

2019 White Paper on Small and Medium Enterprises in Japan

2019 White Paper on Small Enterprises in Japan

(Summary)

October 2019

Small and Medium Enterprise Agency

Outline of the 2019 White Paper on Small and Medium Enterprises in Japan and the 2019 White Paper on Small Enterprises in Japan

- Taking the Reiwa era into account, the White Paper focuses on **business owners and succession** and **necessary actions by business owners of SMEs**.
- **Business succession, succession of part of the management resources and diverse business establishments** are analyzed and explained with regard to **business owners and succession**.
- **Challenges of responding to structural changes, reciprocal relationships with stakeholders who support SMEs** are analyzed and explained with regard to **self reformation**.
- Many **specific cases are introduced** and the contents are written in an easy-to-understand manner **from the viewpoint of management**.

1. Trends in SMEs in Japan

Overview of the management environment in SMEs including business confidence, financial situation, market entries and exits and labor shortages.

2. Business owners and succession

1 Succession of business resources

Full succession

Using comprehensive measures that fully cover succession types including and excluding relatives - **Early succession of many high-quality businesses will be realized soon.**

Partial succession

Succession of valued business resources such as human resources, equipment and facilities, etc. **to highly motivated next generations** even if the business will be closed.

2 Business establishment

Transfer of business resources

Promotion of **the establishment of businesses with small initial costs** is expected.

Side business and freelance

Thanks to the development of ICT technologies such as Cloud platforms and the advanced labor reform, **establishment of low-risk, low-cost businesses** is becoming easier.

3. Necessary actions by business owners of SMEs

1 Response to structural changes

- SMEs are questioning the meaning of their existence as the Fourth Industrial Revolution progresses. Also, they are facing to **structural changes respond to digitalization, open innovation, obtaining inbound demand, etc.**
- Related parties such as large enterprises and local governments should be aware that they share a community bound together with SMEs and actively support SMEs to **rebuild the existing relationships**.

2 Disaster prevention and reduction measures

- Based on the bill for the Act on Strengthening of SMEs, SMEs work on **reducing impacts of disasters and disaster prevention measures (formulation and implementation of a plan to strengthen business continuity, insurance purchase, etc.) in cooperation with relevant parties such as large enterprises and local governments.**

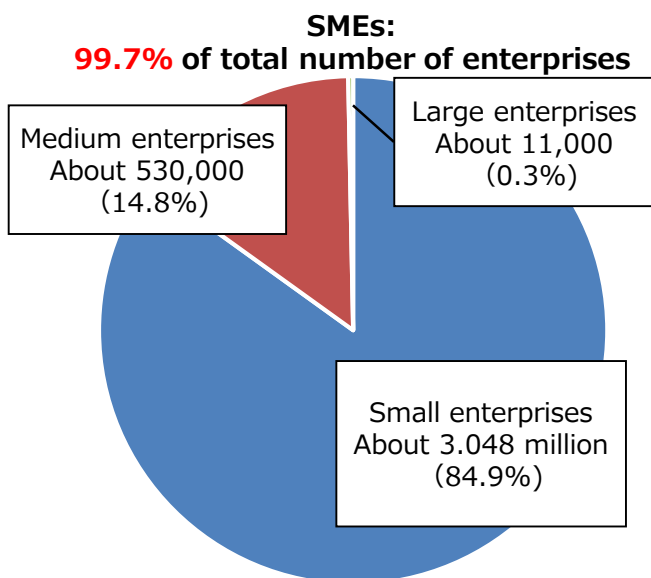
Trends in on SMEs in Japan

SMEs in Japan

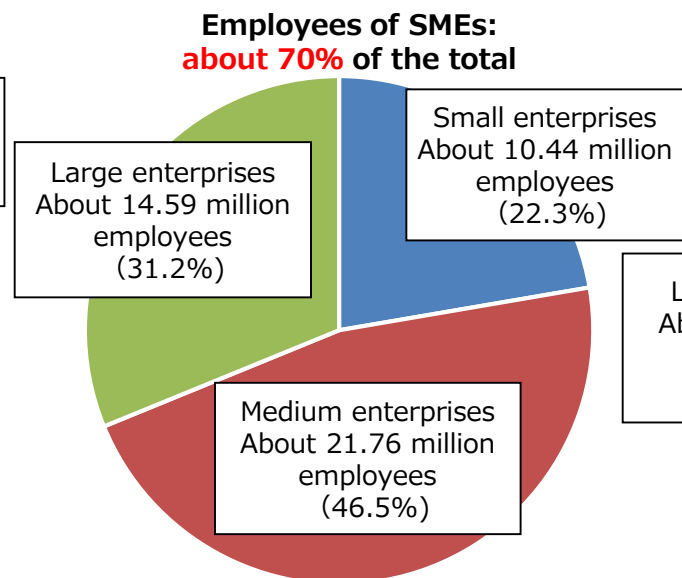
Definition of Small and Medium Enterprises and Small Enterprises under the Small and Medium-sized Enterprise Basic Act

Industry	SMEs		Small enterprises
	Capital or employees		Employees
Manufacturing industry and other industries	Up to 300 million yen	Up to 300	Up to 20
Wholesale industry	Up to 100 million yen	Up to 100	Up to 5
Service industry	Up to 50 million yen	Up to 100	Up to 5
Retail industry	Up to 50 million yen	Up to 50	Up to 5

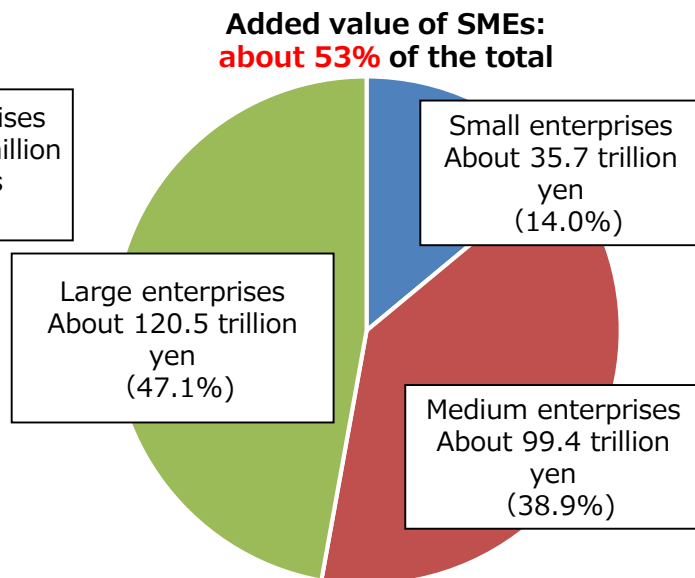
Number of enterprises (2016)



Number of employees (2016)



Added value (2015)



Current Situation of SMEs

- Business conditions and ordinary profits at SMEs are **improving**.
- However, there are problems, such as the slow growth of business investment.

Fig.1 Business Conditions DI by enterprise size

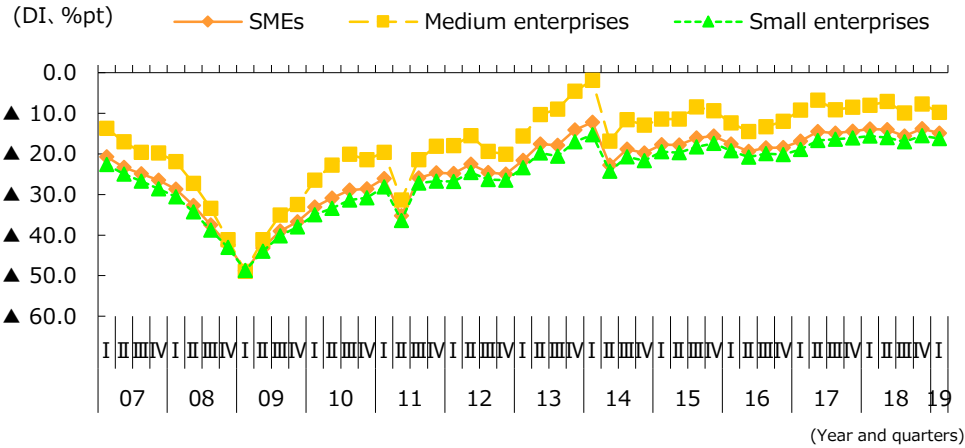


Fig.2 Ordinary profits by enterprise size

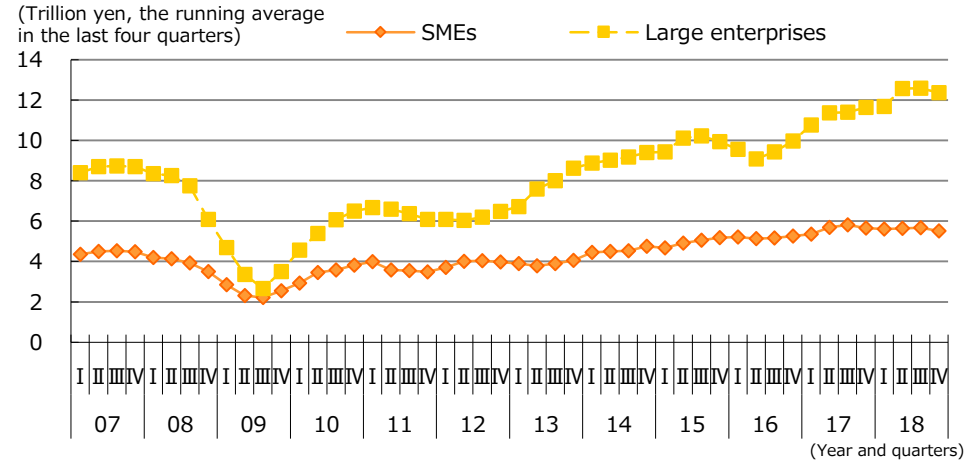


Fig.3 Capital investment by enterprise size

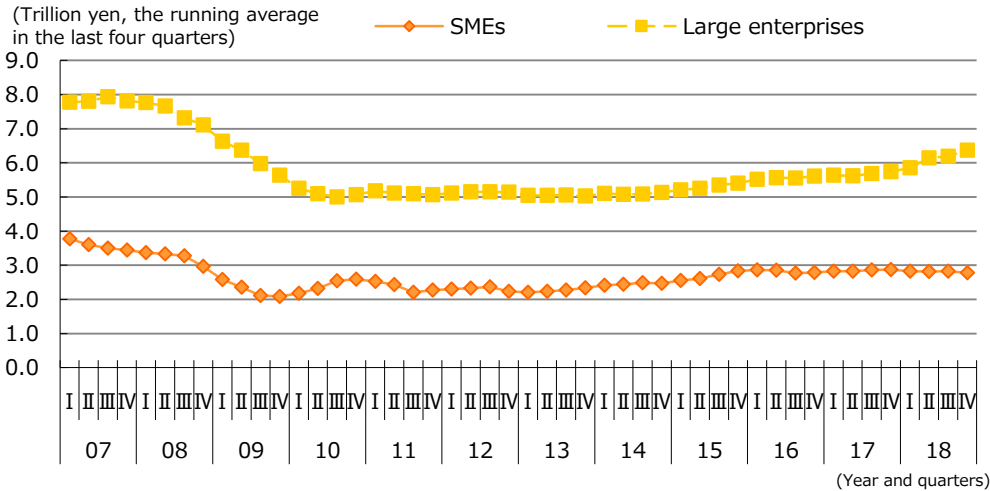
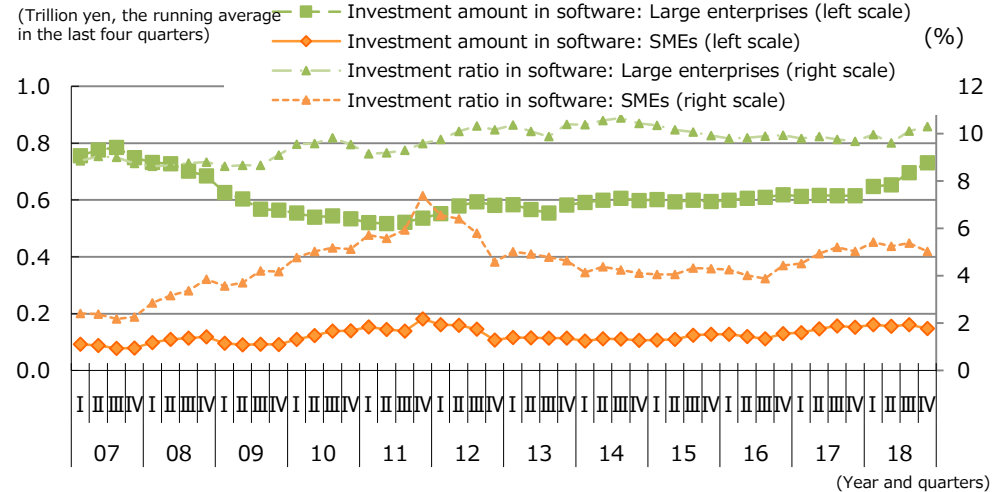


Fig.4 Software investment amount and software investment ratio



Current Situation of SMEs Based on Financial Data

- Looking at the distribution of financial indices, there is a large gap between the average value and the median value. Attention is required when researching the situation of SMEs.
- This also confirms that the business performance is improving, but the distribution shows a bipolar state.

Fig.1 Distribution of Sales by SMEs (FY 2016)

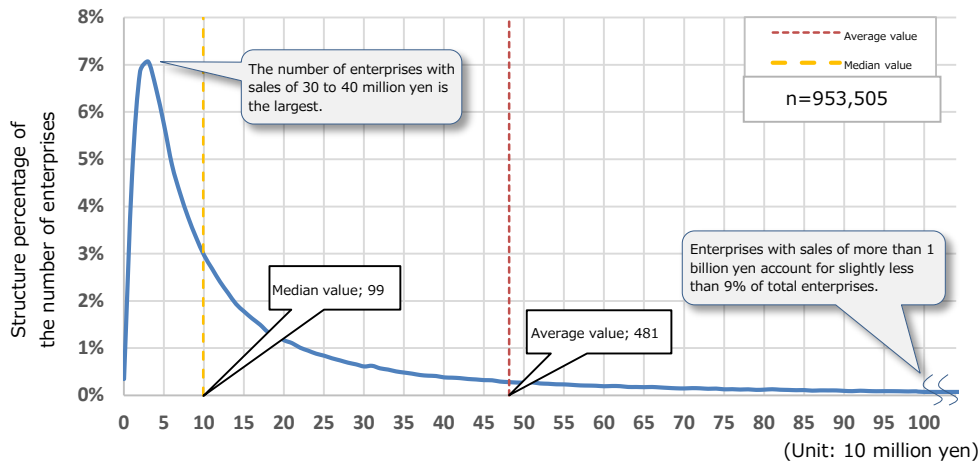


Fig.2 Distribution of total assets in SMEs (FY 2016)

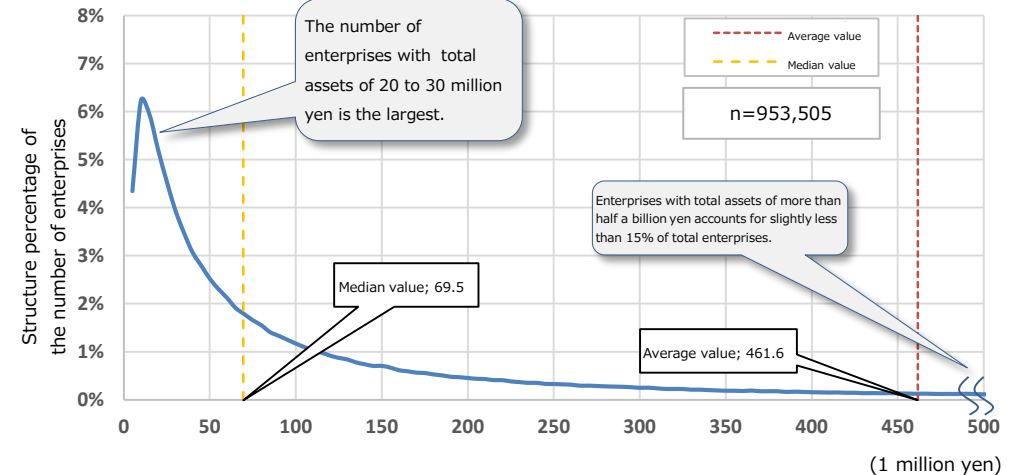


Fig.3 Changes in the percentage of enterprises with operating profit/loss

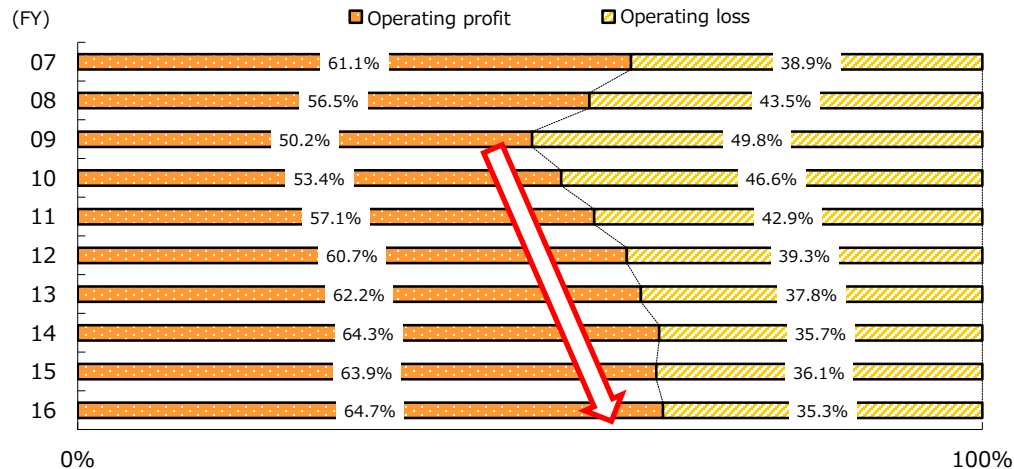
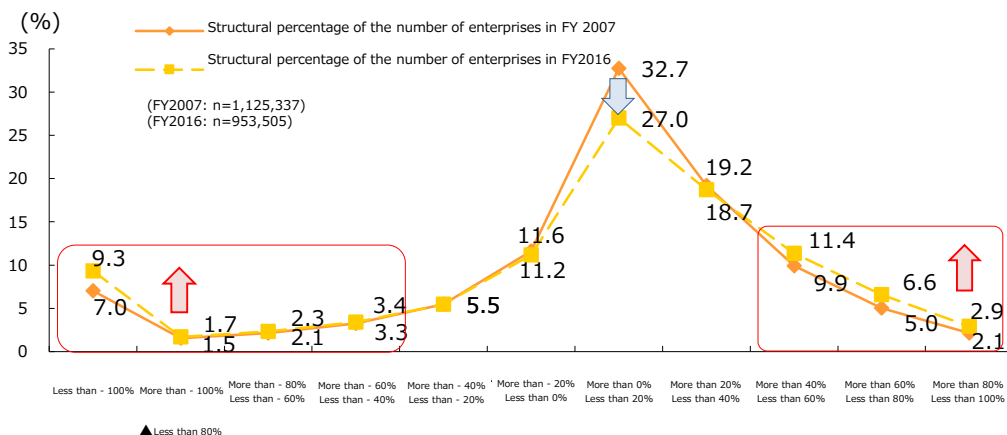


Fig.4 Comparison of distribution status in the number of enterprises based on capital-to-asset ratio



Current Labor Shortage Situation in SMEs

- Labor shortages in SMEs are becoming more serious.
- SMEs must **reduce the differences in benefits offered to employees by large enterprises.**

Fig.1 Labor excess/shortage DI by enterprise

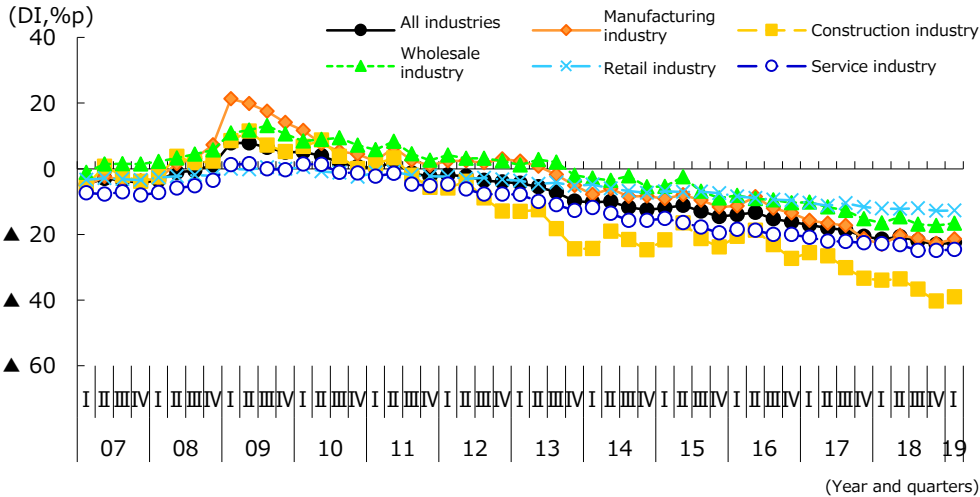


Fig.2 Number of job offers and applicants (new graduates)
(Left: 299 employees or less, right: 300 employees or more)

