contrast to the US and Europe, for which there are still millions of balance sheets to repair, Japanese balance sheets are mostly repaired. At present, half of Japanese listed companies have no effective debt, meaning that Japanese corporations today have some of the cleanest balance sheets in the world. Such corporations have reinitiated normal efforts to maximize profits, but they still remain cautious about borrowing. This caution is the “exit problem” of balance sheet recession. If the households are saving money but businesses are not borrowing money even at zero interest rates, the national economy will remain weak because it will continue to lose aggregate demand equivalent to the unborrowed savings in the private sector.

What must be considered here is the difference between Japanese corporations and the Japanese economy. There are an increasing number of sound corporations which have reduced debt, invested in overseas operations and are lifting their profits. This is fine for corporations, but in terms of the economy, with-

out more domestic investment by corporations, private savings cannot be used, nor can we escape from the exit problem of balance sheet recession. This critical lack of borrowing from the private sector can be seen from the fact that interest rates have dropped to incredibly low levels. In order for the Japanese economy to regain its strength, it is vital to create an environment where Japanese corporations find it attractive to borrow and invest at home. During these periods of super-low interest rates, the government should use the low-cost funds to entice corporations to increase domestic investment. The low interest rates are a message from the bond market that this is no time for fiscal austerity.

One specific measure would be highly generous investment tax credit. In this case, corporations would not be able to enjoy the benefits of the lowered taxes if they did not invest. Another option would be giving large tax incentives for research and development. These incentives must be massive enough to pull the corporations away from their trauma toward debt. In addition, the government should also conduct its own research if necessary. For example, by continuing proactive developments like the planetary exploration vessel “Hayabusa”, corporations will be inspired, producing new ideas and technologies. By providing such government incentives, I hope corporations will be re-energized to borrow money and invest.

### Escape from “Debt Trauma”

In order for Japan to completely recover, the government, corporations, and the public must have a firm understanding that balance sheet recession is no ordinary recession. In particular, because one person’s liability is another person’s assets, the process of repairing millions of balance sheets is necessarily a time-consuming process. Even after balance sheets are repaired, the strong trauma toward debt must be overcome. This is because after struggling with debt, people will not want to borrow money again. There is no silver bullet.

What’s required is bringing the corporations and people in Japan to the conclusion that the future is bright and it is okay to borrow loans and invest.

In order to calm the concerns over the declining population, the government must take steps to respond to the dwindling birth rate and aging population. For example, if measures were introduced to allow for more flexible car parking rights for families with small children, or offering large discounts on parking fees, there would be more opportunities for nurturing parents to get out of the house, making child-rearing a more comfortable proposition. It is important that the government must take this type of bold action to indicate its commitment for the future.

It is also vital that the government not do anything that increases uncertainty for the future. The handling of the energy problem is integral to this. While the reduction of nuclear power plants and the development of alternative energies are important in the long run, stable energy supply with reasonable prices is absolutely essential over the short-term. This is because

even while private households respond to calls for energy saving, corporations will not invest in areas where the cost or supply of energy is unstable. This latter point has not received much attention in the policy debate. The issue of energy must be discussed from a comprehensive standpoint, including the corporate perspective.

### Craftsman Japanese Companies and Neighboring Countries

Japan has many first-rate corporations. Japan was also running trade surpluses with Korea, Taiwan, and China before the earthquake last year. Many people are surprised at this. This was despite the strong yen at the time. These countries were buying Japanese products despite the strong yen because the quality of Japanese products was very high. Japan was importing raw materials and low value-added products from China and other countries while exporting high value-added products needed by those same countries.

If one were to describe the special attributes of Japanese corporations, “craftsman” would be a very fitting word. They have been praised all over the world for their tireless devotion to creating quality products, and it is also the *raison d’être* for many Japanese individuals. This is an excellent trait and should be preserved. However, artisans are not necessarily skilled at making money.

