

# Characteristics of Service Industry & Japanese Service Industries in Asia

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## 1. Shift to Service Industries

### (1) Primary, Secondary, and Tertiary Sector Classifications

What type of industry is the service sector, which is referred to as a non-manufacturing sector? Economic activity is normally classified into three categories: the primary sector, the secondary sector, and the tertiary sector. These categories are based on a classification proposed by the Australian economist Colin Clark (1905-1989). Specifically, the classifications are as follows:

Primary sector (First Category Industry): Agriculture, forestry, fishing

Secondary sector (Second Category Industry): Manufacturing, construction, mining

Tertiary sector (Third Category Industry): Electricity, gas, heating, water, transport, communication, wholesale, retail, food services, financial services, insurance, real estate, service industries, government affairs

The primary sector is involved in the collection of resources found in nature. The secondary sector is involved in processing the collected resources. The tertiary sector is involved in providing services other than the aforementioned activities. As can be seen from the classifications above, the tertiary sector is made up of a wide range of industries.

First, let us review the change of ratio of GDP & Employment in Japan. Shortly after World War II, ratio of employment in 1950's primary sector was 48.3%, secondary sector: 21.7%, tertiary sector: 30.0%, 1970's: 19.3%, 33.9%, 46.8% in each sector, 2000's, tertiary up to 65.8%, 2015's: The most recently ratio, 2016's is primary: 3.5%, secondary: 24.1%, tertiary: 72.3%. Above all, Japanese people in 2016 as employment sector will be work at the tertiary sector (Figure 1).

On the other side, review concerning the change of GDP ratio. 2005 : primary sector: 1.1%, secondary: 21.5%, tertiary 77.4%, The most currently ratio of GDO, 2016's primary sector: 1.1%, secondary: 21.0%, tertiary: 77.7%. (Figure 2) Now, ratio of each sector in Japanese economy is certainly going up to tertiary sector from the view of Employment & GDP.

Figure 1. Sector Classification Ratio of Working Ratio in Japan

Research Year	1950	1970	1900	2000	2014	2016
Working People (million)	35.63	52.20	61.68	62.98	63.51	63.76
Primary Industry (%)	48.3	19.3	7.1	5.0	3.6	3.5
Secondary Industry (%) (Manufacture)	21.7 (15.7)	33.9 (25.9)	33.0 (23.4)	29.2 (19.1)	23.8 (15.8)	24.1
Tertiary Industry (%)	30.0	46.8	59.9	65.8	72.6	72.3

Source: Cabinet Office, Government of Japan, Statics 2016

Figure 2. Change of GDP Ratio in Sector Classification

	2005	2010	2015	2016
Real GDP (trillion)	524.1	500.3	500.5	538.4
Primary Sector (%)	1.1	1.1	1.1	1.1
Secondary Sector (%)	21.5	20.8	20.4	21.0
Tertiary Sector (%)	77.4	78.1	78.4	77.7

Source: Cabinet Office, Government of Japan, Statics 2016

## 2. Factors of Service Industry Shift

Based on past experience, it is widely known that the industrial structure of the economy changes along with economic development. Petty-Clark's Law is one of the main academic theories that describes this change. This Law states that as the economy develops, the weight of the economy will shift from the primary sector to the secondary sector and then to the tertiary sector. What is the reason for this shift in the industrial structure? The following four reasons have been identified.

### 1) Income inequality between sectors

As productivity begins to increase due to the industrial revolution, income inequality begins to appear between sectors. The labor force shifts between industries in pursuit of higher incomes. In the secondary sector, revolutions in manufacturing technology result in increased productivity in factories and higher incomes for labor working in these factories. On the other hand, in the primary sector, there are very few factors that would cause a dramatic expansion of production due to technological revolution. Since the primary sector concerns materials found in nature, even

if revolutions in the technology used to gather these resources occur, the range over which these resources can be gathered is still limited. Therefore, income inequality arises between different sectors.

## **2) Changes in demand structure**

As income levels increase, consumption structure changes as well. The demand for services, rather than things, grows. Consumers start wanting to go to restaurants, go traveling, watch movies, and use smartphones. Consumers' desire for things other than material objects increases. Therefore, since developed countries already have a large amount of possessions, the weight of the economy begins to shift towards the third sector.