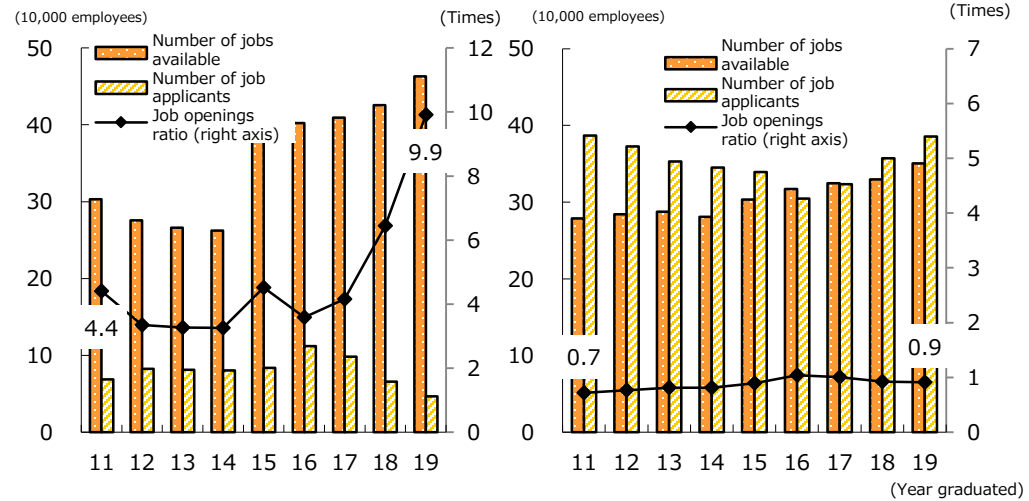


Fig.3 Salary by scale of enterprises

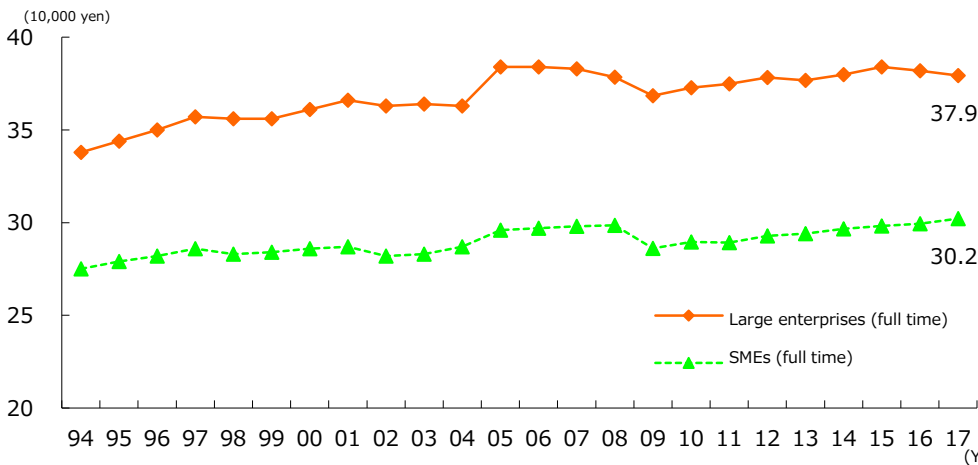
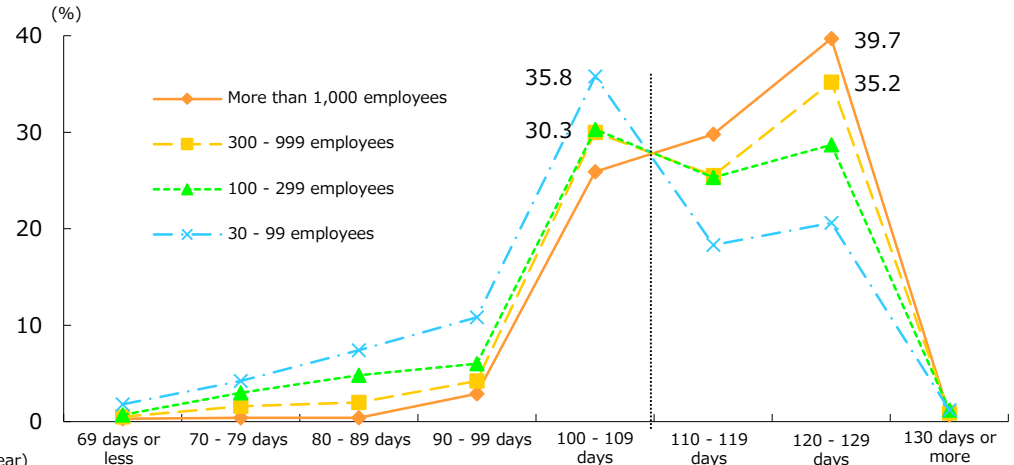


Fig.4 Ratio of enterprises by total annual number of days off



(Source) Figure 1: "Survey of SME Business Conditions" (Small and Medium Enterprise Agency and Organization for Small and Medium Enterprises and Regional Innovation), Figure 2: "Survey on Job Opening-to-Application Ratio of University Graduates by Works" (Recruit Works Institute) Figure 3: "Basic Survey on Wage Structure" (Ministry of Health, Labour and Welfare) (rearranged and processed), Fig.4: "2018 General Survey on Working Conditions" (Ministry of Health, Labour and Welfare)

Structural analysis of SMEs

- **The number of enterprises is increasing** mainly for small enterprises.
- However, **the overall added value will increase** by increasing added value of mainly continuing enterprises.

Fig.1 Number of enterprises by enterprise size

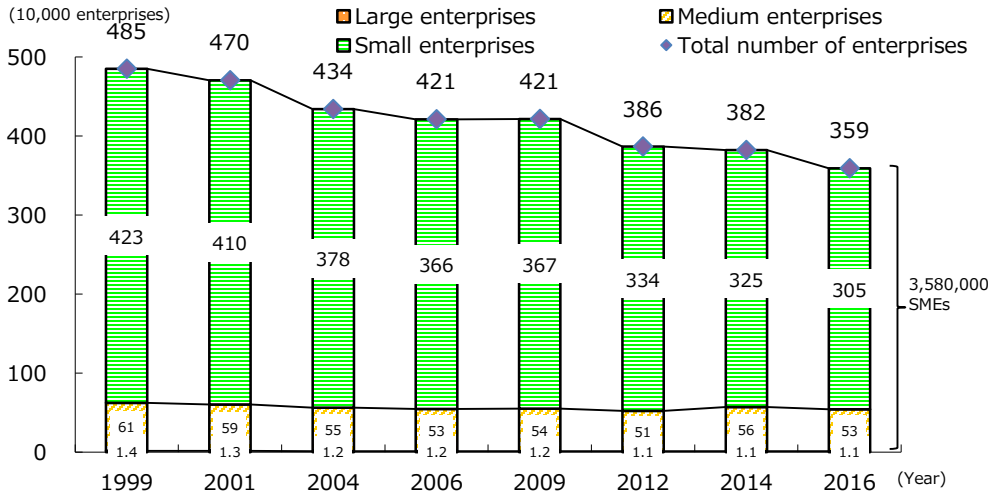


Fig.2 Breakdown of changes in the number of enterprises (2012 - 2016)

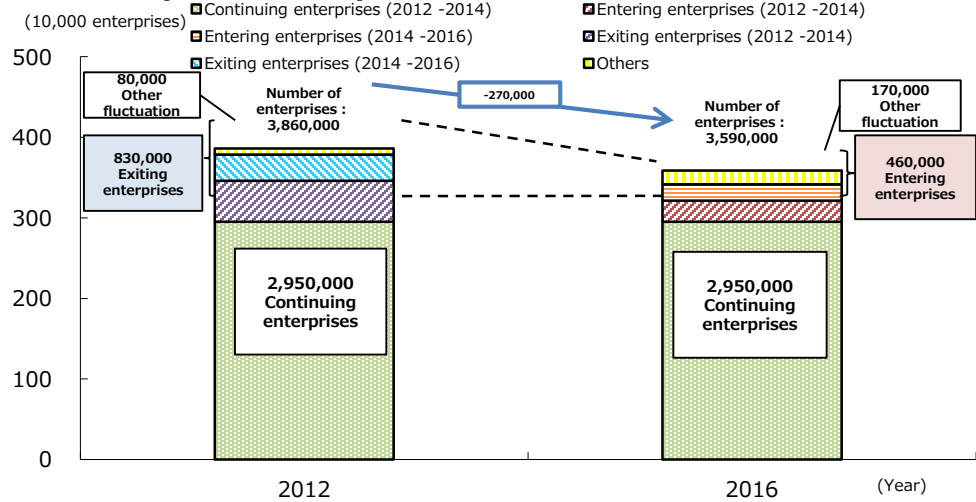


Fig.3 Changes in the number of employees by scale of enterprises (2012 - 2016)

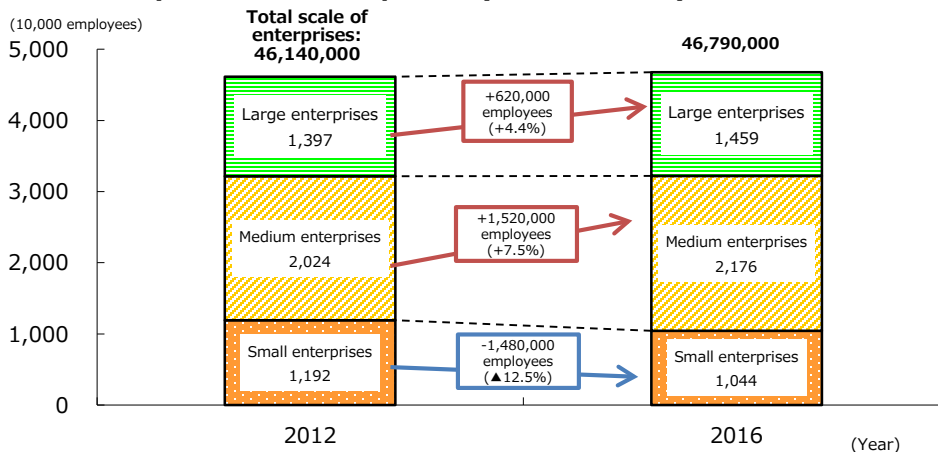
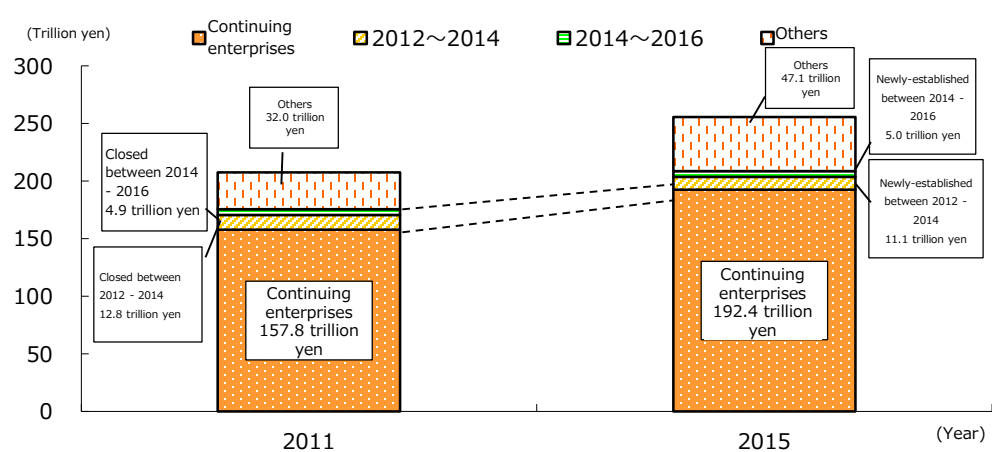


Fig.4 Breakdown of changes in added value (2012 - 2016)

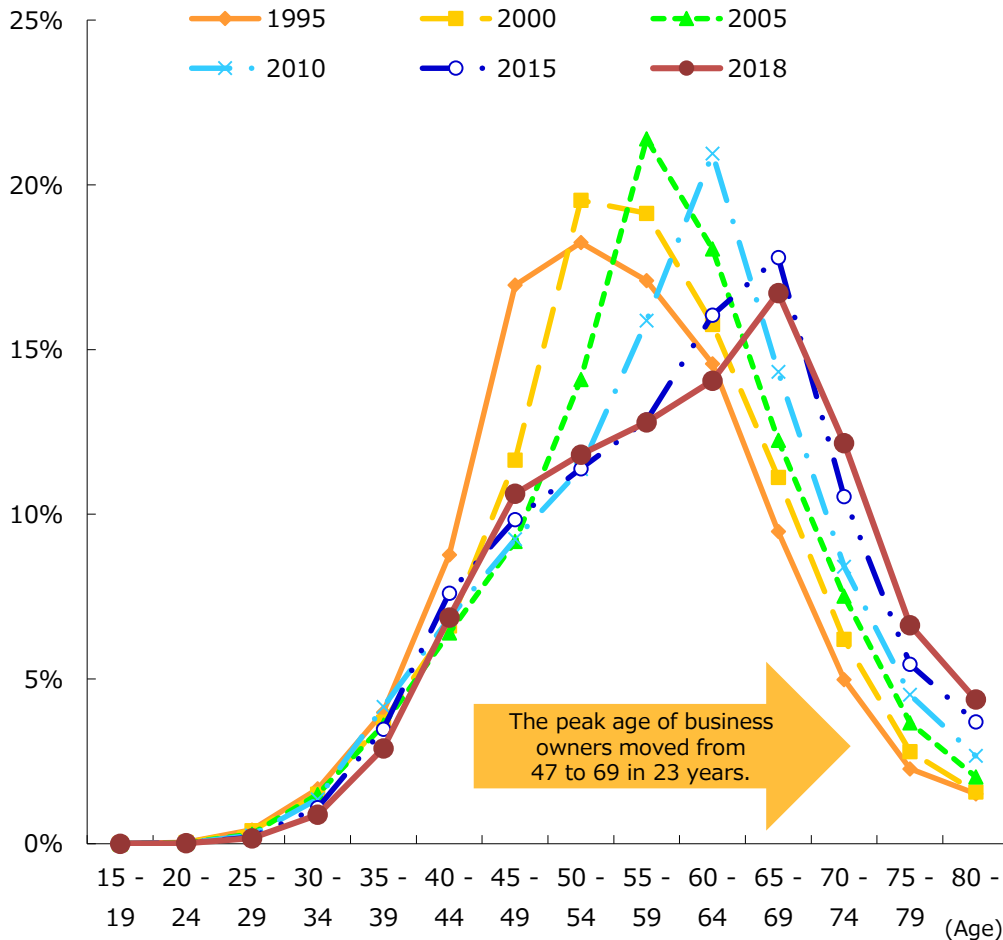


(Source) Fig.1: Source: "1999, 2001, 2004, 2006 Statistics of Businesses and Corporations" and "2009, 2014 Economic Census - Basic Survey" (Ministry of Internal Affairs and Communications), "2012, 2016 Economic Census - Survey of Corporate Activities" (Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry) (rearranged and processed)
 Fig.2: Source: "2012, 2016 Economic Census - Survey of Corporate Activities" (Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry) (rearranged and processed)

Succession of business resources

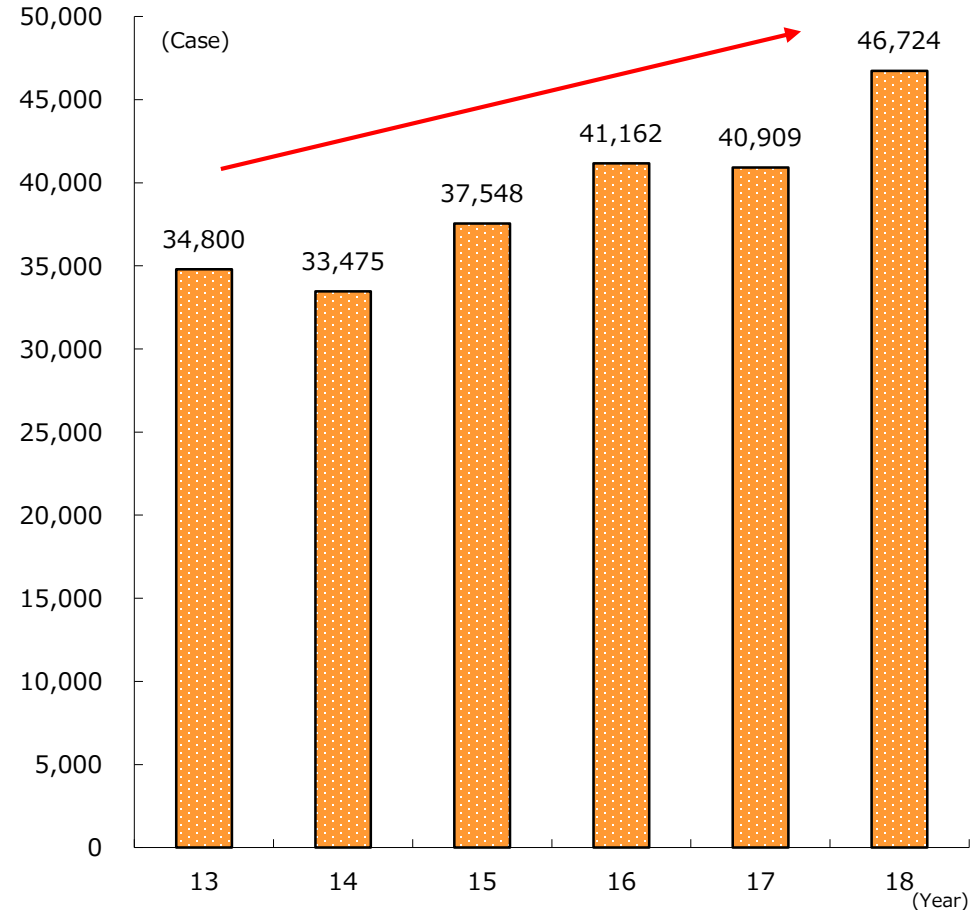
- Business owners become older and the number of businesses suspended, closed or dissolved is increasing.
- It is important to hand down businesses and management resources that have been accumulated by SMEs.

Fig.1 Distribution of the age of the SME management personnel by age group



* Although the peak appears to be the same as the age category moves every 5 years, the peak of the management age became 3 years older between 2015 and 2018.

Fig.2 Changes in the number of businesses suspended, closed or dissolved



* Suspended or closed businesses mean businesses that ceased operation in a state where assets exceeded debts without undergoing legal or other regulatory procedures.

* Dissolved businesses mean businesses that ceased operation and are in a state of clearing procedure necessary to terminate the corporate status of the business. Basically, some businesses can be re-aggregated as being bankrupt if initially thought to be in a state of positive asset holdings but discovered to have excessive debts after dissolution.

Business owners and succession

- * **Former business owners** **New business owners** This graphic on the top right indicates which management situation is being analyzed on the respective page. (either both, or before, or after)

Business owners and succession (Organizing Ideas)

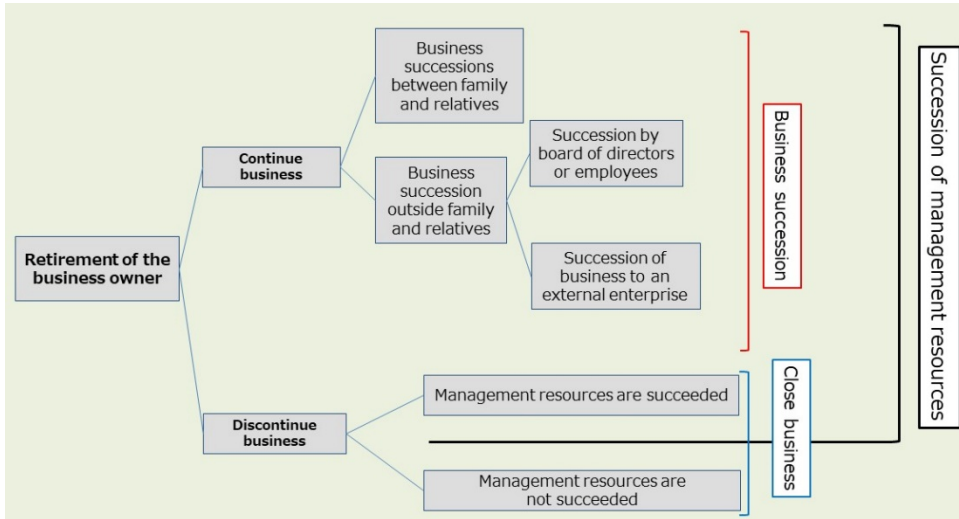
Former business owners

New business owners

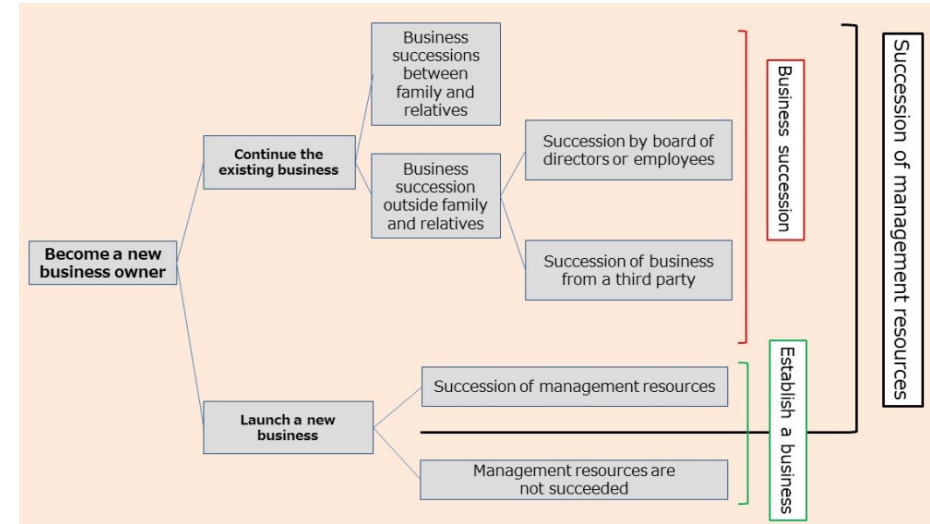
- It is necessary to consider the effective use of resources of businesses that close as well as conventional business succession in order to utilize valuable management resources effectively.
- If such management resources are handed down to existing enterprises and entrepreneurs-to-be, they can encourage active establishment of businesses.