On the other hand, many business-people in Taiwan, Korea and China are often more attune to market developments around the world and therefore are better traders and merchants than the Japanese. Japanese corporations should be able to achieve further growth by allying with partners in Taiwan or in other countries who are sensitive to global trends.

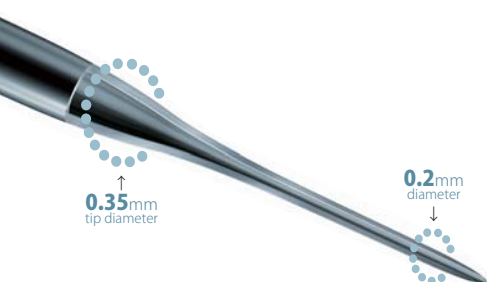
Also, should Chinese corporations attempt to acquire some Japanese companies, the Japanese themselves should examine why those companies were not given such attention by their Japanese peers. Those examinations should cover issues such as brand strength, technological prowess, and sales power.

To summarize Japan’s situation, Japanese companies, with their robust balance sheets and technological know-how, are in a good position to grow if they can come up with new products that meet or even create global demand. For that potential at the corporate level to help boost the Japanese economy, the Japanese government must enact policy measures to foster domestic borrowing and investment by those corporations.



"We want to relieve the pain and fear"

The world's thinnest insulin needle born out of compassion



"I've never been so touched" recalls Mr. Okano when he saw a child on television program using Nanopass 33 for the first time saying "There was no pain at all! Whoever made this, thank you so much!" Today Nanopass 33 is used mainly by insulin-injecting children in Japan, Germany, Italy, and other European countries. The product also went on sale in China in January this year, where a growing number of children are afflicted by the disease.

Terumo Corporation was also interviewed for this article.  
<http://www.terumo.com>

## An insulin needle that tapers to the tip

Type 1 diabetes is a common form of diabetes often diagnosed in children in their teenage years. The number of young children afflicted by this disease is reportedly increasing by 3% to 4% worldwide every year. Diabetes patients lose the ability to produce insulin and rely on self-injections of insulin to control blood glucose levels.

Motivated by a desire to relieve the stress and pain suffered by children from several self-injections a day, Terumo's hypodermic needle R&D team aimed to create "a less painful needle". The thinner the needle, the less painful the injection. However, a thinner needle also brings the problem of hindering fluid flow.

The solution to the problem was a double-tapered structure where both the internal and external diameters tapered toward the tip of the needle. However, they needed to develop a totally different manufacturing process to achieve such a needle. The R&D team went round to many small factories, asking whether they could make a double-tapered pipe for such hypodermic needles. They were left disappointed every time by the typical response: "it's impossible". It was only after visiting more than 100 that they chanced upon Okano Industrial Corporation. Masayuki Okano, the company's representative, once turned down their request but the enthusiasm of the team's leader aroused his craftsman's spirit to "try and achieve the impossible".

## The making of a world No.1

Okano Industrial applied its "deep drawing" technique developed about 50 years ago to manufacture round bells using a single sheet of steel. After one year of trial and error, they succeeded in making a double-tapered needle pipe. This led Terumo to develop fusing, sharpening, and other in-house production processes. The 0.2 mm tip diameter insulin needle "Nanopass® 33" went on sale in 2005, 5 years after the launch of the project. Billed as "the less painful insulin needle", the product gained widespread attention and won the 2005 Good Design Award\*.

Even as Terumo's competitors continue their R&D activities on "less painful needles", the 0.2 mm tip of the Nanopass 33 was a significant leap from the conventional 0.4 mm needles in the market at the time. This has kept Terumo at the top of the industry for the past seven years.

This success story proves that Japan's small factories are capable of coming up with world-class technology. In the same way as the world's thinnest insulin needle, there are many behind-the-scene contributions of such craftsmen in the making of the cutting-edge products of globally renowned manufacturers. The skill and technology of Japan's small factories is indeed one of Japan's "hidden world number ones".

\*Held by the Japan Institute of Design Promotion in recognition of products and activities of outstanding design. The Good Design Award is the year's top accolade.