## **3) Globalization of industry**

As corporations expand overseas, it is advantageous to import products produced overseas rather than produce them domestically in some situations. This results in a decrease in the proportion of the economy engaged in manufacturing industries, which make up the secondary sector, and an increase in the proportion of the economy engaged in the tertiary sector. Although many reasons exist for corporations expanding overseas, this phenomenon is caused by corporations expanding overseas in pursuit of low cost labor. It is for the same reason that there have been recent expansions of many corporations in America, Europe, and Japan into China. As a result, products "made in China" are now widely available in developed countries.

## **4) Shift towards services within the manufacturing industry**

Along with advances in technological innovation and increased sophistication and diversity of consumer demand, the proportion of workers engaged in indirect departments such as sales, research and development, design, marketing and promotion, information technology, planning, and management within the manufacturing industry has increased. This trend is referred to as the shift towards a service economy within the manufacturing industry. Although the manufacturing industry is classified as an industrial sector that produces concrete objects, in order to sell those products, this industry also needs functions such as marketing to respond to consumer demands and software development. The computer industry is one of the main examples of this. Although hardware can be mass produced due to the effects of technological innovation, software development must be done separately for each system. As a result, the number of workers engaged in this service industry is increasing. In addition, another reason for this shift is that corporations in the manufacturing industry are expanding into new business areas in the tertiary sector in order to

make effective use of excess capital and excess labor. The expansion of the manufacturing industry into real estate, IT, transport, communications, financial services, and insurance is another factor that contributes to the increased shift towards a service economy.

### 3. Characteristics of Service Industry

Unlike the manufacturing industry, which makes tangible products such as automobiles, electronics, chemicals, foods, etc., the service industry belongs to the field of nonmanufacturing industries which basically offers intangible service such as construction, commerce, finance, insurance, communication, etc. The difference between the manufacturing industry and service industry can be perceived with the following two concepts; universality for the former, and individuality for the latter. In the manufacturing industry, standardized mass production in a plant is the norm, and in this sense, it can be regarded as universal. The service industry, on the other hand, can be understood as individual, since mass production of service is impossible due to the diversity of clients, the recipients of the service. Also many types of business are part of the service industry, hotels, department stores, banks, securities companies, supermarkets, convenience stores, entertainment firms, and so on. They have something in common, in that each can be understood as an indigenous industry inseparable from its locality. In the service industry, production and consumption of services are simultaneous and inseparable from each other, unlike in the manufacturing industry where the production of goods and their consumption take place in different locations. Thus the characteristics of the service industry can be understood from the aspects of intangibility, simultaneity, heterogeneity, nonstorability, and nontransportability, as well as individuality.

Intangibility refers to such functions or effects as cannot be grasped in the shape of concrete things.

Simultaneity refers to the fact that production and consumption of services are interlocked.

Heterogeneity refers to the difficulty of standardization or equalization of services to be offered, since they cannot be uniformly mass-produced in factories, and to the fact that they tend to vary widely.

Nonstorability indicates the characteristic of service which cannot be prepared and stored, as can ready-made products, and thus service may vanish on the spot.

Nontransportability refers to the fact that service themselves cannot be transported from one place to another, unless the provider of the service moves.

Now that the characteristics of the service industry have been made clear, I would like to proceed by considering the main theme this paper, that is, the globalization of the service industry

from several viewpoints.

For example, the supermarket Yaohan, based in Shizuoka Prefecture in Japan, originally in the distribution industry, expanded by opening up new markets in Asia, the USA, and Europe under the powerful leadership of the management of Kazuo Wada. In a further leap forward, Mr. Wada established in Shanghai, China, the Shanghai Yaohan Department Store on a scale said to be the largest in the East, jointly with a local department store. Yaohan's corporate headquarters in Japan itself was moved to Hong Kong. However, behind such great international strides, Yaohan's domestic business slumped and eventually went bankrupt.

Apart from this, there are quite a few similar instance among hotels, banks, retailers, tourism companies, etc., which are part of the Japanese nonmanufacturing industry that, with the rapid rise of the yen 1985 providing the momentum, expanded their business abroad in major cities of the world. But most of them, unlike more typical MNCs, did not intend to expand their markets to local customers, but rather to focus on expatriate Japanese residents in the relevant cities.