Fig.1 Idea chart of succession (transfer) of management resources

[Transfer (provider)] Retirement of the business owner (business succession or closure)



[Transfer (receiver)] Becoming a new business owner (business succession or establishment)



- * Closure of business means the business owner will not "continue business" (the business is not operated consecutively) after the retirement of the business owner.
- * Management resources include assets of business (equipment and real estate), connection with clients, know-how, etc.

- A business succession tax system that imposes no gift tax and inheritance tax to corporates and private companies has been used. **Support measures for business successions between family and relatives have significantly progressed.** (Refer to the next slide)
- It is important to **further promote business successions outside family and relatives** in the future.

Fig.1 Relationship between the former business owner and the successor in business succession

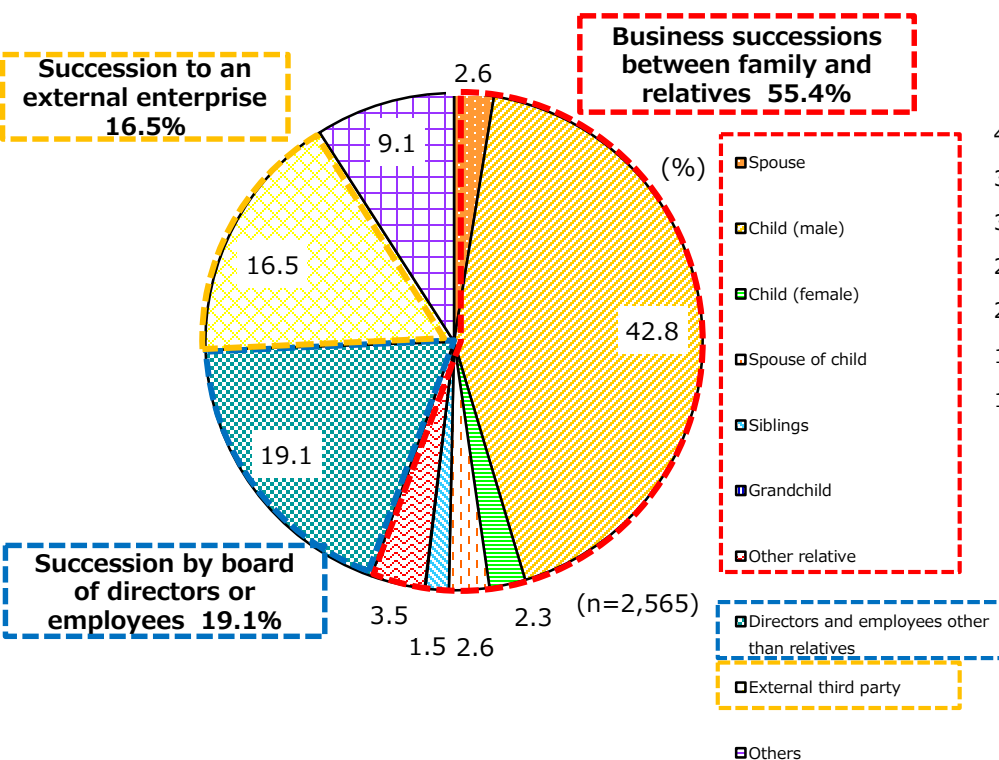
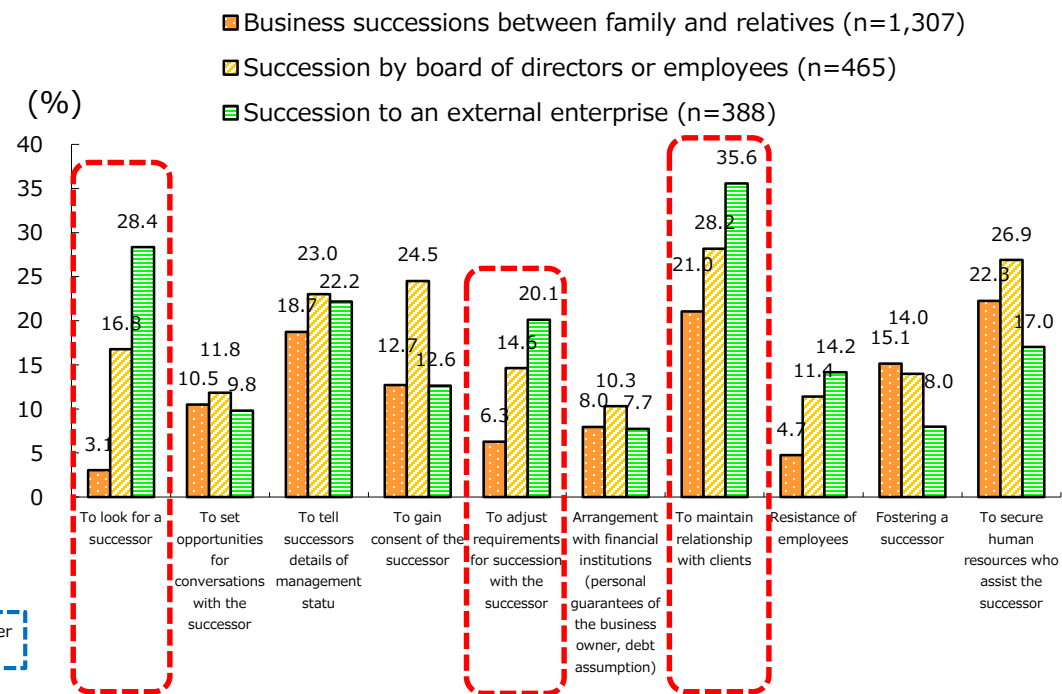


Fig.2 Difficulties in deciding a successor and succeeding business



* Fig.1 and 2: Data was calculated for responses "all business operations are continued" and "part of business operations are continued" regarding a business succession after retirement of the owner.
 * Fig.2: The top 10 items with the response "it was difficult" are shown.

Overall Image of Support Measures for Business Succession

Former business owners

New business owners

- Business owners who have made a decision on their successor are **supported by tax measures, etc.**, those who haven't are **provided an opportunity learning about new options and successor matching** to assist in finding a successor. In addition, **support is provided for challenges faced after business succession.**
- These continuous support measures for business succession will be provided **over the next 10 years**

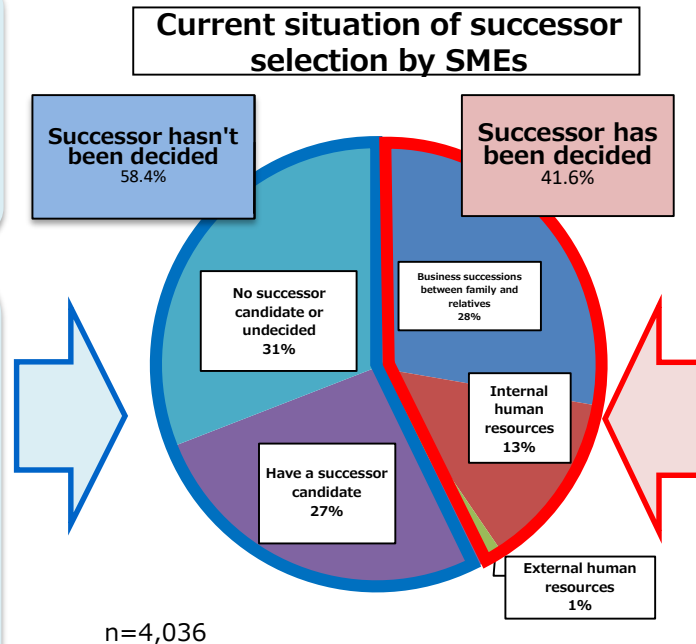
Overall image of support measures for business succession

Providing an opportunity for learning new possibilities

- ✓ Provide financial support for sending **financial institutions and professional experts** to the business owner so that they can encourage the owner to succeed business and conduct a **Push-type Business Succession Test (50,000 enterprises per year)**.

Support for matching

- ✓ **Strengthening the system of the "business succession support center"** by increasing the number of experts so that **1,000 - 2,000 business matchings** can be made annually.
- ✓ **Drastic expansion** of business succession support database **from FY 2019**
- ✓ **Establishment of special measures** for SMEs which are funded by the **business succession fund of the Organization for Small and Medium Enterprises and Regional Innovation** is planned (FY 2019 tax reform).
- ✓ **Registration license tax for M&A and real estate acquisition tax are reduced or exempt** to support a succession by a third party (FY 2018 tax reform).



Business commissioned to Tokyo Shoko Research in 2016 (rearranged and processed)

Expansion of the Business Succession Tax System for Corporations

- ✓ In FY 2018 revision of the tax system, the following requirements for the business succession tax system for corporations are completely expanded only for 10 years.
 - (1) Removal of the limit in covered shares, etc.
 - (2) Expansion of covered businesses
 - (3) Drastic revision of employment requirements
 - (4) Establishment of tax reduction and exemption systems for sold or closed businesses

Establishment of Business Succession Tax Systems for Private Companies

- ✓ In order to promote business succession of private companies as a measure only for 10 years, a **system of 100% deferral of payment of inheritance tax and gift tax** concerning the succession of **land, buildings, machinery and equipment** was established in the FY 2019 tax reform.

Support for challenges after business succession

Subsidies for business succession

- ✓ Support **business investment** by SMEs which are conducting **management reform and business conversion after business succession or business transfer through M&A.**

Cases of succession outside family and relatives

Former business owners

New business owners

- A Case where business succession to an external third party went smoothly through support of a support agency.
- The burden of the former business owner will be reduced and **new business development by the new business owner can be expected.**

[Case] Ebisudo Co., Ltd. (Fukui City, Fukui Prefecture)

An old Japanese confectioner transferred the business to a company of different industry through matching by a support agency.

- Ebisudo (5 employees and 10 million yen in capital) was established in 1917 and it is an old company that produces Habutae (silky soft) rice cakes.
- Mr. Nakamichi, the former president of the company, consulted with a business succession support center in Fukui Prefecture about his business succession.
- He learned that the company can "continue to employ its employees" and sought for a successor. After about 2 months, **matching with a company which supports employment of people with disabilities was successful.**
- In the company which succeeded the business, work duties of people with disabilities have become diverse and the employees are satisfied with work.
- At present, the number of new users has increased, enabling the **development of new products and work to be more efficient.**



Nakamichi (right) and Shimada who took over the business (left)

[Case] Ibara Co., Ltd. (Niigata City, Niigata Prefecture)

An early M&A with support from a certified tax accountant.

- Ibara (7 employees and 3 million yen in capital) is a company providing car sales, repair and maintenance services.
- Mr. Sato, the former president, **sought an opportunity to transfer the business to a third party through M&A** as his son and employees did not wish to take over the business.
- The present president Mr. Sakurai was running a private company in the same industry. He considered the expansion of business through M&A and **gained knowledge on M&A in a study session held by a certified tax accountant.**
- Sakurai was introduced to Ibara through the staff of a non-life insurance company and found its customer platform and facilities attractive. Both side agreed to succession through merger.
- **Through support of the afore-mentioned tax accountant, procedures including valuation, arrangement of requirements and the sales agreement were completed in as short as 2 months.**
- Sakurai says, **"I would like to try new projects which contribute to the local community."**
- "It was a relief for me that he took over the business. I am now able to **enjoy my retired life stably,**" Sato says.



Exterior of the enterprise

Effects of Business Succession

Former business owners

New business owners

- Analyzing the effects of business succession on business performance by age of new owner
- It was found that transferring business to owners in their 30s (or younger) or in their 40s increases sales compared to transfer to owners in their 50s.

Fig.1 Effects of business succession on sales (by age of business successor)

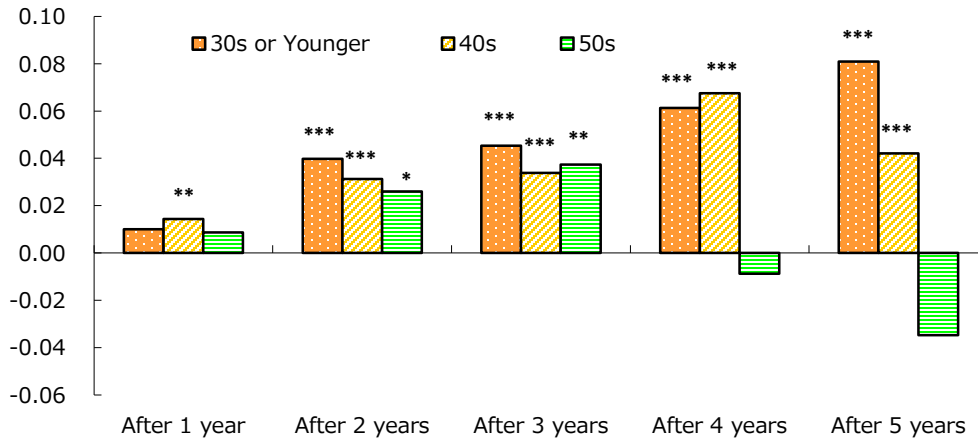


Fig.2 Effects of business succession on total assets (by age of business successor)

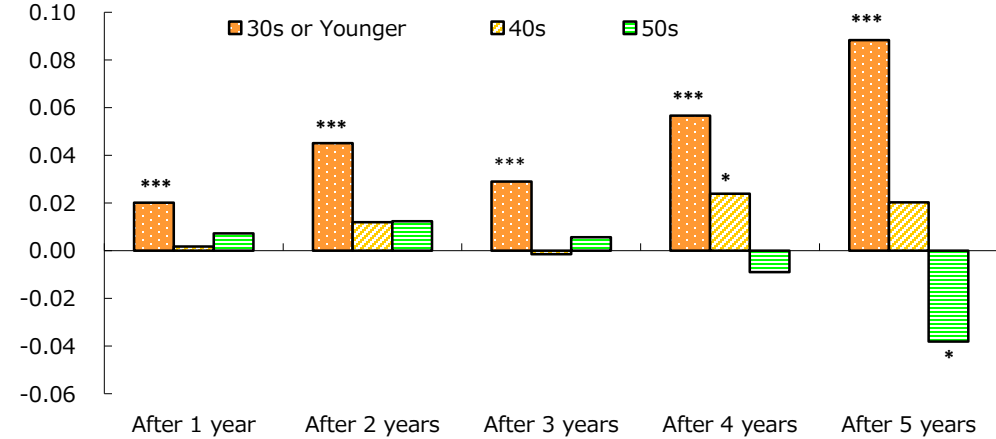


Fig.3 Effects of business succession on ROA (by age of business successor)

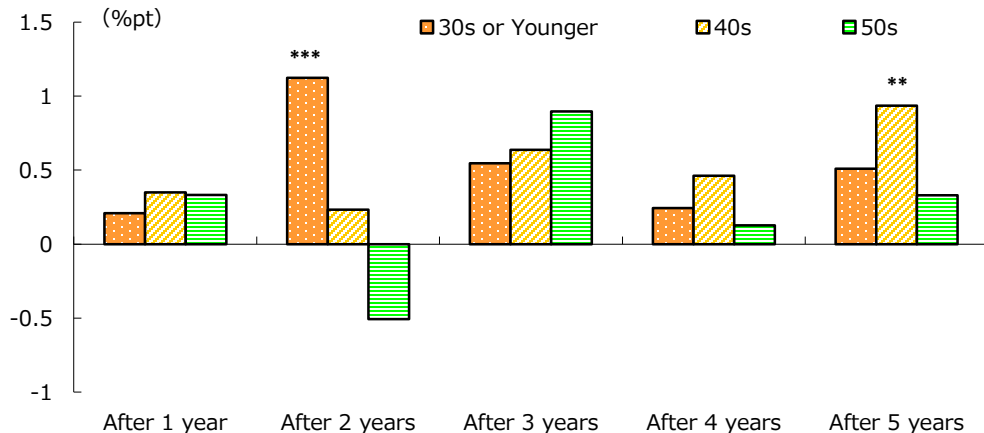
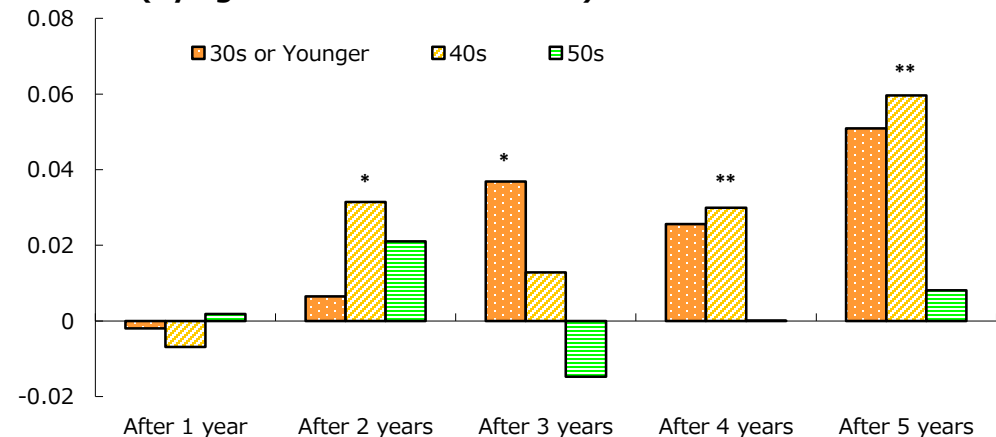


Fig.4 Effects of business succession on the number of employees (by age of business successor)



* Analyzed using the methods "trend score matching" and "analysis of difference of difference." The graph shows the difference of changes in control group and treated group. "*" in the graph shows the statistical significance level. *...10% significance, **...5% significance, and ***...1% significance.

