

## **Proposal**

### **Corporate Management In the Age of Population Decrease**

The population of Japan is aging and decreasing with the declining birthrate. As the population decreases the market shrinks, and supply capability also declines. Without the increase of labor productivity, Japan's GDP will shrink 16% by the year 2025 and 42% by 2050. It will be a nightmare for Japanese enterprises if Japan's GDP shrinks as much as 40%. To prevent this disaster from happening, we should take aggressive measures. While Japan is standing still, other parts of the world continue to develop, leaving Japan behind. To avoid being left behind, we must continue running.

#### **Corporate strategies to respond to population decrease**

To cope with shrinking demand as a whole, the strategies listed below can be considered:

- (1) Shift to other markets in response to changes in population structure.
- (2) Create new demand by heightening the added value of products.
- (3) Take on demand from countries overseas where the population and income are growing.

To cope with shrinking supply capability:

- (4) Utilize women and elderly people, as well as overseas human resources.
  - (5) Improve labor productivity.
  - (6) Shift supply bases to countries overseas to utilize the local workforce there.
  - (7) Reorganize business and supply capabilities to respond to shrinking demand.
- Reduce business to specialize in specific demand.

These measures are straightforward, but not easy to implement.

## **Strategies to cope with shrinking demand**

### **(1) Shift to other markets in response to changes in population structure: Shift to the senior market**

In shifting to the senior market, commodities for young people will not be accepted as-is by elderly people. For example, diapers for children cannot be used for older people. However, production technologies for powdered milk and liquid diets can be used for food products for elderly care.

As for home electric appliances, commodities are needed that are easy to operate and have less potential to cause problems. Demand for cell phones with simpler functions is prevalent. The IT literacy of senior citizens, however, will increase. Business appeals to elderly people through Web portal sites will become effective.

People in their sixties maintain a high consumption level on sports. Health-conscious elderly people tend to increase their expenses for sports. Seniors require safe and secure food even if the cost is rather high. Marketing of prepared foods as home-meal replacements, which save cooking time, is suitable for the aging society. Restaurants for senior customers can provide antiaging food in cooperation with hospitals.

Amusement enterprises are also considering a shift toward the senior market. Tokyo Disney Resort is planning to open an indoor-theater type entertainment facility. Having customers sit on seats indoors to enjoy shows is a way to shift to the demands of seniors.

It will become more important to ascertain seniors' needs and match existing technologies to those needs.

## **(2) Create new demand by heightening the added value of products: Strategy for creating a higher-added-value market**

It is important to enhance the value of existing products to create demand. However, a product intended for higher added value cannot be a higher-added-value product unless consumers recognize its value. Toyota's Lexus, intended for higher added value, has been recognized in the United States as a luxury car because rational-minded American consumers have accepted Lexus, which combines two opposite factors—"speed" and "quiet"—as a luxury brand. However, Lexus is rather sluggish in Japan, where the premium market is occupied mainly by imported cars.

As family restaurants and fast-food chains have grown while changing the lifestyle of Japanese people, the catering industry in Japan is required to make new proposals. Eating out is valued for its entertaining and cultural features.

Home computer gaming units have become widespread not only among children but also adults as the units have incorporated replaceable high quality software.

Although the number of children is decreasing, educational expenses and expenses on after-school courses per child are increasing, which means a heightening of educational added value is progressing. A private cram school should not only help children cram for improving school performance and preparing for entrance exams, but should also be an educational place to nurture people. Private cram schools that collaborate with public schools are increasing in number. Some private cram schools have introduced a system of sending an e-mail to children's guardians when the children arrive and leave the school. This is also adding value by paying close attention to children's security.

As the instances above show, Japanese enterprises have been proactively offering new products and services. They have been focusing on needs and converting the seeds of technology into needs.

### **(3) Take on demand from countries overseas where population and income are growing: Strategy for a shift to overseas demand**

It is attractive to make a shift to demand in countries overseas where both population and income are increasing. Tourism is a business suitable for the aging society because elderly people tend to spend money on tourism. Connected to this, it would be more beneficial to take on overseas demand in tourism. At Niseko in Hokkaido, known as an area where a number of skiers visit from Australia, there were Australians who worked as travel agents taking care of Australians. For selling Japan's tourism resources to countries overseas, it is important to utilize overseas human resources by, for example, inviting overseas agents who understand the attractiveness of Japan. This is a shift to overseas demand. Hot springs are accepted as a part of Asian culture.

If the "washlet" or high-tech toilet, which has created new demand in the market in Japan, is exported abroad, its market may expand indefinitely. However, exporting the washlet means to confront cultural differences between Japan and other countries.

While the cell phone market worldwide is quickly expanding, Japan's cell phone manufacturers are having a tough time. The world's number 1 in sales, Nokia, sells 340 million sets while Sony Ericsson, Sony's joint venture with Ericsson, holds the world's number 4 position with sales of 70 million sets, and Sharp, the number 1 manufacturer on the Japanese market, sells only 14 million sets (all 2006 figures). This is because the Japanese telecommunication standard is unique and different from the world standard, and Japanese cell phones, high-priced and multifunctional, are not accepted on the global market. It is essential that Japanese manufacturers take appropriate strategies for standardization.