These activities extended by the service industry eventually had be withdrawn because of the reduction of Japanese markets owing to the stagnation of the Japanese economy from the 1990s onward. The scale of investment required to establish business outposts in the service industry is not as big as in the manufacturing industry. Also, the former's stance is basically different from that of the latter. Companies in the manufacturing industry intend to conduct their business with a long-term outlook for a harmonious relationship with the indigenous community by establishing their production plants there. One of the reasons for the reduction or withdrawal of overseas operations once extended by the Japanese service industry is that they were often run as one-man business or a mere flight of fancy by top management, and as a result had lacked reliable feasibility studies.

#### **4. Service Industry in Japanese MNCs.**

The strength of Japanese multinational corporations is in the manufacturing industry where high-quality products are made using excellent technology. In the production of automobiles, machinery, and electronics, Japanese worldwide business operations are being developed to feature their products as global brands. From the viewpoint of the research of international management, the primary object of the study of Japanese MNCs is overseas expansion of the manufacturing industry, and in particular, their system of management in the countries where they intend to open up new markets following the transfer of their production operation abroad. The reason for this is that the realities of international management motivate MNCs, and that its core stage is found in production activities abroad.

The decision about whether or not overseas production should be carried out involves the

corporation's fundamental strategy for international management, since it requires a larger investment than merely establishing marketing outposts. Therefore, by establishing a production footing, MNC management activities gain importance and carry out part of the managerial strategy of its headquarters.

So is the expansion of the service industry abroad not a true picture of MNCs ?. Among European and American MNCs in the service industry field, with their global management policies familiar to us in Japan, are such banks as Citibank and HSBC, such insurance companies as American Family, Zurich, and American Home Direct, such transportation companies as FedEx and DHL, such department stores as Robinson and Sears, such convenience store as 7-Eleven Lawson, and am/pm, such theme parks as Disney Resort and Universal Studios, such computer software companies as Microsoft and Google, and the world's largest retailer, Walmart.

In light of prosperity of these MNCs, the question arises as to why Japanese business are so weak in service industry multinationalization.

Apart from the lack of a production footing overseas, the service industry is no different from the manufacturing industry, in that both procure local materials and sell their end products in the local market. The problem is how such activities overseas are incorporated into the managerial strategy of the corporate headquarters, and with what kind of global vision these activities are promoted. From this standpoint, it is doubtful that the overseas development of the Japanese service industry has been regarded as a keystone of corporate strategy. Like the rest of Japanese industry, the domestic market of the service industry is now reaching its peak due to the decrease in Japan's population of young people as well as its aging population. Further growth in the Japanese service industry cannot be expected unless the sphere of activity is expanded abroad. The globalization of the service industry is a strategic issue that influences the industrial policies of the 21<sup>st</sup> century.

## **5. Why the Japanese service industry lacks international competitiveness**

Why has the Japanese service industry failed to gain internationally high competitiveness ? Let us consider some of the primary factors.

### **(1) Particularistic management**

The factor to be considered first is the international transferability of Japanese management. The transfer of technology from the Japanese manufacturing industry, whose superiority in production technology is its source of worldwide competitiveness, mainly takes place in developing countries. But how about management expertise? In the past, features such as lifetime employment,

a seniority system, or an in-house union shone throughout the world as positive characteristics of Japanese management. But these features may be mere eccentricities, especially when compared with the American form of management. Yohtaro Yoshino, professor at the Harvard Business School, observed these characteristics of Japanese management and termed them “particularistic”. From the global viewpoint, the Japanese form of management is quite distinct, and consequently, to transfer abroad was not easy.

American management, on the other hand, is “universalistic.” In fact, much American management expertise was introduced into Japan after World War II, and diffused in a generalized form. The American service industries prospering in Japan typically disseminate their management expertise in the form of manuals. Historically, the USA had lagged behind Europe, and therefore, rapid industrialization was urgently required. In order to overcome this challenge they had to work out a pragmatic scheme, and the expertise required for this became the central theme of their management. Since the purpose of management is to achieve objectives by organizing people, the composition of employees is a matter of great importance.