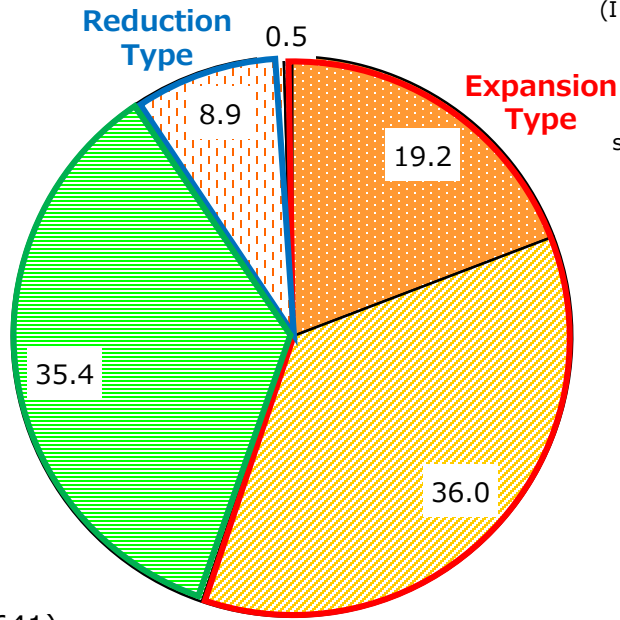
Business Succession

Former business owners

New business owners

- More than half the number of people who are subject to take over a business (decided successor) consider business expansion regardless of the current performance. **Younger successors consider business expansion more.**

Fig.1 Intention of decided successors toward business scale after business succession



(n=641)

- Would like to enter new business fields and develop new products and services
- Would like to develop new customers and clients
- Would like to maintain the current status
- Would like to operate by reducing the business scale
- Others

Fig.2 Intention toward business scale after business succession (by performance)

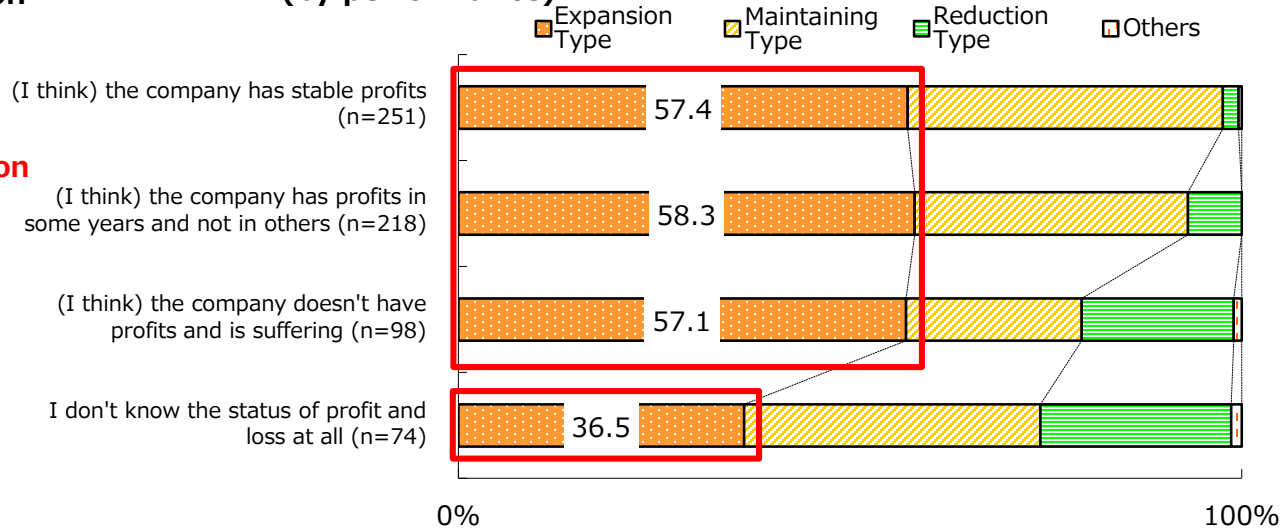
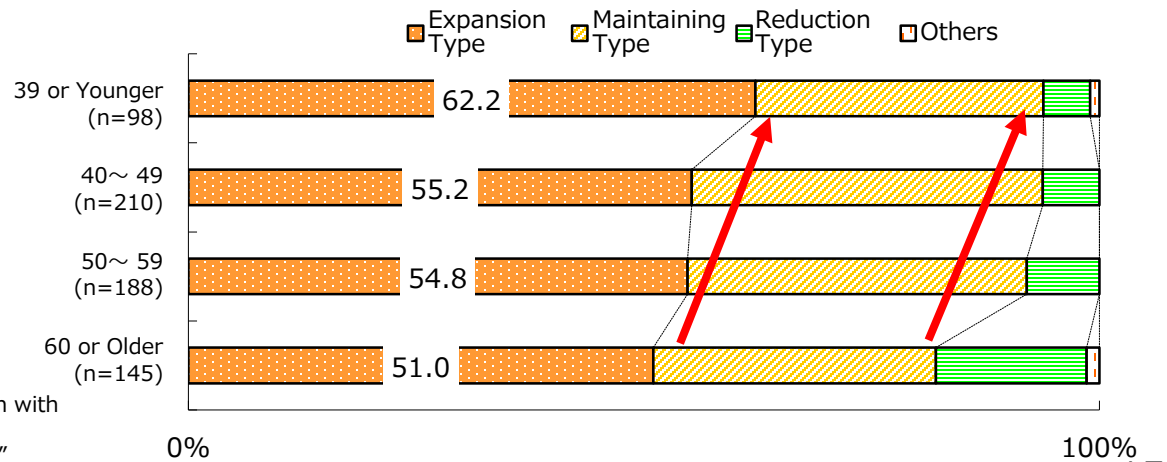


Fig.3 Intention toward business scale after business succession (by expected age of succession)



* "Decided successors" mean those who made an agreement on business succession with the present business owner.

(Source) "Survey on becoming a new business owner of SMEs and small enterprises" (Mitsubishi UFJ Research and Consulting Co., Ltd.)

Change of management (fostering a successor)

Former business owners

New business owners

- **The largest concern** in business succession by a decided successor is **the lack of capability and experience**. The more the successor wish to expand business, the more time is required for the preparation. **It is important to prepare for an opportunity to gain experience in and outside the business from early on.**

Fig.1 Concern of decided successors toward business succession

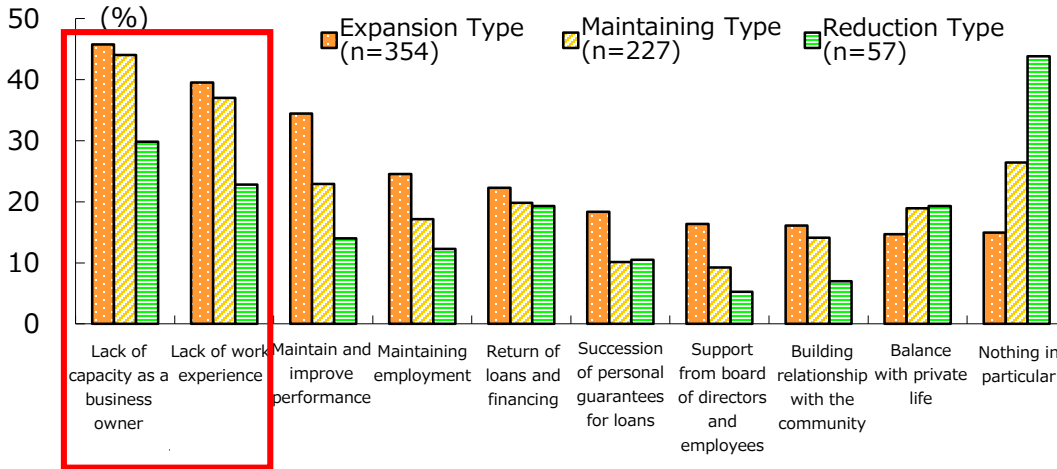
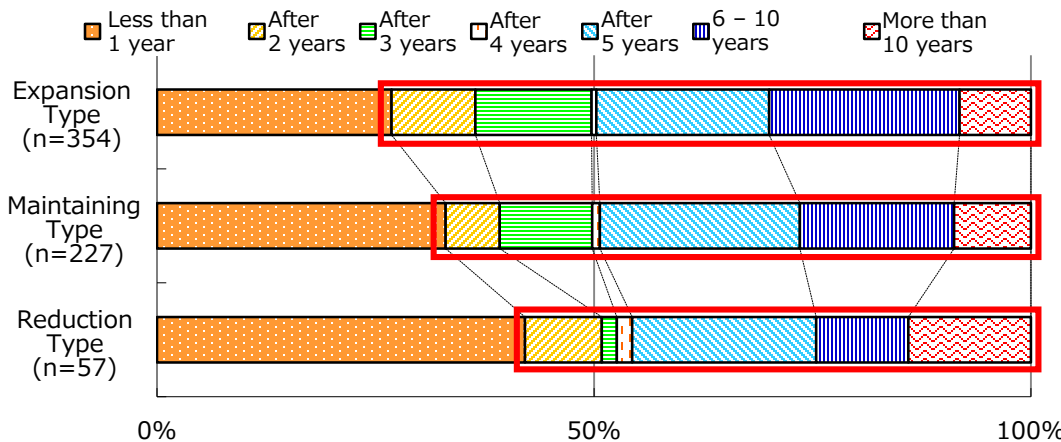


Fig.2 Preparation period which a business owner thinks is necessary



[Case] CB Japan Co., Ltd. (Adachi Ward, Tokyo)

Companies which made a smooth transfer of the business through successor's education using external training programs.

- CB Japan (40 employees and 99 million yen in capital) is a company which is engaged in planning and development, production and sales of home products.
- The current president Mr. Higuchi, who's background had been in sales, did not think that he would become president. When the former president became ill, he was chosen as a successor and rapidly began to prepare for business succession.
- He took a training program run by an external expert **to understand necessary skills** to become a business owner. He then **gained knowledge on finance which he was most concerned about**. He **implemented what he learned** and has steadily accumulated management know-how before becoming president.
- He thinks that he "would like to start preparation earlier for the next succession and **take at least 5 years.**" He conducted external and internal training for executive employees. He is devoted to preparation for the next business succession.



President Keisuke Higuchi (left) and Chairman Hiroshi Aoki (right)

* Decided successors mean those who made an agreement on business succession with the present business owner.

(Source) "Survey on becoming a new business owner of SMEs and small enterprises" (Mitsubishi UFJ Research and Consulting Co., Ltd.)

- More than half of those who are likely to be a business successor but not confirmed as such (successor candidates) **are unable to have conversations on business succession with the present business owner.**
- It is effective to set opportunities for conversations involving other related people.

Fig.1 Conversations on business succession between the successor candidate and present business owner

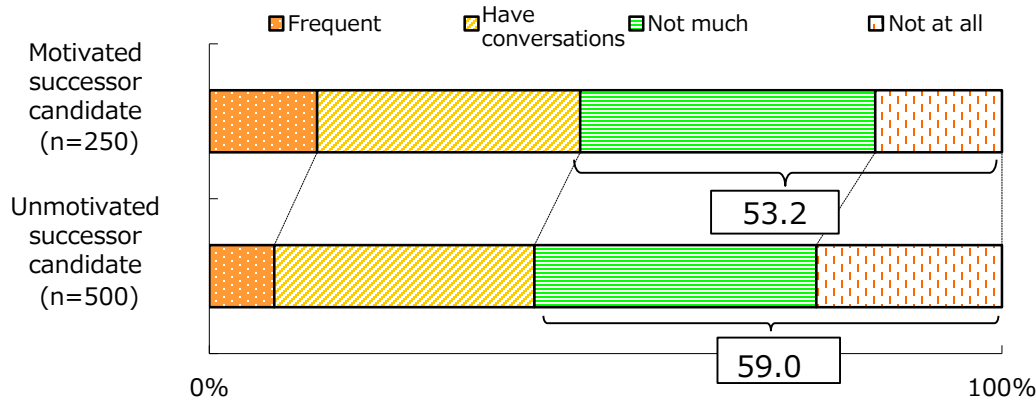
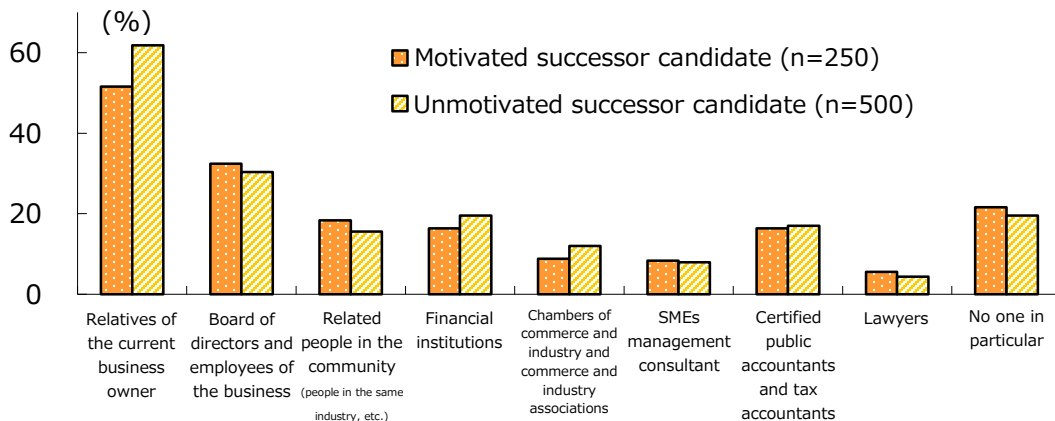


Fig.2 Persons who business successors think are appropriate to consult with the present business owner about business succession



* "Motivated successors" mean those who wish to take on business but haven't reached an agreement with the present business owner.
 "Unmotivated successors" mean those who are not motivated for business succession but is considering it.

[Case] Nakanomiya Co., Ltd.
 (Kamogawa City, Chiba Prefecture)

A company which intends to succeed in a business when it opened a new restaurant

- Nakanomiya (3 employees and 3 million yen in capital) is a company which runs a Japanese restaurant and a hotel. They closed the existing restaurant and will open a new Japanese and Western restaurant called "Orbis" in which a new hotel is established together.
- Kohei Uemura, son of the current president and a Western food chef, heard his parents are considering the opening of Orbis and started to help out with the restaurant as he decided to take over the business after becoming able to have a long-term image of the business.
- Keiji Uemura, the president, has been consulting with the commerce and industry associations and financial institutions and carefully preparing for the succession in 5 years' time by developing a business succession plan.
- "I have seen my parents' passion for Orbis. We will help each other to prepare for the opening of the restaurant," says Kohei.



31 notebooks in which records on the preparation for the opening of the new restaurant "Orbis."

- **"The business was planned to be closed after the owner retired" was the most frequent reason** given by closed business owners for discontinuing the business.
- Succession of business resources was generally the most frequently cited difficulty regarding efforts for business closure.

Fig.1 Reason of discontinuing the business

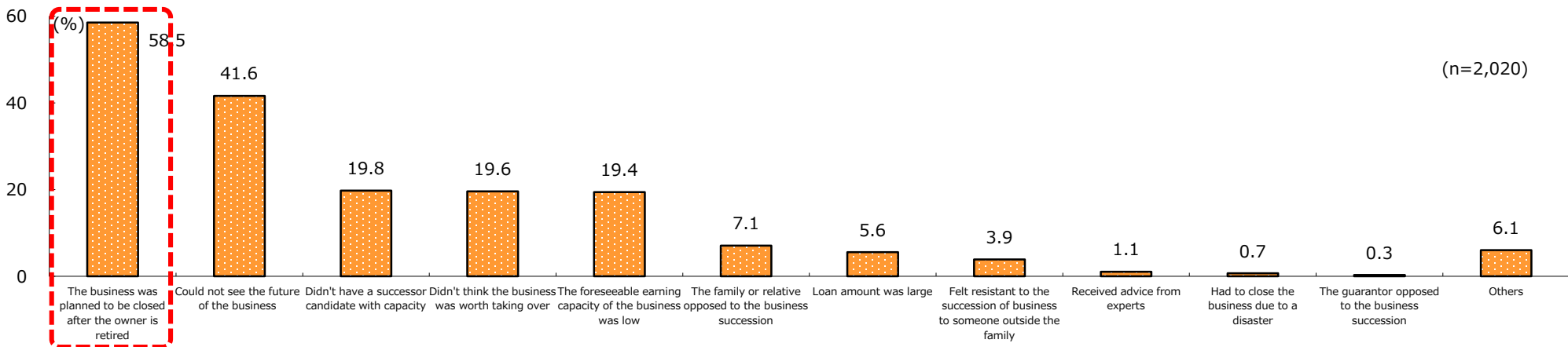
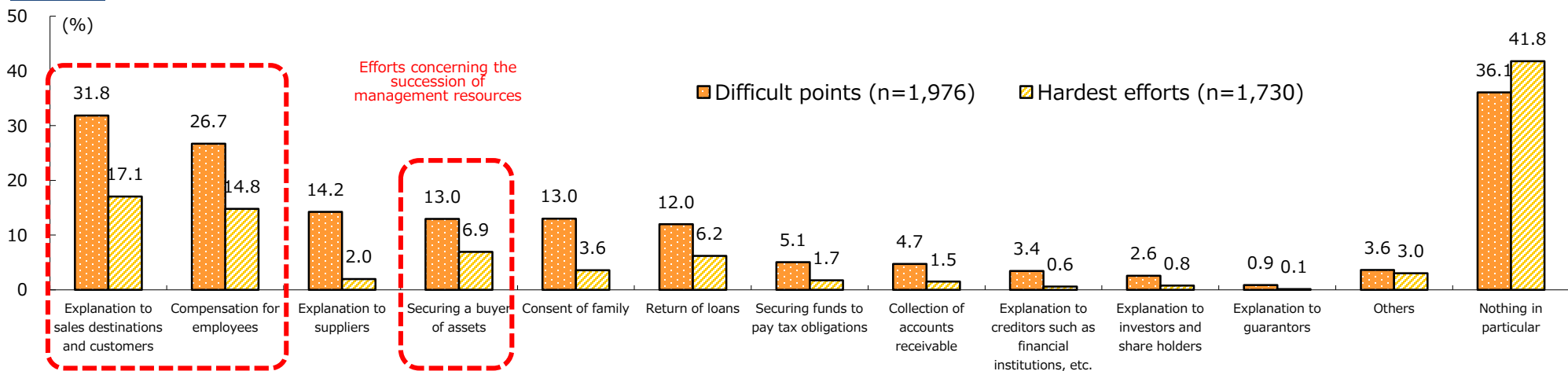


Fig.2 Hardest efforts for business closure



*Data was calculated for the response "discontinued" to the business succession after retirement.

Succession of Business Resources

Former business owners

New business owners

- A certain level of success regarding management resources has been achieved by companies that close but there is room for further improvement.
- If management resources are transferred with a fee, the business owner is able to **cover part of the costs of business closure**.

Fig.1 Current situation of succession of business resources from business that have closed

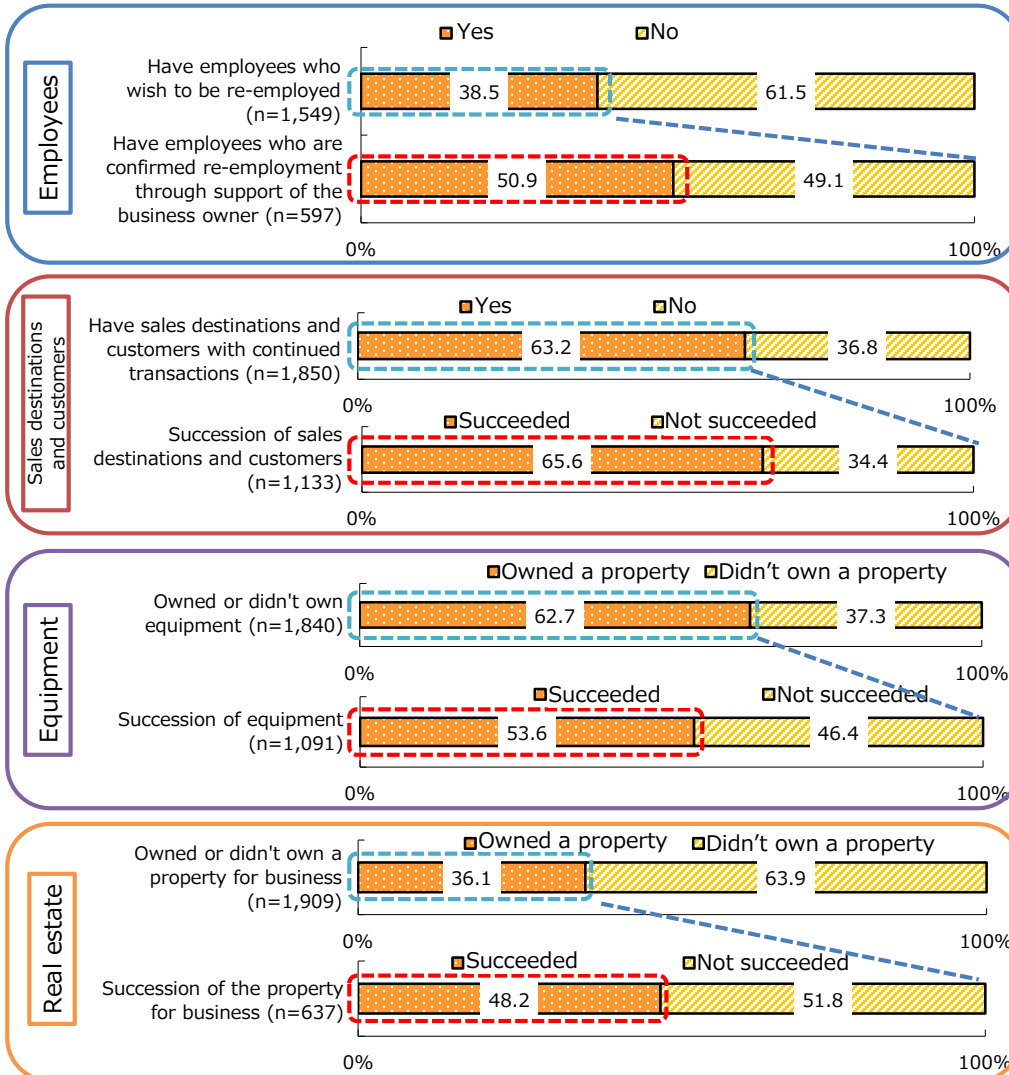


Fig.2 Total cost for closing a business

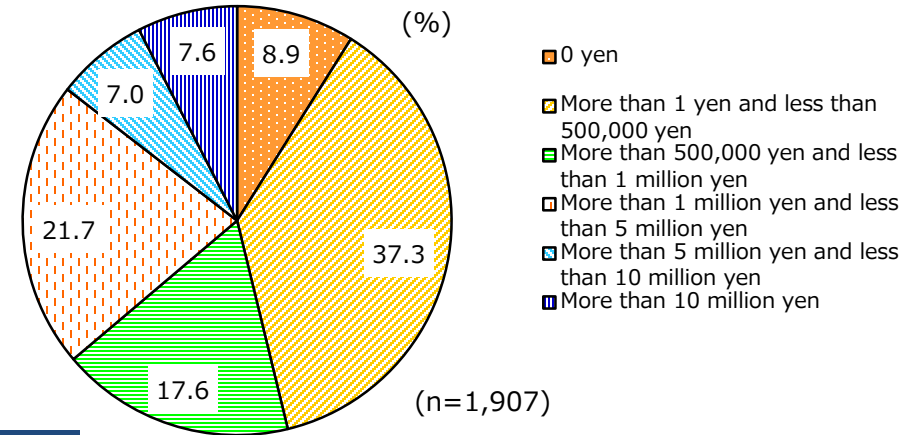
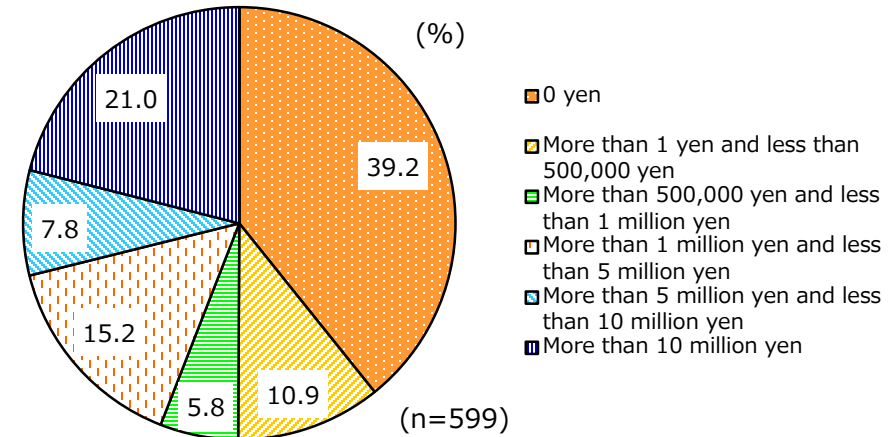


Fig.3 Total price of succeeded business resources



* Data was calculated for the response "discontinued" to the business succession after retirement.