Suntory Beer focused on Shanghai and its peripheral areas as a target market in China. Furthermore, the company selected the market after confirming that young consumers prefer a light taste.

Convenience stores from the United States that settled in Japan are pursuing overseas markets and forging ahead into Asian countries. Cultural content added in Japan, such as packed lunches and rice balls, have been further modified in Taiwan and China.

Kumon, providing educational services, has deployed its facilities in 45 countries and regions. The after-school program has 7,800 classrooms and 2.64 million learners overseas, exceeding its 1.48 million learners in Japan. Kumon has been accepted worldwide because it meets needs in other countries' greatly different educational circumstances. It seems that there were people in individual countries who were interested in Kumon's teaching methodology, understood the advantages of the methodology, and wanted to work for Kumon as instructors.

People who have enjoyed Japanese animation have been growing into hub generations around the world. Japanese animation and its characters accordingly have large potential.

Bringing Japanese products and services to a country overseas means bringing cultural changes to Japan as well and overcoming cultural constraints. It is also important to follow the world standard.

### **Strategies to cope with shrinking supply capabilities**

#### **(4) Utilize women and elderly people, as well as overseas human resources: Strategy for utilizing female and elderly resources, and for work-life balance**

Because the population is decreasing, it is increasingly important to utilize female and elderly human resources. Although forward-thinking enterprises are taking various measures on this point, in general a full-swing approach seems to be gearing up from now. Women are already employed in sales and manufacturing, and women role models have been proposed in order to boost the stability of the female workforce. A survey report from the Japan Institute of Workers' Evolution mentions that enterprises utilizing women's capabilities show growing sales.

Enterprises have already started to utilize seniors on the basis of the reemployment system, and they are trying to improve the labor conditions for their senior workers. The national pension program should be revised so that their desire to work is not discouraged.

Although enterprises require a foreign workforce, it would be unrealistic to seek a foreign workforce to substitute for the Japanese workforce in view of the significant population decrease in Japan.

It is important to avoid a further decline in the birthrate due to active utilization of a female workforce, to invite proficient people, and to recruit local human resources from overseas enterprises. Forward-thinking enterprises have already been advancing in this direction.

For both women and men, work-life balance—a good balance between home and work—is important. An environment is required that allows women to bear and bring up their children with ease. It is important for this purpose that both men and women can take child-care leave and can return to the workplace after child-care. It is also necessary to reduce overtime work and provide and improve easily accessible child-care centers. Work-life balance should be taken as a turning point for higher work efficiency and higher labor productivity. All firms should pursue work-life balance.

#### **(5) Improve labor productivity: Strategy for improving labor productivity and white-collar areas**

Improving labor productivity is more important than ever today when the population is decreasing. Manufacturing fields already have high productivity, which is increasing day by day. For further remarkable progress on productivity, promotion of science and technology with continuous innovation is needed in developing new products as well as in production.

A lot of challenges may exist in service businesses, or white-collar areas. The

trend toward a service economy will increasingly progress in Japan; and productivity in areas other than manufacturing will become more important than before. In the service industry, the government sector has a large share. In order to improve productivity in the service industry, the possibility of deregulation and privatization should be needed, and operation of independent administrative institutions should be reformed successively.

In Japan, export manufacturing industries have high labor productivity while other manufacturing and nonmanufacturing industries do not.

While various attempts have been made to improve white-collar productivity, a decisive factor has not yet been found. Enterprises should individually strive for ways to achieve higher productivity. So Bunshu, the founder of Soft Brain, pointed out that “strategy” (in Japanese *sen-ryaku*, where *sen* means “battle” or “war,” and *ryaku* means “omission”) is “to omit battles”: The essence of management is to direct limited resources to winning a battle, not to fighting unnecessary battles.

Information technology is not effective unless work has been designed and standardized. Kazuyuki Motohashi, professor at the University of Tokyo, says that information technology in Japan is improving labor productivity, but not as effectively as in the United States because Japanese enterprises are not using IT for corporate strategy. In order to improve the productivity of white-collar individuals, strengthening university capabilities is needed to foster proficient personnel who have problem-finding, problem-solving, and communications skills.

#### **(6) Shift supply bases to countries overseas to utilize the local workforce there: Global supply strategy**

Supply capability should be considered on a global scale. In fact, a lot of enterprises have built supply bases overseas. As of fiscal 2006 the overseas production ratio in the manufacturing industry in Japan was 31.2% where the

denominator is the number of enterprises that expanded their businesses overseas, and 17.1% where the denominator is the number of all domestic incorporated enterprises. As of fiscal 2006 Japanese enterprises overseas employed 4.36 million workers (all figures according to *Basic Survey of Overseas Business Activities*, Ministry of Economy, Trade and Industry). Japanese workers have been substituted by several million workers overseas.