**(2) Protectionism under the government**

When the growth of productivity in the service industry in most advanced countries is less than that in their manufacturing industry, this tendency is particularly evident in Japan; the growth of productivity in its manufacturing industry is 4.1%, where that in the service industry is only 0.1% (Figure 3). The primary factor relating to the internationally high competitiveness of the Japanese manufacturing industry is that the rate of growth of labor productivity is higher than in other advanced countries.

Figure 3. The growth rate of labor productivity

	USA	UK	Germany	Japan
Manufacturing	3.3%	2.0%	1.7%	4.1%
Nonmanufacturing	2.3%	1.3%	0.9%	0.8%

Source; The Ministry of Economy, Trade and Industry, Japan of R&D Expenditure in Service Industry 2005

This seems to be the result of the unremitting efforts made by Japanese enterprises to raise quality control and improve productivity at their factories. The low growth of the Japanese service industry is attributable to the fact this category of industry includes many types of business which have not yet been exposed to global competition.

The primary reason for this is that after World War 2, the Japanese government introduced

protective regulation for the service industry, closely connected as it was with the home market, so that it could avoid competition from overseas countries. For example, the Ministry of Finance in Japan aiming to stabilize finance, avoided bankruptcies of financial firms by adopting a “convoy” (“circling the wagons”) policy, and gave administrative guidance to financial circles for their stable management; the government also passed the Large-scale Retail Law to control the entry of large stores, particularly from abroad, in order to protect local retailers.

Productivity increases by being exposed to competition, while protective policies tend to reduce it. Continuous innovation is indispensable for the improvement of productivity, whether in the manufacturing industry or in the service industry. Regarding R&D expenditure as indispensable, the Japanese manufacturing industry has consistently invested in R&D to increase production as well as develop new products and technology. Even after the bursting of the bubble, the Japanese manufacturing industry coherently continued to invest in R&D expenditure, and was to become the source of strong international competitiveness by the current Japanese manufacturing industry.

But what about the service industry? Figure 4 shows a comparison between the USA, and Japan concerning R&D expenditures paid by the manufacturing industry and the nonmanufacturing industry; in the USA, the ratio of R&D expenditure paid by the manufacturing industry is almost the same as that by the nonmanufacturing industry; in Japan, however, the ratio paid by the manufacturing industry is much higher than that by the nonmanufacturing industry.

Figure 4. Percentage of R&D expenditure in the service industry

	USA	Japan
Manufacturing	57%	88%
Nonmanufacturing	43%	12%

Source: The Ministry of Economy, Trade and Industry, Japan 2005

## 6. Overseas Expansion of Familiar Service Industries

In recent years, there has been a notable trend towards overseas expansion of non-manufacturing service industries. In this section, we introduce several examples that the reader will probably be familiar with and discuss overseas expansion of these industries.

### (1) Japanese Restaurants

In the past, it was often said that Japanese companies in the service industry were not competitive compared to similar corporations from Europe and America when expanding overseas.



Several examples of American food service companies that are familiar to most consumers include McDonald's, KFC, Mister Donut, and Starbucks in recent years. These companies have grown to become global brands and have store locations everywhere around the world.

In recent years, there are several companies operating Japanese restaurants that are expanding their businesses overseas, although the size of these companies is still small compared to their American counterparts. Figure 5 shows the number of store locations of restaurants expanding overseas as of 2017.

One of the most well-known types of Japanese food is sushi. Sushi is one of the highlights of Japanese food culture when introducing Japanese culture to foreigners. Originally, sushi was prepared by sushi chefs who made sushi for each individual customer. Sushi was one of the more expensive types of Japanese cuisine, and was not something that common people could eat every day. "Kaiten sushi" (revolving sushi bars) turned sushi into food that was easily available to the common people by serving sushi to customers on conveyor belts, similar to a factory. Some of the largest revolving sushi bar restaurants include Sushiro, Kappa Sushi, and Kura Sushi. Japanese sushi has already expanded to Asia, America, and even the Middle East based around revolving sushi bars.