* Figure 3 was calculated for responses "some management resources were succeeded."

(Source) "Survey on business successions of SMEs and small enterprises to next generations and retirement of the management" (Mizuho Information & Research Institute, Inc.) (December 2018)

Cases of Succession of Business Resources from a Closed Business

- Example of a company which succeeded management resources from a closed business and used them for the company's growth.
- Succession of management resources from a closed business can increase satisfaction of the closed business owner after retirement.

[Case] Yadapan Bakery (Matsue City, Shimane Prefecture)

A private company which succeeded management resources from a closed business, which led to the growth of the company.

- Yadapan Bakery (10 employees, a private company) was established in 2013.
- After the establishment, the shop was opened in a suburb. However, the owner considered a move because sales were slow. In 2016, the owner **took over a shop from a closing bakery as the owner of the shop was retiring,** and Yadapan moved there.
- At the time of moving, the Yadapan owner bought certain equipment (bread kneading machine, refrigerator, etc.), interior and appliances for 2 million yen. This was around **10% of the actual prices paid if purchased brand new,** and the owner was able to save costs for the moving.
- He also took over 6 employees from the previous owner, which provided connections with local regular customers and some recipes were shared. This resulted in the **increase of sales after the move.**



Interior of the shop

[Case] Fujita Shoji Co., Ltd. (Urayasu City, Chiba Prefecture)

Example of a company which took over clients, employees and equipment from a closed business and used them for the company's growth.

- Fujita Shoji (105 employees and 45 million yen in capital) was established in 1947 and it is a specialist trading company that sells steel for automobiles and heavy machinery.
- The president of a client steel marketer requested Fujita Shoji to take over his customers, etc. as he doesn't have a successor and would close the business. Fujita Shoji **succeeded the customers, 3 employees and equipment.**
- The technical and response capability of the company was rated by the existing customers and the sales has increased from those before succession.
- The former business owner took **a certain amount of money,** but **he is more satisfied with the fact that he did not cause any problems to his employees and customers.**



Tadayoshi Fujita, Representative Director

Establishment with the Succession of Business Resources

- When an entrepreneur tries to establish a business promptly, **it is effective to take over management resources from others. However, the number of people who actually utilize this method is limited.** It is necessary to promote the succession of management resources from the viewpoint of business establishment promotion.

Fig.1 Management resources succeeded or those they wish to succeed

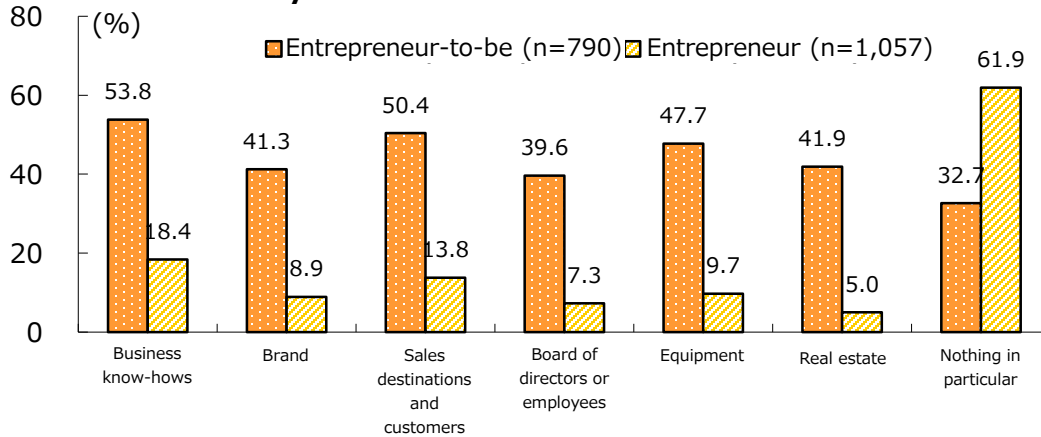
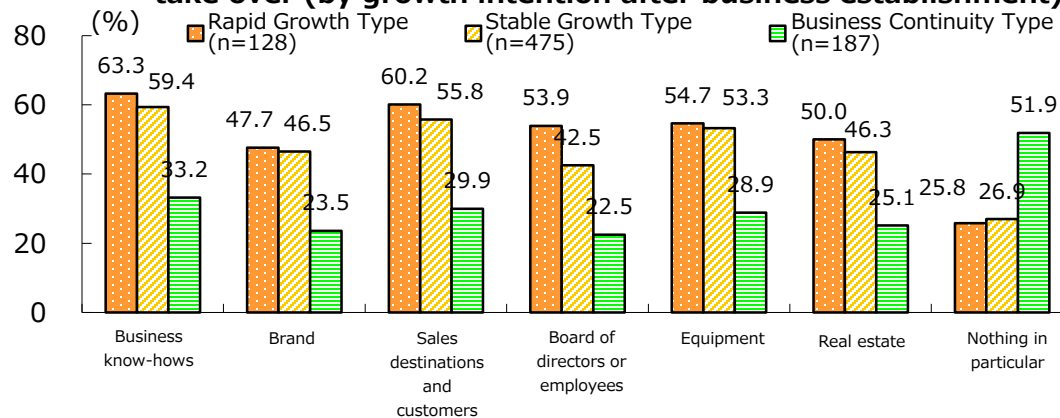


Fig.2 Management resources which Entrepreneur-to-be wish to take over (by growth intention after business establishment)



[Case] Fujitsuna Gokin Co., Ltd. (Higashiosaka City, Osaka Prefecture)

A company that takes on new challenges using succeeded technologies

- Fujitsuna Gokin (3 employees and 2 million yen in capital) is a company which molds copper alloy.
- Local copper alloy molding company where Mr. Fujitsuna used to work **closed when the former president passed away all of a sudden.**
- He became the representative as he **was concerned about losing their technologies, and decided to establish a new** copper alloy molding company with his colleagues.
- Six months after the closure of the business, he established Fujitsuna Gokin **taking over part of the customers and all engineers. A certain amount of sales was secured from the beginning after the establishment.**
- The company is trying new molding technologies with low costs and high quality in order to gain new customers. **At present, almost half of their sales is from customers acquired after the establishment.**



Nobuharu Fujitsuna, President

* "Entrepreneurs" mean those who responded that they have established a company as core business (excluding freelance business) and have continued the business for less than 10 years.

* "entrepreneur-to-be" mean those who are making specific preparations for the establishment of a company.

* About the growth intention towards sales after the establishment of a company, those who intend to expand the business are described as "rapid-growth type," those who intend to expand the business over a medium- to long-term and in a stable manner are "stable growth type" and those who do not intend to expand the business are "business continuity type."

(Source) "Survey on becoming a new business owner of SMEs and small enterprises" (Mitsubishi UFJ Research and Consulting Co., Ltd.)

Profits of closed business

Former business owners

New business owners

- Profitability of closed or dissolved companies tend to be the same level in all SMEs until a few years before dissolution, but **it is gradually reduced until the company is closed or dissolved.**
- It is important **to prepare for management reform and business closure from an early period** before incomes fall.

Fig.1 Changes in net profit margin (median value) of suspended, closed or dissolved companies

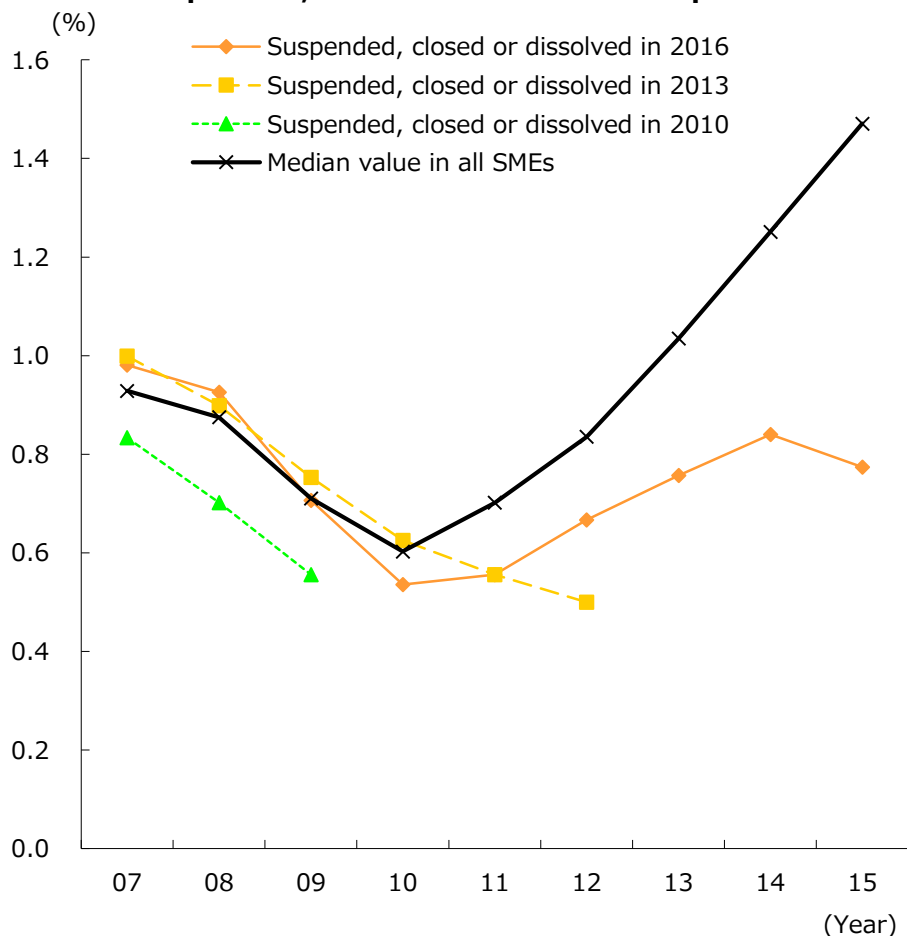
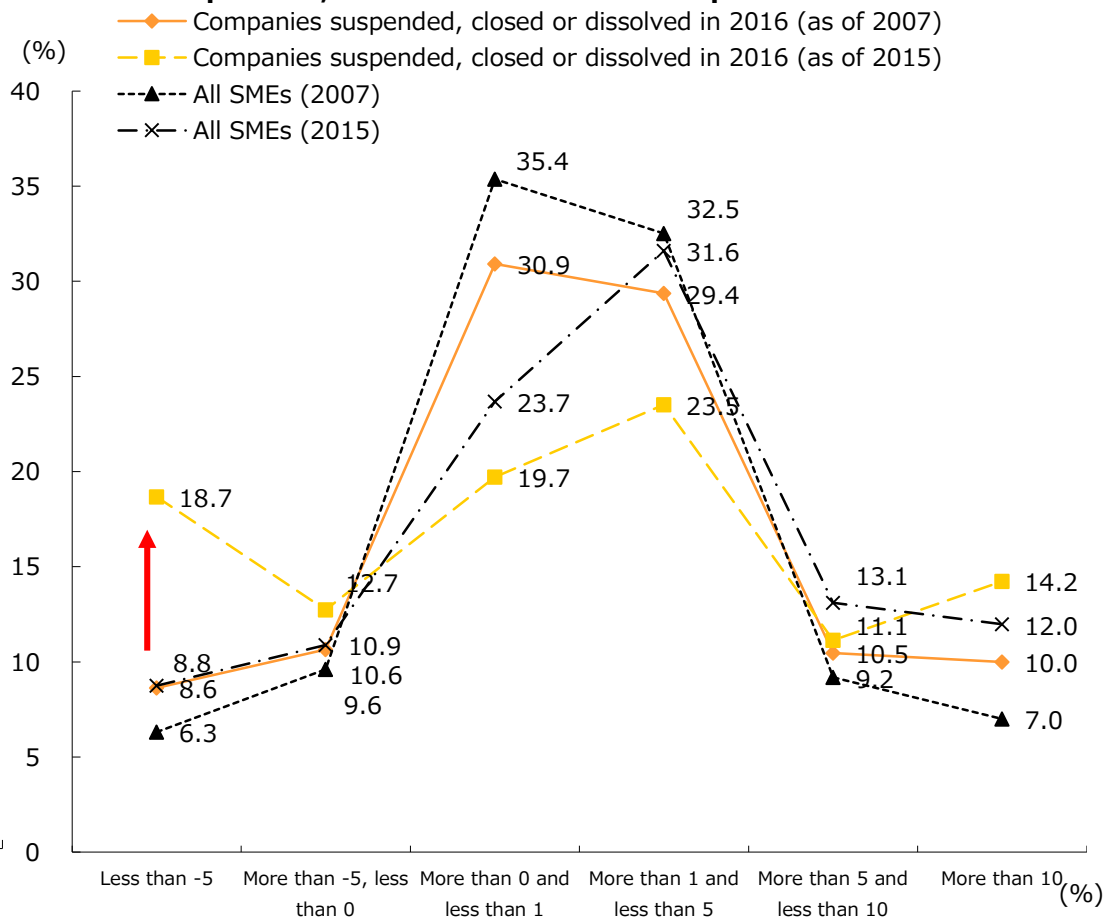


Fig.2 Changes in the distribution of net profit margin of suspended, closed or dissolved companies in 2016



* Data is derived as of September in each year.

* Figures of private SMEs and those in non-primary industries are calculated.

* Figures of companies whose accounting is closed every 12 months and which had valid responses on sales and profits in the current term settlement.

(Source) "Corporate Information File" (Tokyo Shoko Research) (rearranged and processed)

Change of the Management (Retired Business Owner)

Former business owners

New business owners

- There are cases in which matters that concerned the business owner before retirement do not actually become issues when the owner retires.
- The satisfaction level for life of both owners who succeeded business and closed business owners tend to be high after retirement.

Fig.1

"Matters concerned" when a business owner decided to retire and matters that "actually became issues" when a business owner retired (succeeded business owner).

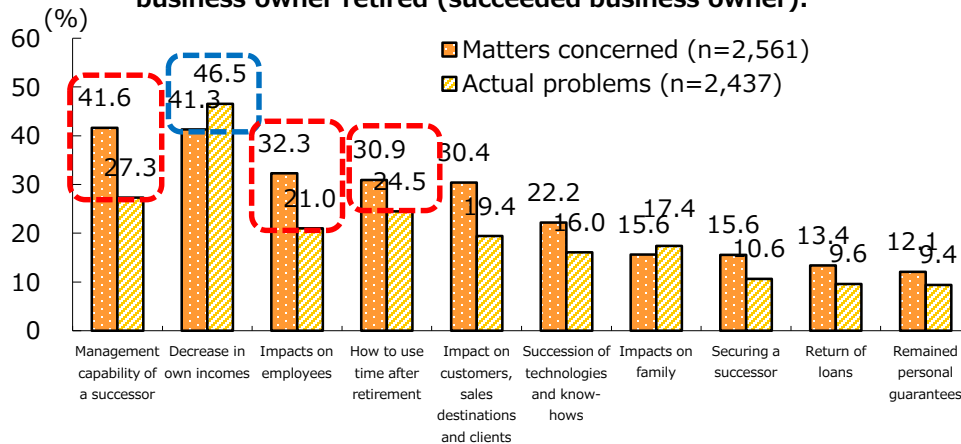


Fig.2

"Matters concerned" when a business owner decided to retire and matters that "actually became issues" when a business owner retired (closed business owner).

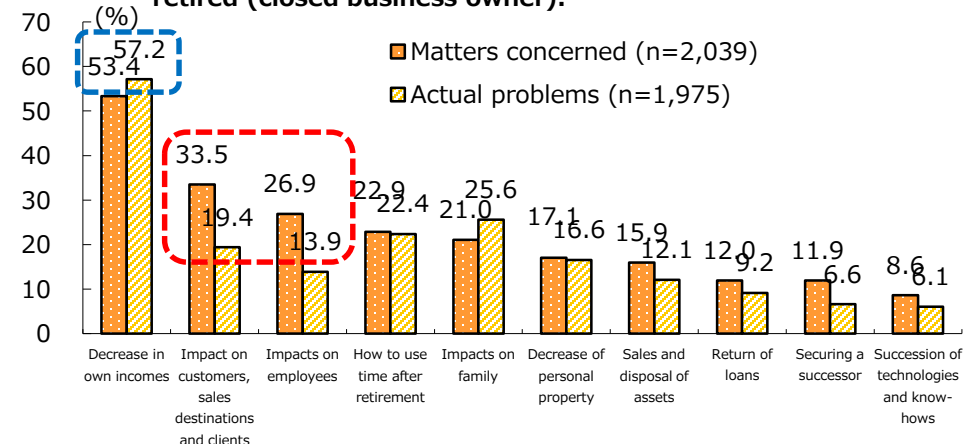


Fig.3

Current satisfaction level for life

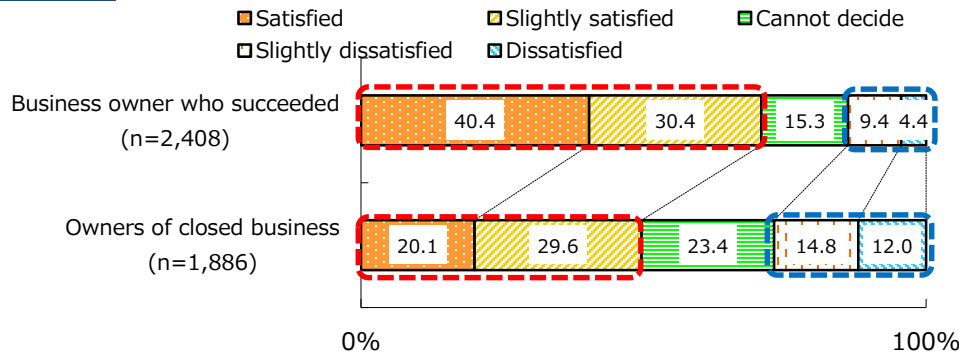
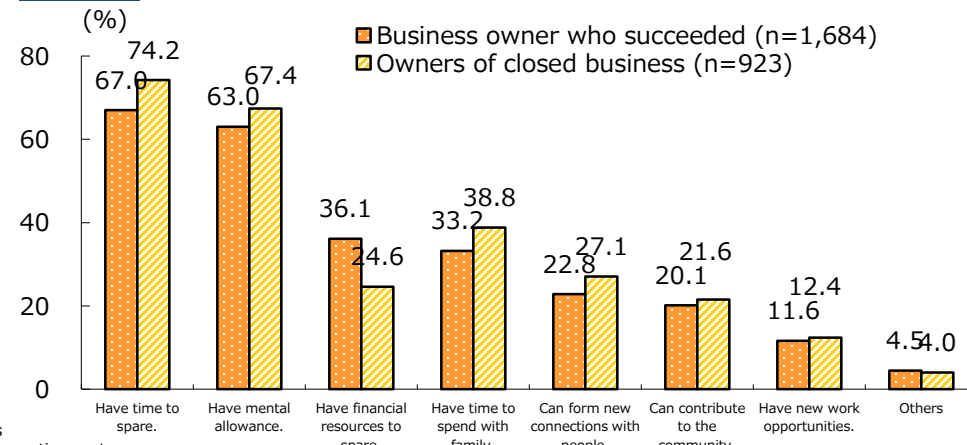


Fig.4

Reasons of satisfaction with the present life



* "Succeeded business owners" mean those who responded "all of business operations are continued" and "part of business operations are continued," and "closed business owners" mean those who responded that they "have not continued" any business operations after retirement.