There is a view that Japanese enterprises emphasize field *kaizen*, or improvement, while European and North American enterprises are manual-oriented. While manuals can be transferred, it is difficult to transfer *kaizen*, the actions for improvement. Moreover, success in transferring improvement to countries overseas means hollowing out domestic industries in Japan. Therefore, consistent supply should be secured by combining the manual system and the field improvement system in production processes overseas. Inside Japan, efforts should be focused on black-box manufacture of core parts and on development of new products. This results in a strategy to cope with the decrease in population, to avoid hollowing out domestic industries, and to maintain competitiveness.

Expanding businesses overseas means to advance into a world where the relationship between rights and business practices that is common in advanced countries does not always exist. Enterprises that have no overseas experience should learn from experienced enterprises and should be more discreet and careful than before.

### **Other strategies**

#### **(7) Reorganize business and supply capabilities to respond to shrinking demand: Business reorganization—M&A strategy**

To cope with reduced demand, businesses should be reorganized and supply capabilities should be arranged. For Japanese enterprises that have various subsidiaries, reorganization of businesses within an enterprise has been important. In addition, M&A strategy, both inside and outside an enterprise, will be more important than ever. M&A is happening actively in the pharmaceutical sector to



finance sharply increasing drug development costs. M&A is progressing in the food production, toy, and game industries in the environment of decreasing population and declining birthrate. In addition to taking defensive measures, it is also required to pursue economy of scale by expansion, integrate measures for enhancing advantageous areas to complement disadvantageous areas, and secure supply and demand balance in commodities and services for shrinking markets.

In recent years, M&A concerning Japanese enterprises is often discussed in a defensive context. As a matter of fact, however, M&A has been positioned positively as a corporate strategy. Japanese enterprises often attempt to deploy their global businesses through M&A, such as the acquisition of Westinghouse by Toshiba, the acquisition of overseas tobacco firms by Japan Tobacco Inc., and the acquisition of Pilkington by Nippon Sheet Glass. While population decrease continues, active strategic M&A will become more necessary than before in order to overcome the stagnation of domestic demand and supply capabilities. Japanese enterprises' hedge against M&A should be strictly limited only for internationally justifiable reasons, such as for security and for exclusion of unfair trading.

In order to avoid balanced contraction in the circumstances of population decrease, Japanese enterprises should not be defensive against globalization; they should strive to develop themselves utilizing the globalized world.

### **Strategy of the municipality as a management entity for population decrease**

Population in all areas is not decreasing at the same rate. Population in small cities tends to decrease more rapidly than in larger cities. However, many small cities are attracting population. Population decrease does not necessarily induce a lowering in the quality of life. It is important for municipalities to increase the quality of their services and reduce the cost for maintaining the local infrastructure. The concept of the compact city that centralizes utilization of infrastructure is a measure for this.

Inefficiency in the public sector often means inefficiency of work performance

done by more people than are needed and at higher payroll cost. It is also inefficient that work is done unnecessarily. For the former problem, a solution is effective privatization, which means transferring what the private sector can do from the public sector to the private sector. For coping with the inefficiency of public facilities, such as transport facilities with low operation rates, the concept of a compact city is effective. Financial crisis may serve as an important motivation for reviewing the work of the public sector and improving efficiency. This is applicable not only to local government but also to the national government. A small government's actions can make the productivity of the entire nation increase. Although the number of public employees per unit of population is not more than that of other countries, Japan cannot maintain the present number of public employees while the population is shrinking. Japan has too many special corporations and quasi-governmental organizations. The efficiency of the public sector should be improved further.

### **Inward internationalization strategy**

As a strategy to respond to population decrease, we often consider outward internationalization, such as responding to overseas demand and increasing supply capacities by using an overseas workforce. The concept of inward internationalization will be needed from now, such as introducing overseas products, enterprises, capital, and labor into Japan. Economic partnership agreements (EPAs) should be concluded boldly with countries overseas.

Import liberalization naturally needed. It also should be rightly accepted that overseas enterprises will enter Japan's market. How should the M&A of a Japanese enterprise by a foreign corporation be understood? It is important to boost the efficiency of Japanese enterprises with overseas stimulation. If foreign workers are used simply to substitute for the reduced working population, they will be of such a large number that they cannot be handled without considering social and cultural assimilation issues. Importance should be attached to introducing capable human resources to stimulate the corporate organization.

In the late 1990s, when Japan faced an economic crisis, proficient overseas human resources were actively utilized. Overseas corporate managers participated in the management of Japanese corporations as foreign capital entered Japan in the fields of finance, automobiles, retail sales, etc. With new management methodology, many enterprises succeeded in restoring performance, but some enterprises have not succeeded. Nevertheless, new management methodology seems to have contributed to boosting the efficiency of Japan overall. From now on, it will be necessary for Japanese enterprises to take the initiative in managing the utilization of proficient human resources. It is also expected that overseas management methodology and Japanese methodology will be fused to create a new system.