However, Sushi is no longer something that belongs only to the Japanese. British entrepreneur Simon Woodroffe opened "YO! Sushi" in London based off of the Japanese revolving sushi bar model. YO! Sushi already has over 70 locations in the U.K., and is expanding to several countries within Europe and the Middle East. The invention of sushi restaurants using revolving sushi bars made it possible for Japan's sushi culture to spread around the world, even without the presence of sushi chefs. Currently, sushi restaurants in Japan are engaged in fierce competition, and are searching for growth through overseas expansion. In addition, the recent economic growth in Asia has also resulted in the boom of Japanese food, and many revolving sushi bar restaurants are opening locations there. Japanese cuisine was also registered as a UNESCO world intangible heritage in 2015. Now, Japanese restaurants are expanding in Asia at an even faster pace than they are expanding in America.

Figure 5. Overseas Expansion of Japanese Restaurant

	Number in Japan	Number of outside Japan
CoCo Ichiban Curry	1.296	161
Saizeriya Itarian	1.028	345
MOS Burger	1.359	333
Ootoya Japanese food	342	94
Saboten Tonkatsu	300	94
Yoshinoya Meat Bowl	2.328	780
Genki Sushi	136	117
Ajisen Ramen	86	677
Ippudo		63

Figure 6. Roll Style Japanese Sushi Restaurant

Japan	1.050	Sushiro, Kappa, Kura, Genki Sushi
Taiwan	200	Sushi Express (Taiwan Owner)
Hong Kong	50	Genki Sushi
China	173	Genki Sushi, Sushi Express (Taiwan Owner)
Malaysia	70	Sushi King
South Korea	38	Sushiro, Kappa, Sushi hiroba

## (2) Overseas Strategies of Unique Companies

Several brands with unique products from Japan that are rapidly expanding overseas include UNIQLO, Mujirushi Ryohin (MUJI), Daiso, Kumon, Benesse, Yamato Transport, NITORI, and Nintendo. We focus on the examples of MUJI and UNIQLO, which are two brands that are particularly familiar to many consumers.

### 1) MUJI

Ryohin Keikaku Co., Ltd. operates under the brand name Mujirushi Ryohin in Japan, and MUJI overseas. This company began as a private brand of SEIYU in 1980, and offered only 40 products in the beginning. Currently, MUJI carries over 4,000 products, including food, apparel, and even

electronic appliances. MUJI expanded its customer base through its unique strategy of offering simplified versions of products needed in daily life and promoting a lifestyle that values functionality. Ryohin Keikaku currently operates 344 stores in 20 countries around the world.

Up till now, the retail industry for household items was dominated by local companies, who were more familiar with the local culture and needs. It was believed that this was a domestic industry that was hard for foreign companies to enter. However, Ryohin Keikaku continued their strategy overseas of offering a new lifestyle and recognized that consumers overseas also shared the mentality of valuing simplicity and functionality in household products even though their cultures were different. In this way, MUJI overcame problems faced by many brands previously, and was able to increase the number of overseas stores they operate. It is said that this company had a product sense that was different from Japanese culture right from the beginning.

In MUJI's first efforts at overseas expansion, MUJI worked towards opening stores in top locations in large cities in European countries with conservative historical cultures, including the U.K., France, and Italy. However, the stores were not successful in the beginning. MUJI bravely moved forward while overcoming many challenges. As a result, MUJI now directly operates 312 stores in Japan, supplies products to 102 stores, and operates 344 stores overseas. These figures reveal that the number of MUJI's overseas stores is greater than the number of directly operated stores in Japan. In particular, MUJI has 160 stores in China, which demonstrates the popularity of the MUJI brand in this country and also reveals MUJI's efforts at expansion in this country. MUJI expanded its logistics center in Shanghai in 2013 in order to improve its shipping systems overseas, improve their ability to procure raw materials in a timely manner, and lower the cost of procurement through streamlining logistics.

Mujirushi Ryohin's strength is in the lifestyle that they promote. Mujirushi Ryohin focuses on their philosophy of providing feel-good living at a reasonable price and considering matters from the perspective of manufacturing (selecting materials, inspecting processes, and simplifying packaging) throughout their product development process.

## 2) UNIQLO

UNIQLO's brand name comes from the phrase "Unique Clothing Warehouse". UNIQLO's headquarters are located in Yamaguchi prefecture. Their company name is Fast Retailing. Tadashi Yanai, the current director, took over a retail store for women's apparel, and transformed it into a global brand that rivals brands such as Spain's ZARA and Sweden's H&M in the apparel manufacturing and retail industry (specialty store retailer of private label apparel, or SPA) through his strong leadership.