Fig.1- 2: The top 10 items with the response "matters concerned" are shown.

Fig.4: Data was calculated for the responses "satisfied" and "slightly satisfied" with the present life.

(Source) "Survey on business successions of SMEs and small enterprises to next generations and retirement of the management" (Mizuho Information & Research Institute, Inc.) (December 2018)

Owner of newly-establishment

Former business owners

New business owners

- The number of entrepreneurs is decreasing. On the other hand, **the percentage of those who prepared for the establishment of a business that was actually established increased.**
- The number of foreseeable side business owners** who realized diverse establishment styles **is increasing and freelancers played an important role.**

Fig.1 Changes in the number of entrepreneurs

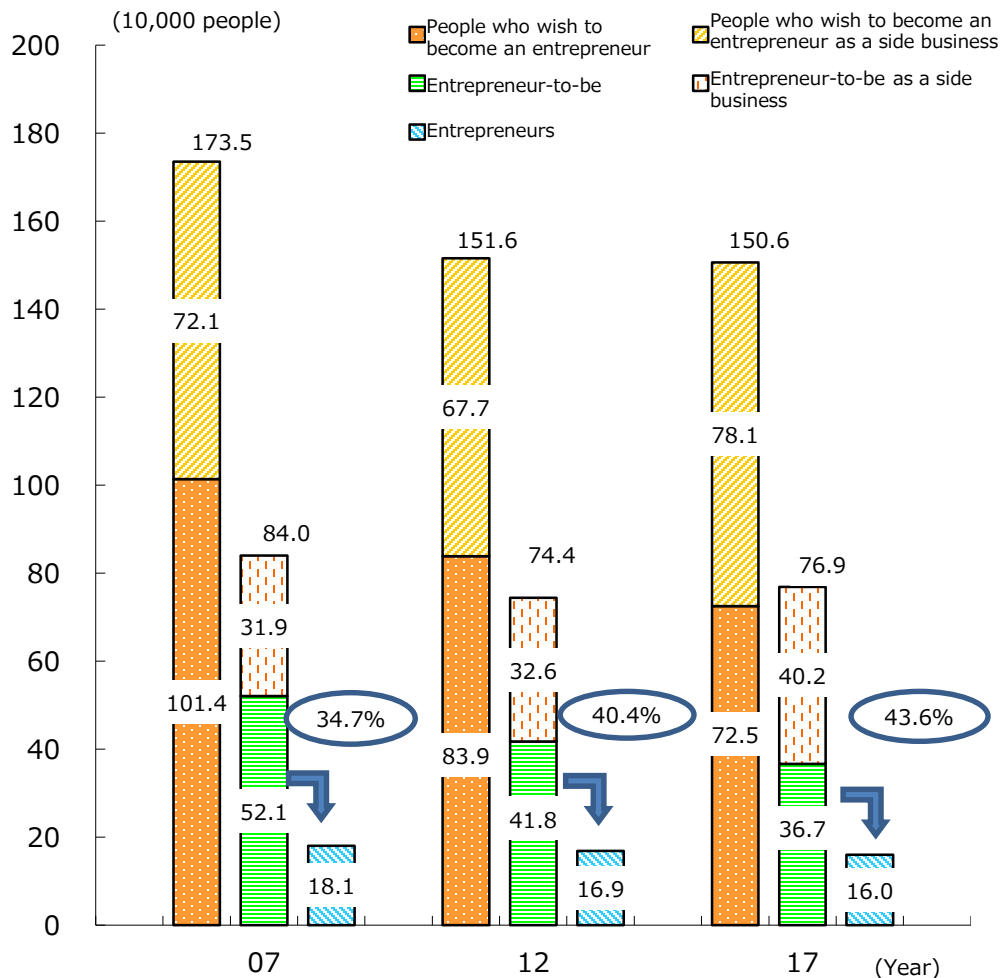


Fig.2 Changes in the number of side business owners

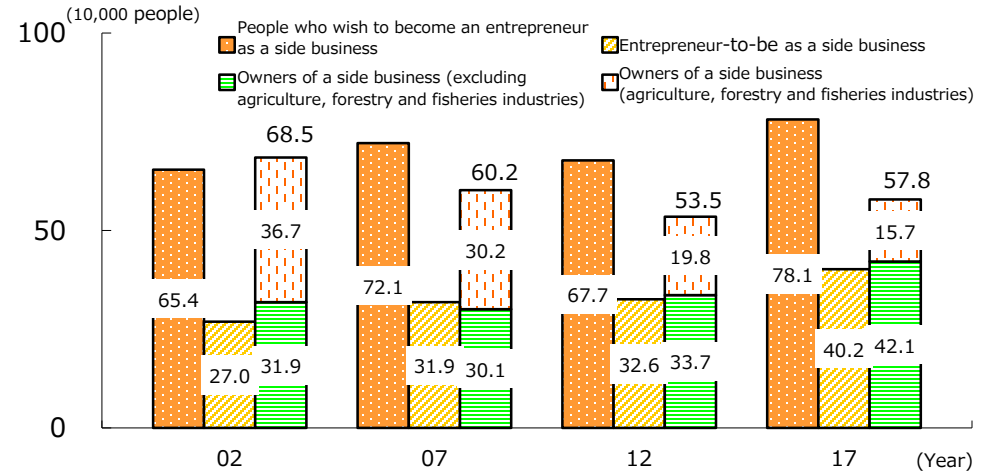
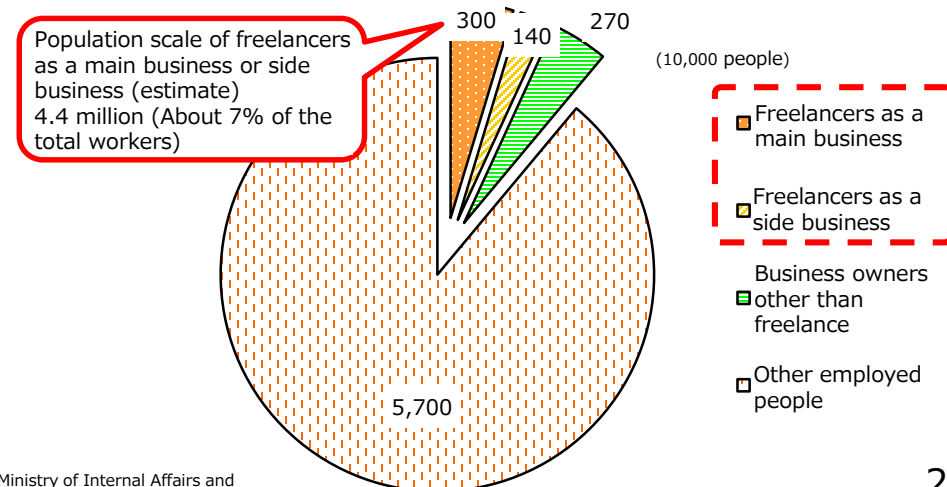


Fig.3 Population scale of freelancers (estimate)



(Source) Figure 1 and 2: Developed by the Small and Medium Enterprise Agency based on the "Basic Survey on Employment Structure" (Ministry of Internal Affairs and Communications) (rearranged and processed), Figure 3: "Japanese Panel Study of Employment Dynamics" (Recruit Works Institute) (January 2018).

Status of intention of business establishment in Japan

Former business owners

New business owners

- The percentage of entrepreneurs-to-be aged 18 to 64 in Japan has been low and the percentage of those who are not interested in establishing a business has been high.
- On the other hand, the percentage of those who are interested in establishing a business and actually undertake activities for establishment in Japan is high. **It is important to increase initial interest in establishing a business.**

Fig.1 Changes in the percentage of entrepreneurs-to-be

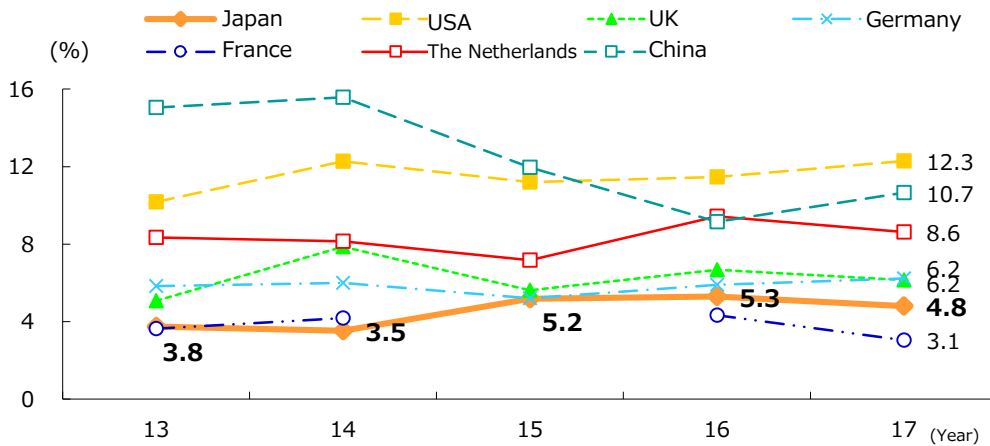


Fig.2 Changes in the percentage of those who are not interested in establishing a business

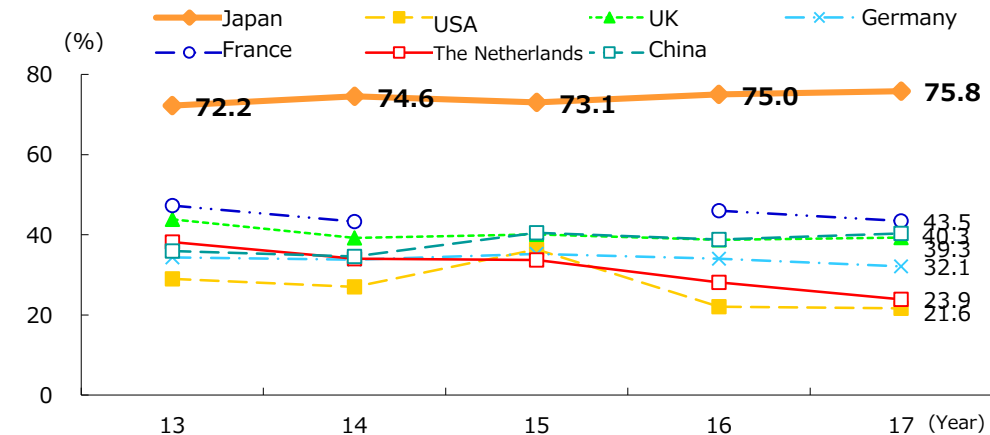
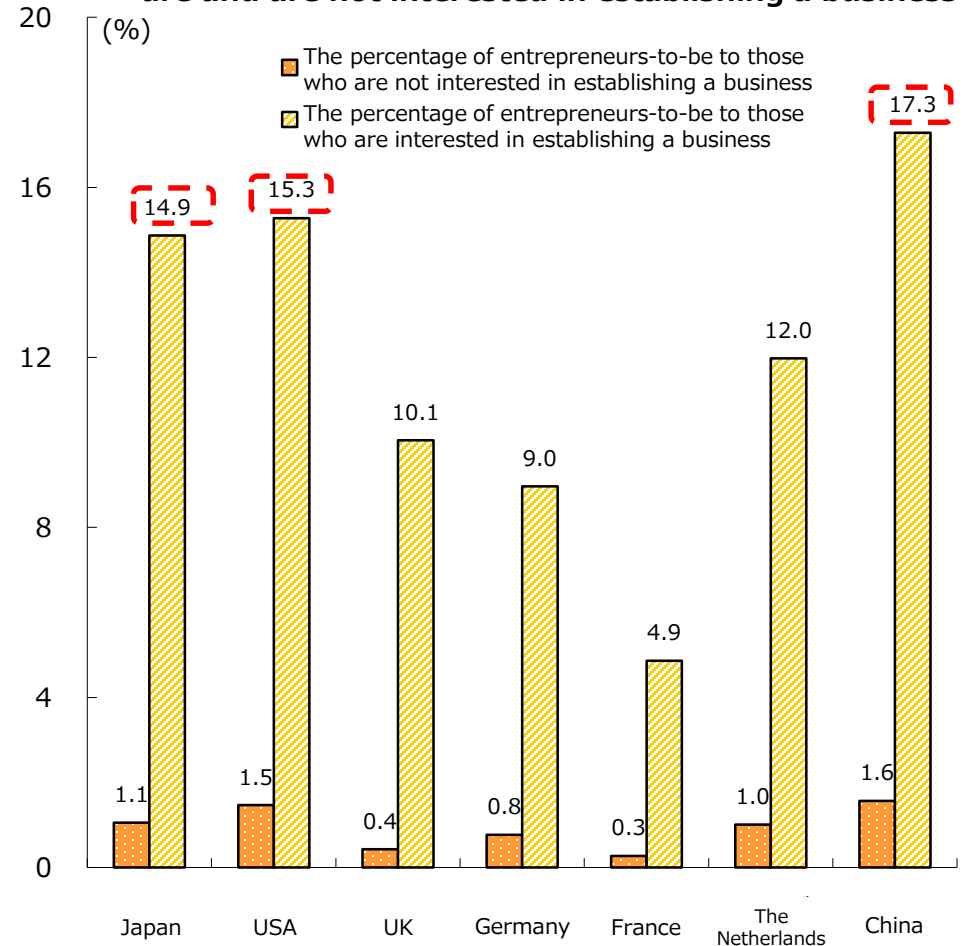


Fig.3 The percentage of entrepreneurs-to-be to those who are and are not interested in establishing a business



Situation of Freelance and Side Business

Former business owners

New business owners

- Entrepreneurs who establish freelance businesses tend to be highly satisfied with the freedom and personal discretion. Those who establish a business as a side business tend to operate businesses with relatively little experience. In both cases, initial expenses tend to be low.
- This is a chance for individuals to open a business in a relatively easy way.

* "Freelancers" here mean those who operate a business by providing their skills and abilities without belonging to a specific organization and having no employer or office. "Side businesses" are to operate a business while being employed.

Fig.1 Incomes of work before and after establishing a business and the satisfaction level regarding the freedom and discretion.

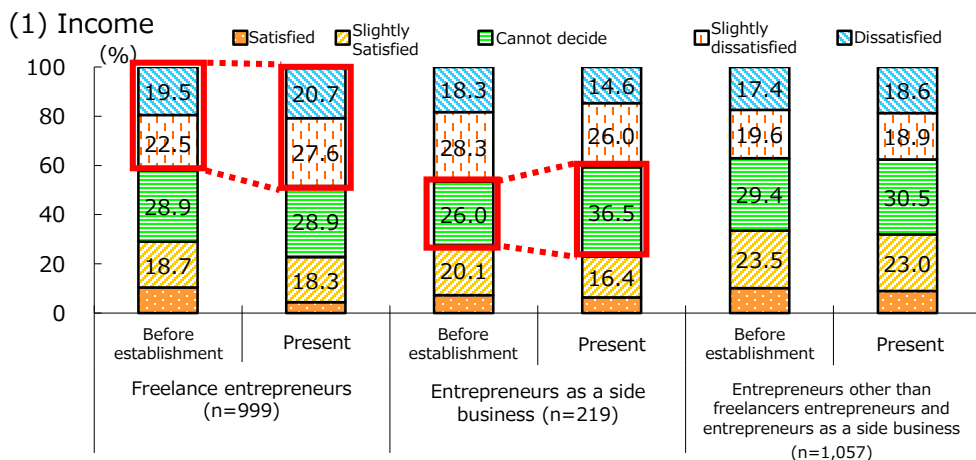


Fig.2 Length of experience in work related to the business which entrepreneurs operate

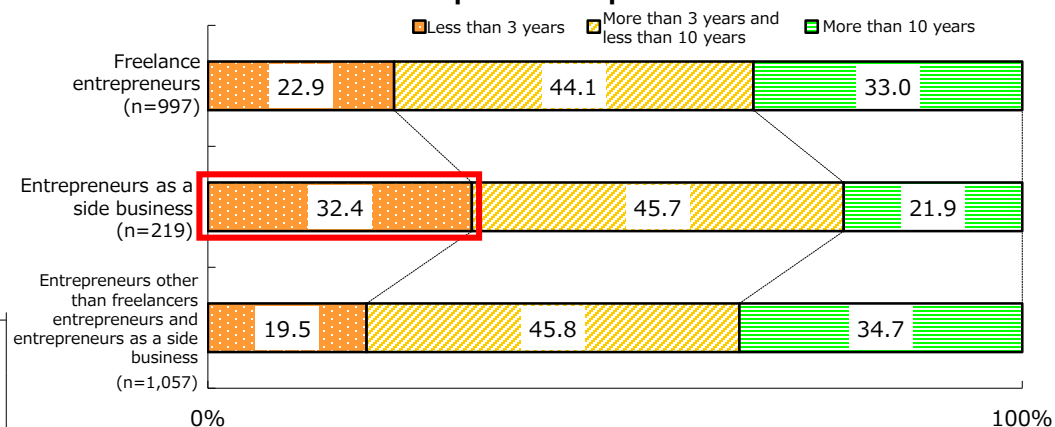
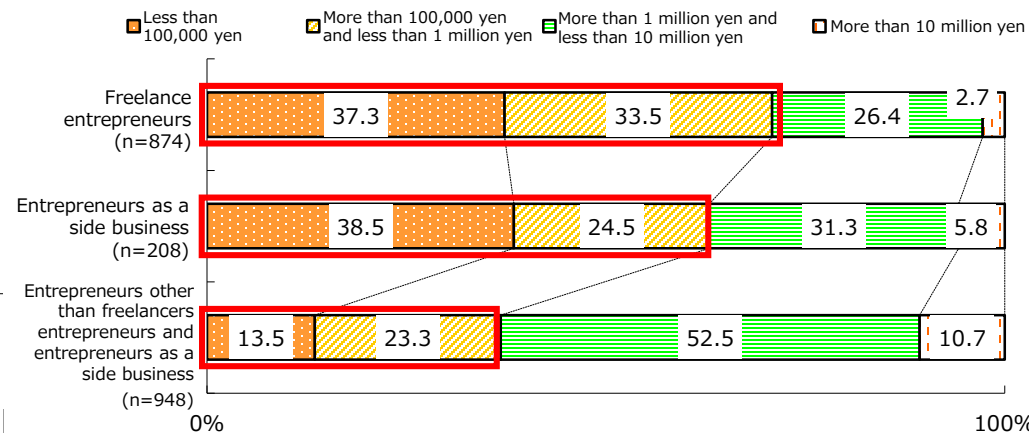
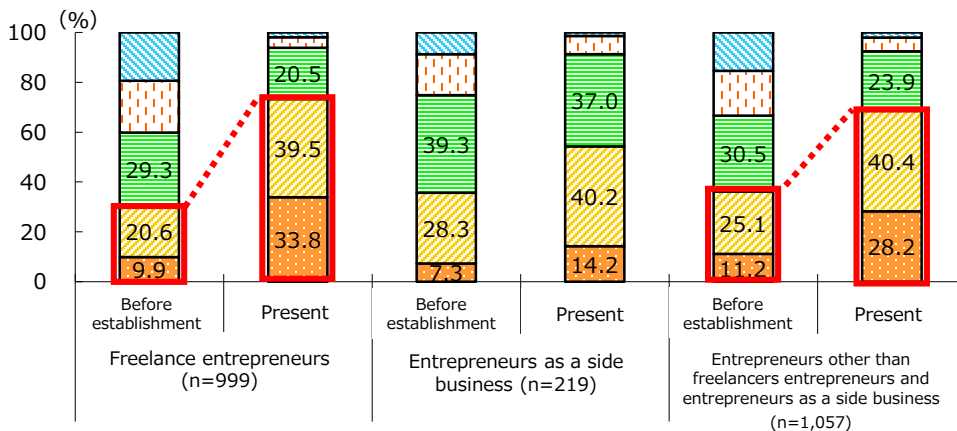


Fig.3 Initial expenses by type



(2) Freedom and discretion



- In some cases, owners establish a business as a freelancer and later increase employees. It is important to **promote the establishment of business as a freelancer as a form of business establishment.**

Fig.1 Percentage of entrepreneurs who established a business as a freelancer and later expanded employees

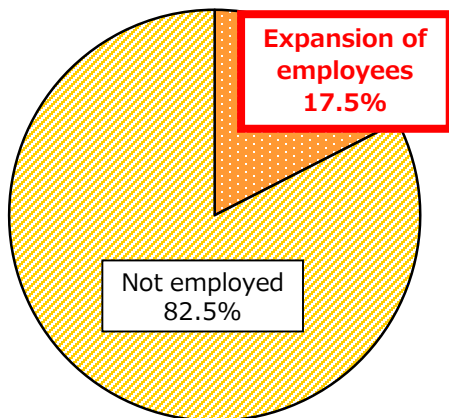
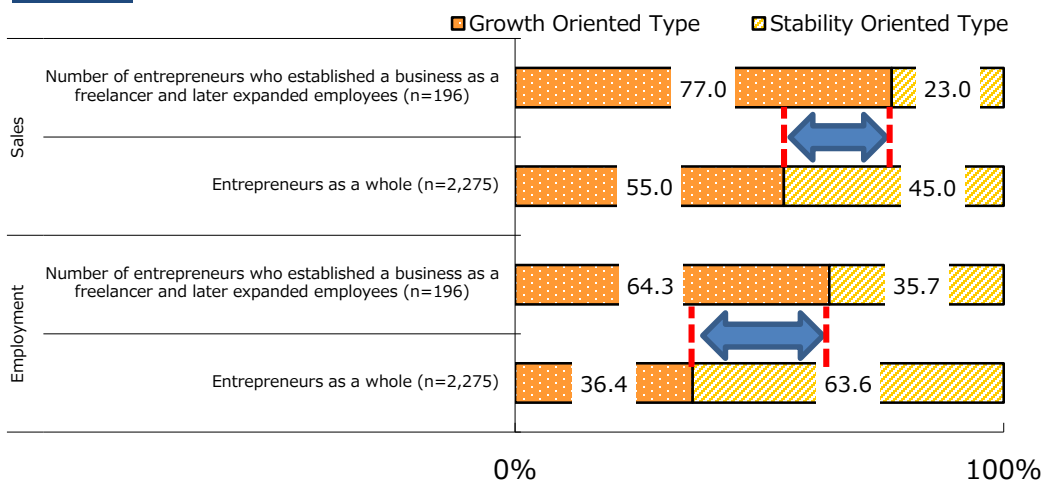


Fig.2 Intention of growth at the time of freelance business establishment by entrepreneurs who later increased employees



[Case] Baigie Co., Ltd. (Setagaya Ward, Tokyo)

A company which continues to grow steadily in sales and employment after establishing a freelance business

- Baigie (14 employees and 5 million yen in capital) is a website production company which is strong in building strategic BtoB websites as well as sophisticated design.
- Sogitani, the representative has prepared for the establishment of his business by attending a vocational school and working in a design company. However, he could not stop **worrying about having employees.**
- He established a business as a freelancer to start with.** He was satisfied with the work and income, but in order to expand the business, he incorporated a company and decided to employ people.
- In the first year of the incorporation, he began to have employees, and has **expanded the number of employees to 14.**
- About taking a step toward employment, "I feel that work speed has improved by dividing our tasks. I will try to make the organization to operate without myself in the future," says Sogitani.



Baigie office

* "Growth Type" means those who responded about their growth type on sales and employment which they were aiming for at the time of business establishment that they will "expand in a short period" or "expand in a medium- to long-term and stably."
 "Stable Type" means those who responded that they "do not intend to expand" (focus on continuing the business).

Change of the Management (Opportunities of success for freelancers)

Former business owners

New business owners

- The gap of using the freelance style between regions by entrepreneurs is small, and about 40% of them have intention to use the style in the future.
- Those who haven't used the freelance style have **issues caused by the lack of information on freelance.**

Fig.1 Usage and intention of freelance style by location of entrepreneur

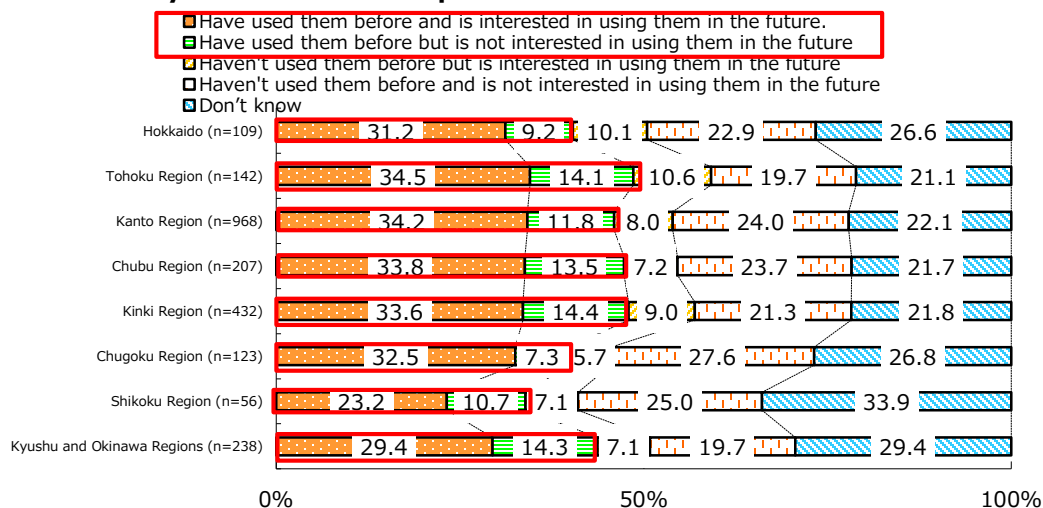
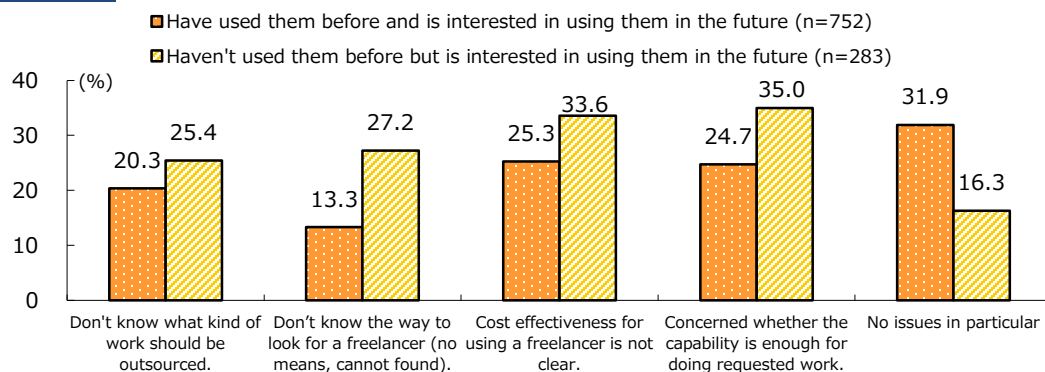


Fig.2 Issues and concerns of those who use freelance style



**[Case] Vegital Co., Ltd
(Maebashi City, Gunma Prefecture)**

A company which grows using the diversity of knowledge of external experts to solve management problems.

- Vegital (1 employee and 3 million yen in capital) is a company which produces and sells soups for pregnant women.
- The owner had been interested in establishing a company while being employed, and decided to **establish a side business as he thought there was a high risk in quitting his full-time job without having management know-how.** Four years after establishment, he incorporated the company and changed it to his main form of employment.
- At the beginning, he operated a mobile soup shop. However, he realized the dietary needs of pregnant women and started to develop products to meet this demand. After six months, he was able to make a product switch but faced an issue with sales.
- **Using the Spot Consulting Service***, he consulted two sales experts, one engaged in sales and the other a company in owner in a different industry.
- He successfully found a solution for addressing the sales issue by **learning industry know-how.**



Maternity soup

*Used Visasq, a platform that matches business persons in a wide range of types and conditions of businesses with clients to provide a spot consulting service as freelance and side businesses.

* Fig.1: Calculated by regional categories under the jurisdiction of the Ministry of Economy, Trade and Industry, Fig.2: Only major items are shown.
(Source) "Survey of business owners on entry into a new business in SMEs and small enterprises" (Mitsubishi UFJ Research and Consulting Co., Ltd.) (December 2018)

- In some cases, owners establish a business as a side business and later change it to their main business. It is important to **promote the establishment of business as a side business as a form of business establishment.**

Fig.1 Percentage of entrepreneurs who established a business as a side business and later changed it to their main business

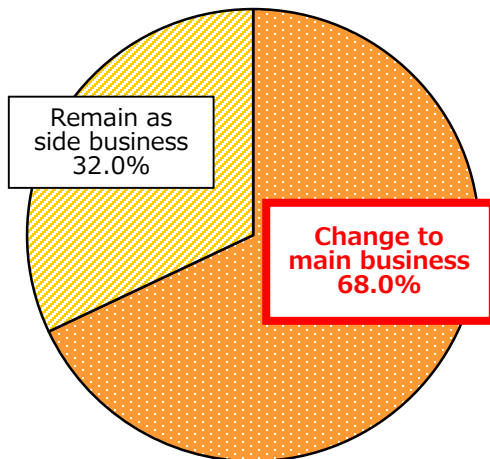
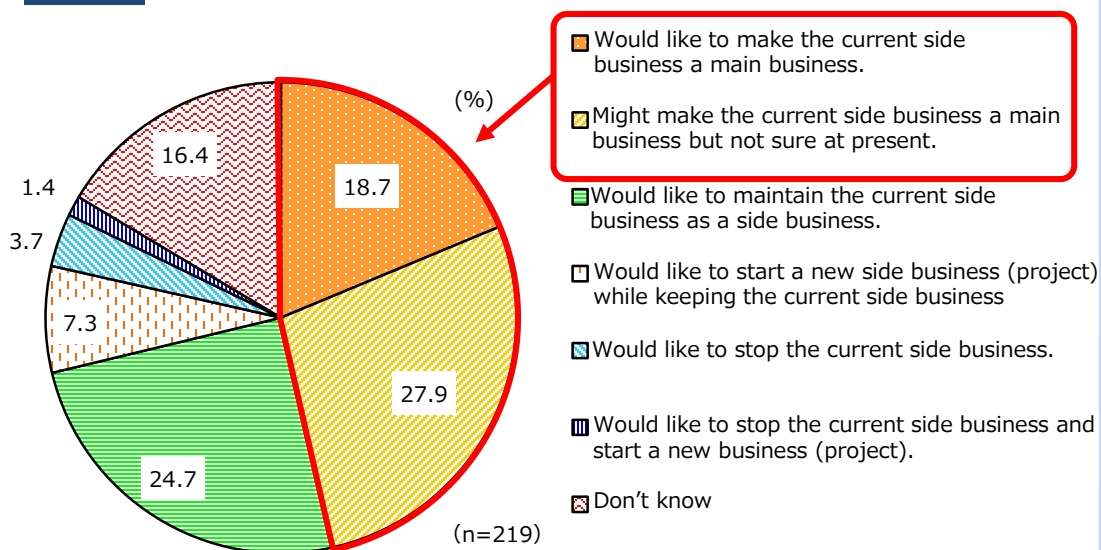


Fig.2 Future intention concerning side business



[Case] Butterflyboard Inc. (Yokohama City, Kanagawa Prefecture)

A company which has continued steady success in product development, which began as a side business, and changed it to the main business

- Butterflyboard (no employees and 5 million yen in capital) is a company which develops, produces and sells white boards with features of mobility and expandability.
- Mr.Fukushima, the company president, thought that he "wanted a white board which can be used anywhere" while working as an acoustic device maker. He **started to develop products as a side business using his free time after work and on weekends.**
- He confronted many difficulties during the development, but he has improved products based on opinions of customers by using cloud funding in and outside the country. He has then **gained confidence in establishing a company and decided to make it his main business.**
- "Even an ordinary salaryman like myself can realize what he wants to do," Fukushima says.



Butterflyboard, the company's signature product



Image of using the product

(Source) "Survey of business owners on entry into a new business in SMEs and small enterprises" (Mitsubishi UFJ Research and Consulting Co., Ltd.) (December 2018)

Necessary actions by business owners of SMEs

First, we analyze the "**response to structural changes**" such as population decrease, digitalization and globalization as an environment surrounding SMEs and small enterprises. Then, we consider "**expected roles**" of SMEs and small enterprises and their relationship with stakeholders that support the success of SMEs. Furthermore, we consider "**disaster prevention and reduction measures**" as an example.

Population decrease

- The most significant structural issue which Japan is facing is population decrease.
- **Labor productivity of SMEs has a strong relationship with the population density of a company's location.**

Fig.1 Labor productivity by ranking of population density in inhabitable land areas (manufacturing)

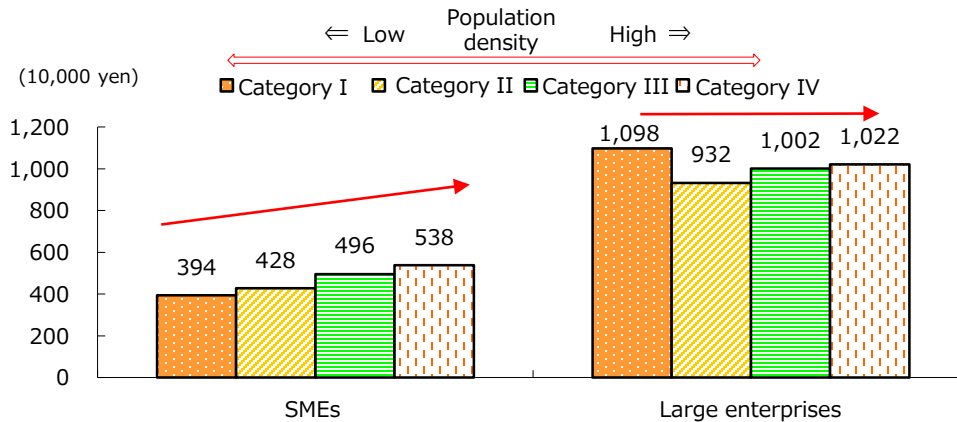
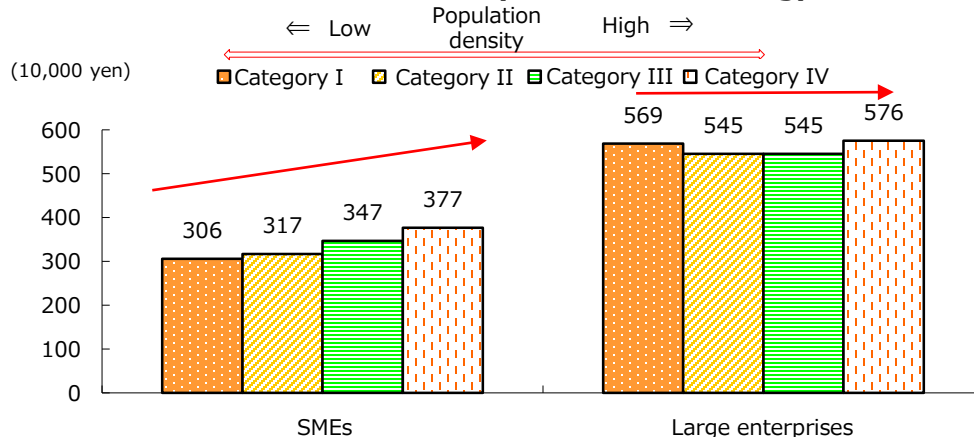


Fig.2 Labor productivity by ranking of population density in inhabitable land areas (non-manufacturing)



[Case] Supermarket Marumatsu Co., Ltd. (Yanagawa City, Fukuoka Prefecture)

A company which maintains the top rank in local share by improving convenience and acquiring regular customers in a management environment with decreasing population and emerging competitors.

- Marumatsu (24 employees and 25 million yen in capital) is a company which operates a community-based supermarket.
- Population in the area where the supermarket is located decreased by about 10% in 20 years and the company has been suffering from lack of staff. By realizing **accurate sales prediction and stock management using data**, the company has reduced work burdens.
- The company stopped advertising on flyers more than 20 years ago and attracted regular customers with a point card, which has led to the retention of customers.
- **In recent years, it has started pick-up/drop-off services for the elderly who are its main customers.** The relationship with the customers became stronger through communications exchanged in the service vehicles.
- By continuing these community-based efforts, the company has established the top rank in the share of the region.



Marumatsu Supermarket

* Population density was categorized in 4 ranks: Category I: lower than 25%, Category II: more than 25% and less than 50%, Category III: more than 50% and less than 75%, and Category IV: more than 75%.
 (Source) "2016 Economic Census - Survey of Corporate Activities" (Ministry of Internal Affairs and Communications, Ministry of Economy, Trade and Industry) (rearranged and processed), "2015 Population Census" and "2016 Form of Municipalities Seen in Statistics" (Ministry of Internal Affairs and Communications)

Digitalization (1)

- Connection with customers has increased through advanced digitalization. Free or reasonably priced social media (blogs and SNS) are expected to be used as new marketing tools.
- There are many chances to expand sales routes by effectively using EC (electronic commerce) even though demand in many commercial centers are decreasing.

Fig.1 Status of website opening

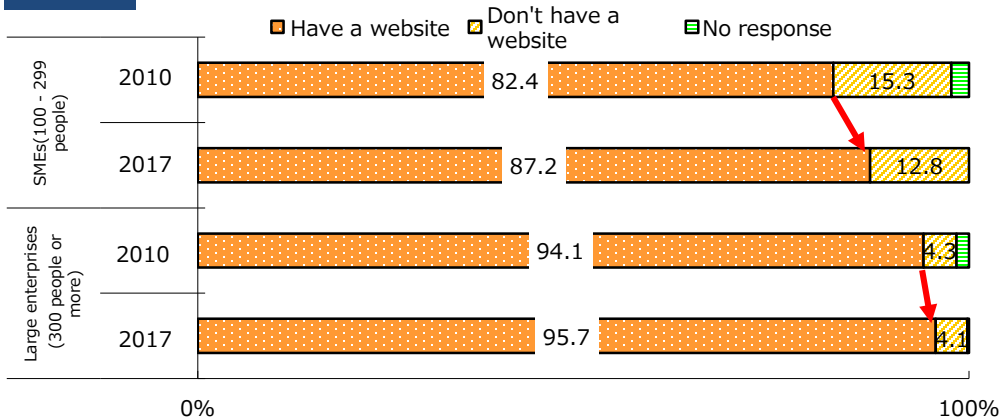


Fig.2 Status of using social media services

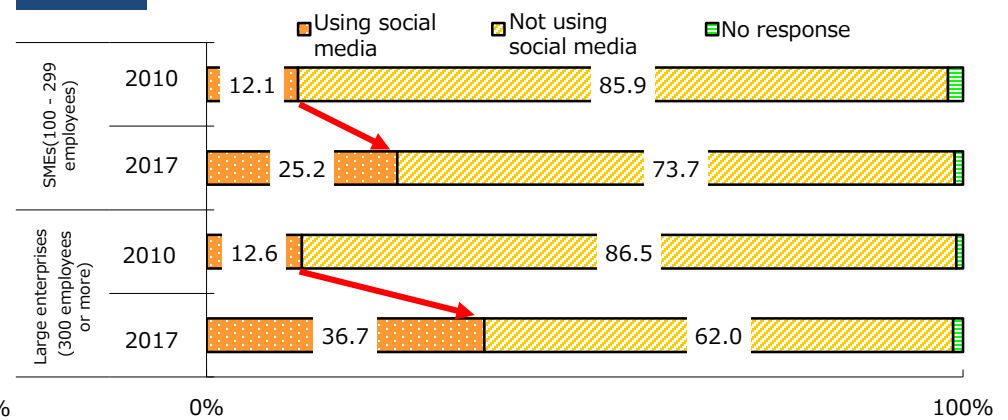


Fig.3 Status of using EC (2017)

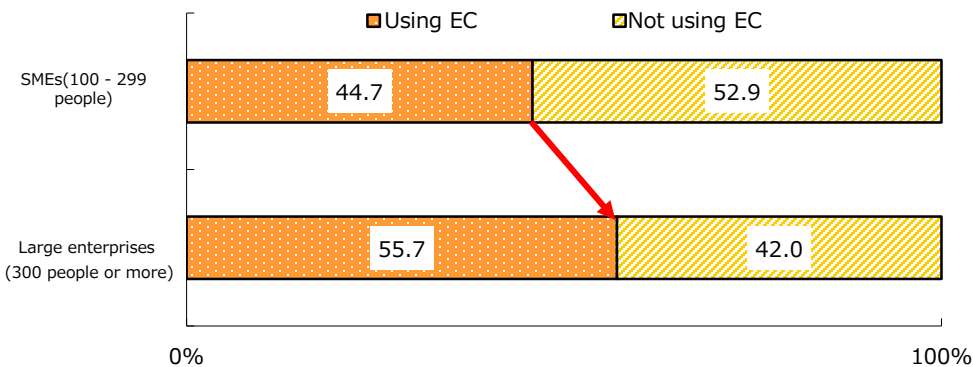
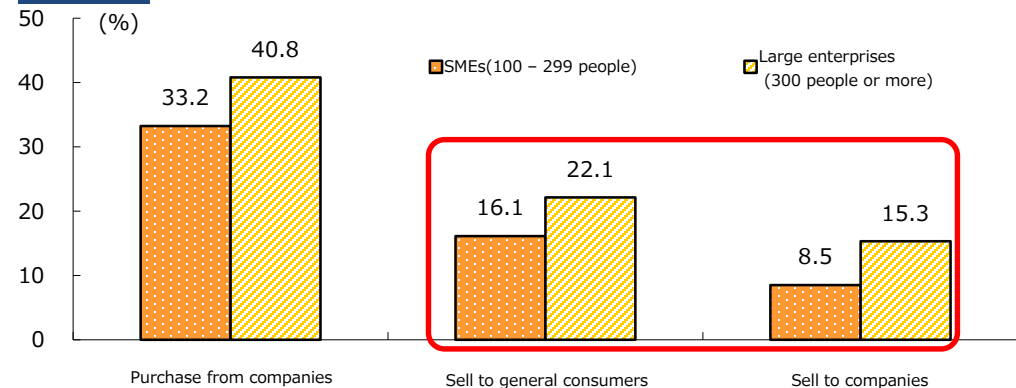


Fig.4 Purpose of EC used by enterprises (2017)



(Source) "Survey on Trends in Communications Use" (Ministry of Internal Affairs and Communications)

*The total of answers does not necessarily become 100% because multiple replies were allowed. Questions for those who responded that they "use EC."