UNIQLO's sales for 2016 totaled 1,455.2 billion yen (domestic sales: 799.8 billion yen, overseas sales: 655.4 billion yen). The number of domestic stores was 837, and the number of overseas stores was 958. The number of overseas stores is larger. Since the domestic market is anticipated to be affected by the declining birthrate, aging population, and decreasing population, UNIQLO is counting on overseas markets. Therefore, UNIQLO focused on the overseas market. Although overseas sales accounted for only 10% of total sales in 2010, overseas sales account for almost half of total sales currently.

For Japanese manufacturing global brands such as Canon and Sony, overseas sales currently make up almost two-thirds of their total sales. However, these companies have a long history of overseas expansion which extends for over half a century. On the other hand, UNIQLO increased their overseas sales to almost half of their total sales in the short time span of only several decades. UNIQLO is considered as a pioneering brand that demonstrated the international competitiveness of the Japanese service industry.

Until now, the casual wear fashion category was dominated by brands from Europe and America. It was considered taboo for an Asian company to become a global brand in this category. Although UNIQLO's first expansion overseas was to the U.K. in 2002, UNIQLO was not widely known back then, and was not successful. However, Yanai strongly believed that in the world of apparel, brands must become established in Europe and America first before they can expand globally. Based on his beliefs, Yanai opened large-scale flagship stores in prime locations in large global cities such as London, Paris, New York, and Shanghai, and attempted to transform UNIQLO into a global brand.

UNIQLO now intends to increase their proportion of overseas sales to around 70% to 80% of total sales and increase their overseas sales total by a factor of 50 to between 3.5 trillion yen to 4 trillion yen in the next 10 years. Although brands such as ZARA and H&M are popular in Europe and America, it is anticipated that the brand that enjoys the most popularity in the growing countries of Asia and China will be UNIQLO from Japan. Guided by the grand vision of the founder Yanai captured in the slogan "Change clothes, change conventional wisdom, change the world" UNIQLO has succeeded in expanding their business by bringing out latent demand among customers and creating many hit products. UNIQLO's products are not cheap and low quality. UNIQLO develops products according to its product strategy which focuses on customer satisfaction through focusing on quality at a reasonable cost. UNIQLO has a thorough quality control system and employs long-term strategic cooperation with its factories operated by Chinese companies.

### 3) 7-Eleven

During the second half of the 19th century in the United States, the widespread application of mass-production techniques associated with the Second Industrial Revolution was accompanied by a revolution, with the introduction of chain stores and urban department stores. Unlike older kinds of stores, these new types of retailers for large sales volumes at low margins.

The convenience store dates from the early 20<sup>th</sup> century; Southland, founded in 1927, claims to have been the world's convenience store chain. Southland's success had been facilitated by favorable market conditions. Large self-service supermarkets had been introduced in the United States in the 1930s, but their growth had been constrained first by economic depression and then by wartime restrictions. From the 1950s, supermarkets rapidly began to drive neighborhood mom-and-pop stores out of business. This trend accelerated in the 1960s, providing a niche for the convenience store, who could serve customers in a hurry who wished to buy only a few items, Southland and other convenience chains exploited this niche by locating their stores near residential areas, more often in fast growing suburbs than in urban centers. By lengthening their hours of operation, sometimes to 24 hours, convenience stores further differentiated themselves from supermarkets.

The convenience store industry in the United States was successful in the 1970s and early 1980s, but began to falter in the late 1980s and early 1990s. In the late 1980s, major oil companies, accustomed to the rigors of intense competition entered the market. Competition was intense, and many retailers borrowed excessively to expand and diversify. As a result, 14 convenience store companies filed for bankruptcy from 1989 to 1991.

In early 1990, Southland's sales began sagging, due to: a shortage of funds to reposition and refurbish its stores; competition from emerging regional chains; and an inability to come to terms with changing trends and consumer demand in the retail business.

On March 5, 1991, after five months in bankruptcy, Southland Corporation was acquired by Ito-Yokado, the extremely successful licensee of 7-Eleven stores in Japan since 1973. The deal involved the Purchase of 70 per cent of Southland for US\$430 million by IYG Holding Co., wholly owned by Ito-Yokado Co. Ltd. and 7-Eleven Japan Co. Ltd. The purchase gave Ito-Yokado control of more than 7000 American and Canadian stores as well as franchise authority in 20 other countries.

Southland decided to learn from its new Japanese owner, and embarked on a radical new campaign was a shift in focus from the historical emphasis on volume sales to an emphasis on customer satisfaction. Southland's strategy (heavily influenced by Ito-Yokado) focused primarily on three key areas: pricing, store remodeling and remerchandising and inventory management/new product development.

Specifically, Southland chose to change the pricing strategy away from heavy discounting of merchandise and to focus instead on selling products at an “everyday fair price.” This new pricing policy contrasted strongly with Southland’s former practice of heavily discounting merchandise to attract customers.

Another key area strategy was the remodeling and remerchandising of 7-Eleven stores. Their store remodeling involved a general facelift: lower shelves, new in-store signs, better lighting and decluttering of the sales counter, remerchandising involved the addition of a wide variety of new products, such as fresh foods, staples in preferred sizes and more upscale offerings.

Also, one of the most important changes involved distribution management. The key to Ito-Yokado’s success with 7-Eleven Japan has been the use of its inventory and physical distribution management systems that result in lower on-hand inventory, faster inventory turnover and, most importantly, accurate information on customer buying habits.

Figure 7. Asian Market Expansion of Convenience Store

	Thailand	Philippine	Malaysia	Singapore	Indonesia	Vietnam
Seven Eleven	8.832	1.602	1.944	458	187	0
Lawson	42	12	0	0	38	0
Family Mart	109	108	0	0	27	87
Ministop	517	0	0	0	6	31

Source: Japan Economic News Paper March 27 2016

Figure 8. Number of Store in Seven Eleven World Wide

	End of March, 2008	End of March, 2014	End of March, 2017
Japan	12.006	16.375	19.171
America	8.563	8.163	8.563
Thailand	4.402	7.651	9.542
Korea	1.802	7.000	8.556
Taiwan	4.770	4.996	5.107
China	1.381	2.010	2.357
Mexico	826	1.899	1.878
Malaysia	909	1.581	2.122
Philippine	318	1.049	1.995
Australia	363	596	646
Singapore	419	528	417
Indonesia	0	158	155
World	34.147	52.811	61.554

Source: Japan Economic News Paper August 2 2016

## **7. Outlook for the Japanese Service Industry**

Lastly, we describe the characteristics of the Japanese service industry, and provide an outside on the industry from several different perspectives.

### **(1) Targeting Asia**

An examination of the history of the globalization of Japanese companies reveals that trading companies were some of the earliest pioneers in the pre-war era, manufacturing companies looked towards Europe and America for the basis for their products, increased their international competitiveness by applying Japan's advanced manufacturing technology, and developed along a path that took them from exports to overseas sales and finally to overseas production. Overseas markets at that time mainly consisted of the markets of developed countries, which were European and America. Companies earned foreign currency through trading in these countries, which contributed to the growth of the Japanese economy.

However, the main target overseas market of the service industry has shifted to Asia and China in recent years. In these regions, Japanese products are highly trusted, due to the reputation that Japanese brands have built up in the manufacturing industry. Furthermore, growing income levels in these regions as a result of economic growth have also created growing markets for service industries. As income levels rise, 'consumers' interest towards food and apparel also increase, resulting in an increased number of consumers going out to eat Japanese food, going shopping at UNIQLO, and making purchases at convenience stores, and resulting in heightened levels of consumer demand for daily necessities. As shown in this chapter, Japanese restaurants, sushi restaurants, and convenience stores all anticipate that the Asian and Chinese markets will continue to grow in the future.

### **(2) Entrepreneurial Spirit**

Many companies in the Japanese service industry started as family-operated companies, and so many of these companies lack the financial clout of their manufacturing counterparts. While many manufacturing companies founded by individuals in the post-war era and former *Zaibatsu* (Japanese business conglomerates) companies grew through restructuring and were early to expand overseas, the service industry had always been a domestic industry, was not aggressive in pursuing overseas expansion, and focused on expanding their business in the domestic market. However, as the brand reputation of Japanese manufactures continues to grow overseas, entrepreneurial-minded individuals interested in expanding their business overseas have also begun to emerge in the

service industry as well. While entrepreneurs interested in expanding their business overseas first began to emerge in the 1970s in manufacturing industry, the new generations of entrepreneurs did not emerge in the service industry until the 2000s. Overseas expansions of Japanese restaurants, sushi restaurants, and ramen restaurants became possible due to the presence of central leaders, such as UNIQLO's Tadashi Yanai, Rakuten's Hiroshi Mikitani, Softbank's Masayoshi Son, and Ryohin Keikaku's Tadamitsu Matsui. Overseas business are inherently risky endeavors. Success is not possible without the brave efforts that are born from entrepreneurial spirit. The necessity of a global mindset among management, which is a qualitative feature of multinational companies that was pointed out earlier in this paper.

### **(3) Accumulation of Management Knowledge**

During the 1980s when overseas expansion of manufacturing companies was in full swing, there were several examples of service industries that also expanded overseas. A small number of companies such as hotels operated by airlines, department stores, banks, and securities companies did expand overseas. However, their customers were mainly local subsidiaries and Japanese companies, and these companies did not succeed in fully entering the local markets.

However, recent overseas expansions by companies in the service industry are providing to be successful local markets. These companies are considering long-term growth through strategic global management. One factor of this phenomenon is the accumulation of management knowledge. Since the Japanese service industry grew while it was focused on the domestic market, the amount of management knowledge accumulated by these companies that is applicable overseas is limited, compared to manufacturers. For example, the strength of American service industry companies lies in the accumulation of knowledge in universal management manuals, which is the essence of American management. Conversely, Japanese service industry companies operate in a society that relies on unspoken understandings between Japanese people, which makes it difficult to transfer management knowledge to overseas branches. However, as American and European service industry companies began to expand to Japan, Japanese service industry companies also began to adopt efficient management through the use of manuals. The accumulation of management methods that also apply overseas while preserving a Japanese-style spirit of service is a factor that contributes to the recent overseas expansion of the Japanese service industry.

### **(4) Expansion through M&A**

In this section, we have introduced several examples of overseas expansion by service industry companies familiar to most consumers. However, other large companies such as banks, securities



companies, insurance companies, and information and communications companies are also actively expanding overseas. Until now, these companies have expanded mainly through bases of operation themselves in major cities in Europe, America, Asia, and China, but companies have also begun to expand overseas through the use of M&A in recent years.

The increase in overseas expansions through M&A was explained in Chapter 2. M&A by companies in the service industry are growing in terms of both the amount of money and the number of cases. Until now, the service industry was considered as a domestic industry, and growth happened gradually through the expansion of the domestic market. However, due to the aging population and rapid maturation of domestic economic activity, companies have been forced to look for growth opportunities overseas. In this case, rather than developing overseas markets one step at a time through the application of a green field investment strategy which had been applied before, companies can gain faster access to local markets and synergistic effects by purchasing existing companies. Therefore, companies with large amounts of capital such as banks, insurance companies, securities companies, and information and communications companies are accelerating their rate of overseas expansions through the use of M&A.

### **(5) Securing Human Resources**

In the service industry in Japan, there is a history of family-operated companies growing within the domestic market and expanding overseas later on. However, family-operated companies placed too much focus on the domestic market and failed to systematically nurture human resources for managing overseas businesses. However, these companies have begun to send their children overseas to study and gain overseas management experience in response to the trend towards globalization by the second and third generations and systematically nurture human resources with a global mindset. One reason for this is that these companies have realized that it is necessary to nurture global human resources in order to expand to overseas markets amidst a maturing domestic market in the future.

Today, the increasingly inwards-focused nature of university students is considered a problem. It is necessary to examine this trend one student at a time. In other words, it is untrue to state that everyone in the younger generation does not want to go overseas. Rather, there are still many students who want to study abroad, work abroad, or work in international organizations. Overall, the number of people who have studied abroad, lived abroad, or grew up abroad is increasing. There are many young people who dream of working overseas and want to work in a position with overseas contact.

In addition, the number of students studying in Japan from other countries, and from Asia and

China in particular, has reached a significant number. These students serve as bridges linking Japan and their countries once they return to their home countries. Growth of Japanese companies was due to the creation of global brands in the manufacturing industry in the past. Companies are inviting international students from abroad, which contributes to the nurturing of foreign human resources who can lead overseas expansion of companies in the service industry.

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