Digitalization (2)

- IoT and AI are new technologies which have been drawing attention in recent years, but **SMEs are not motivated to introduce them.**
- The largest reason of not introducing IoT is that "business models after introduction are unclear."** It is important to consider first how IoT can be used for company management.

Fig.1 Status of introducing AI and IoT (2017)

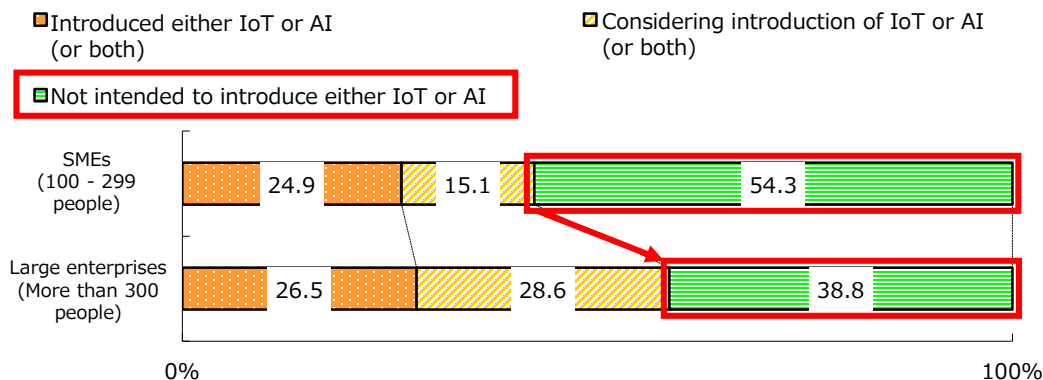
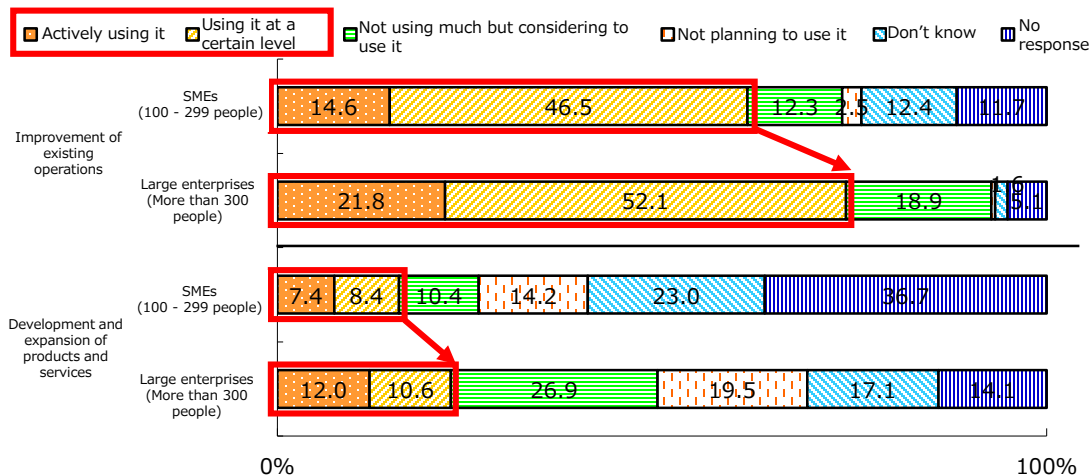


Fig.2 Status of using data collected and accumulated by IoT (2017)



[Case] Ebiya Co., Ltd.(Ise City, Mie Prefecture)

An enterprise that improved performance, motivation of employees and sales through data analysis by AI

- Ebiya Co., Ltd. (45 employees and 5 million yen in capital) is a company which has operated a restaurant for more than 100 years in front of the naiku (inner shrine) of Ise-Jingu Shrine.
- The company has been operating the business based on experience and intuition. As the company was unable to predict demands accurately, it has suffered food loss and fatigue of on-site employees.
- The current president who entered the company in 2012 set the "customer prediction" as a focused issue and **developed and introduced a system to accurately predict the number of customers from a vast amount of data using AI.**
- With this system, the accuracy of prediction of the number of customers by time and order predictions are more than 90% accurate, and it significantly reduced food loss from waste as well as the work burdens of employees.
- The **sales increased by 4 times** without increasing the number of employees and the company applied **the five-day workweek, long-term holiday system and salary increase.**



An employee who checks data.

*Questions for companies which responded that they have introduced IoT.

(Source) "Communications Usage Trend Survey, 2017" (Ministry of Internal Affairs and Communications)

Digitalization (3)

- Many new businesses emerged thanks to advanced digitalization.
- Emergence of **Sharing** and **Fintech** can play a supplemental role against management resources of SMEs.

[Case] Sharing Factory Co., Ltd. (Nagoya City, Aichi Prefecture)

A company that has solved equipment issues of small and medium sized manufacturers through sharing

- Sharing Factory (3 employees and 5 million yen in capital) is a company which provides a platform to share manufacturing equipment with small and medium sized manufacturers.
- In general, many manufacturers own their equipment. However, as the speed of technological innovation accelerates, there are many SMEs which are unable to invest in expensive equipments.
- The owner investigated the operating status of equipment in small factories, and found that many **SMEs own non-operating equipment**. At the same time, he also found that there were **companies with equipment needs** in the neighborhood, and made a plan for **a matching business to pair parties through sharing equipment and costs**.
- At present, more than 400 examples of equipment sharing, including machinery and measuring device, are registered in the company's platform and the number of matching cases is increasing as expected from the beginning of the service provision.



SERVICE
設備の稼働率が低い、もしくは遊休となっている機器も2つの手間で有効活用。



Services of the company

[Case] Maehara Koei Shoten Co., Ltd. (Taito Ward, Tokyo)

A company which linked new product development and customer development through cloud funding.

- Maehara Koei Shoten was established in 1948 and produces and sells high quality umbrellas.
- As umbrellas are the top item left on trains, the company developed an umbrella "which you can always track where it is" by attaching an IoT device. The company thought their umbrellas would be used by many people with this device.
- However, this new product was planned based on the assumption that there would be no sales. The company thus considered a way to develop and sell products in a way that would avoid as much risk as possible, and chose to use cloud funding.
- Cloud funding reduces the risk of having unsold products as people who would like to purchase products fund them, and the attractive point was for people to be able to check whether "the products are valuable for consumers" by seeing the status of funding.
- About 500,000 yen funding was collected during the 1 month sales period, which enabled the development and sales of new products. Issues in price and product design became clear, which can be reflected on the next new product development.



Product of the company

Globalization (1)

- In the past 30 years, the inflow of overseas products to domestic markets will increase considerably. Commissions of work to overseas are no longer for manufacturing processes only as internal indirect work has also shifted overseas. **Competitors are global, not just local in Japan.**

Fig.1 Changes in Japan imports by main product

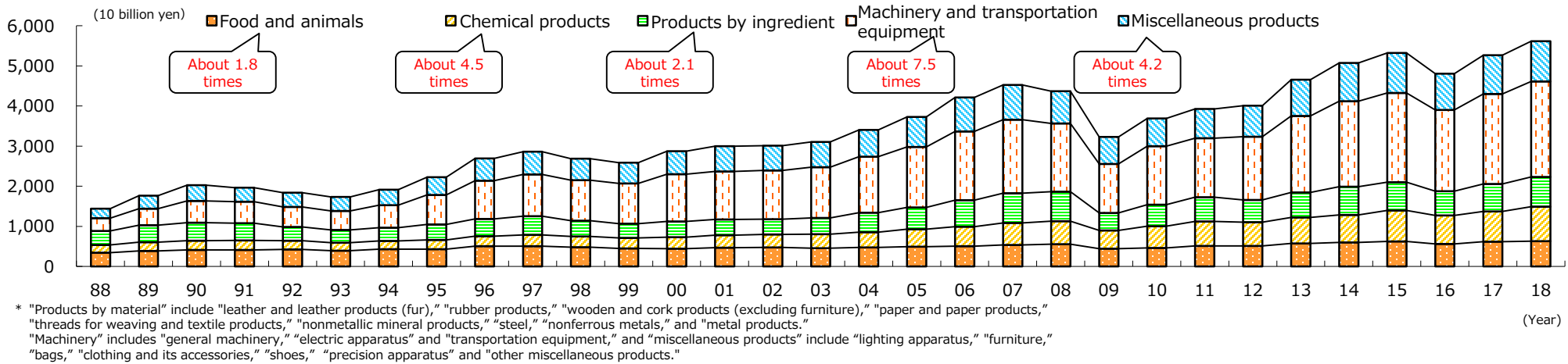


Fig.2 The percentage of companies which commission manufacturing operation overseas and commission value

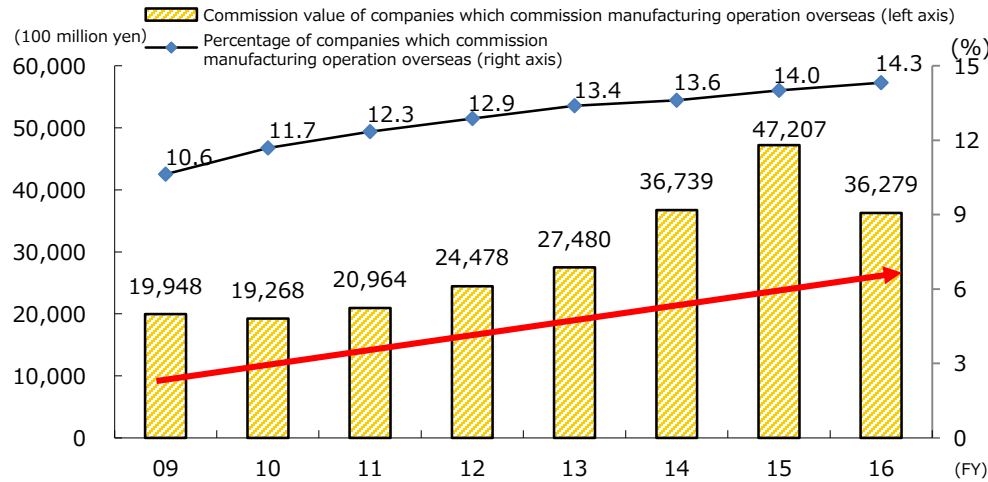
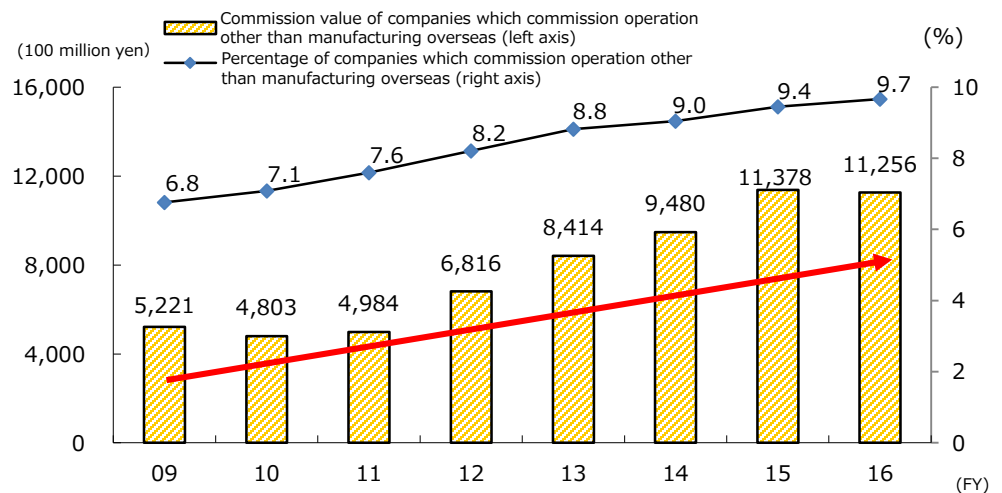


Fig.3 The percentage of companies which commission non-manufacturing operation overseas and commission value



* "The percentage of companies which commission manufacturing overseas" is the percentage of companies which commission manufacturing operation overseas out of those commission the operation in and outside the country.

Globalization (2)

- In the past 20 years, direct export and investment of SMEs has gradually increased.
- The growth rate is increasing significantly and the space for further expansion is large in rural areas compared with urban areas.

Fig.1 Ratio of enterprises implementing direct export

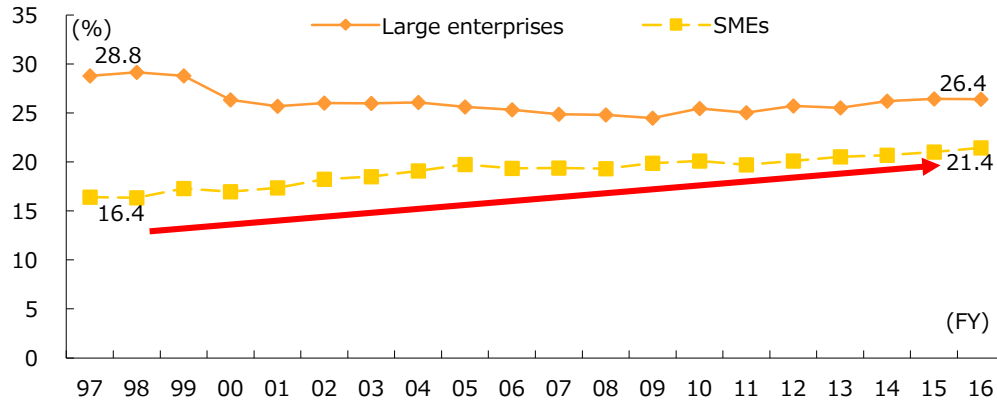


Fig.2 Ratio of enterprises which own overseas subsidiaries

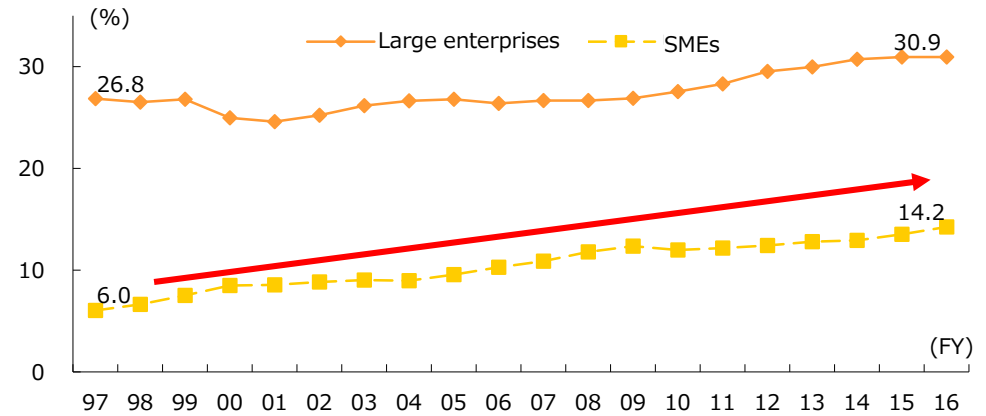


Fig.3 Number and ratio of SMEs implementing direct export by urban or rural area

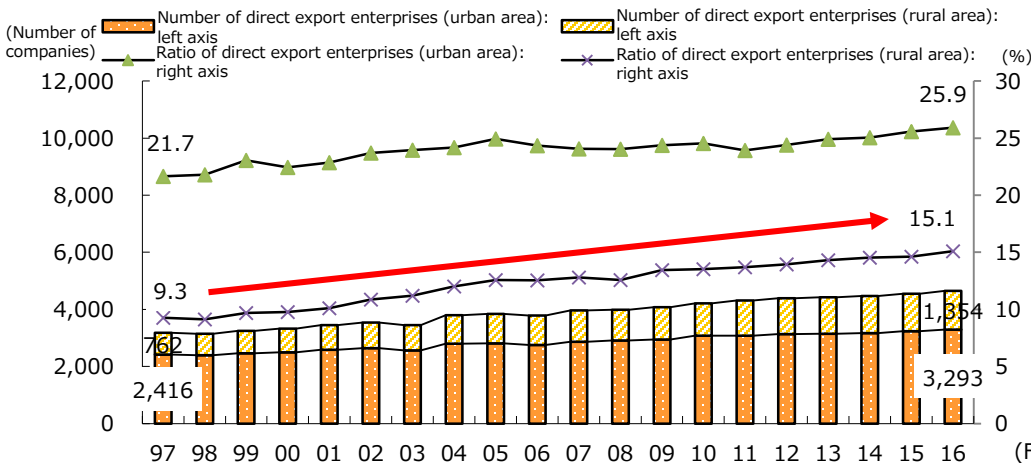
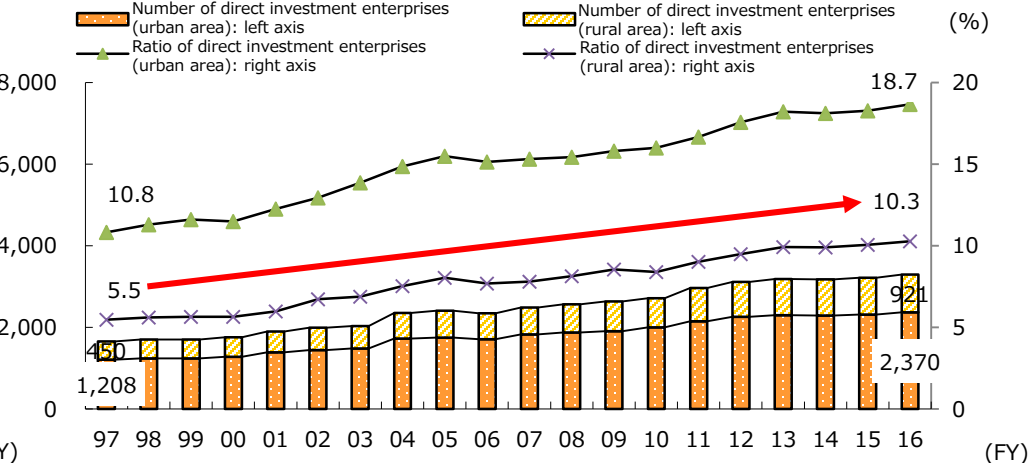


Fig.4 Number and ratio of SMEs implementing direct investment by urban or rural area



* "Urban areas" mean the Tokyo metropolitan area (Saitama, Chiba, Tokyo and Kanagawa), the Osaka metropolitan area (Kyoto, Osaka, Hyogo and Nara) and the Nagoya metropolitan area (Gifu, Aichi and Mie).
 * "Rural areas" mean prefectures other than the above.
 * "Ratio of direct investment enterprises" mean the ratio of enterprises which directly invest, in the total number of SMEs located in urban and rural areas.

(Source) "Basic Survey of Corporate Activities" (Ministry of Economy, Trade and Industry) (rearranged and processed)

Globalization (3)

- As a way to bring in overseas demands, considering inbound tourists, which has been increasing in recent years, is one of the important opportunities in domestic markets that are expected to shrink.
- Growth rates in rural areas are high in the number of overseas guests who stayed at accommodation facilities.

Fig.1 Number and travel spending of foreign visitors to Japan

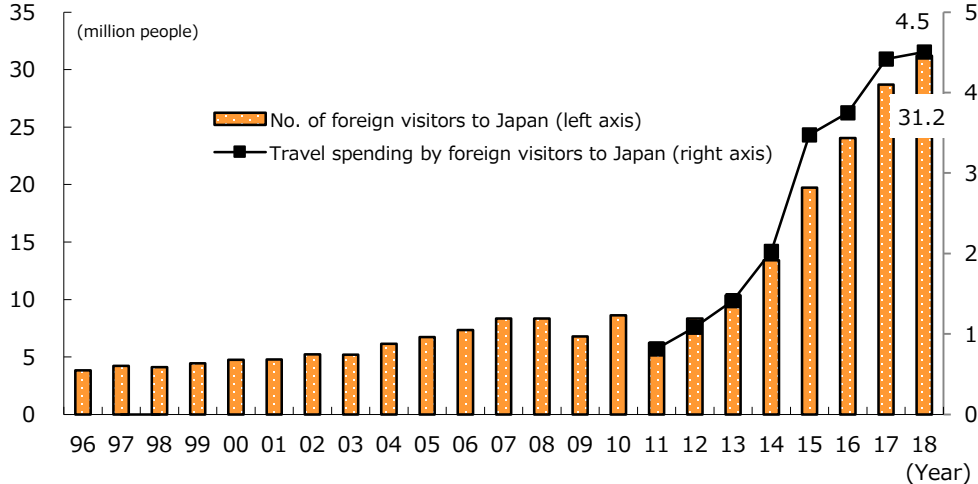
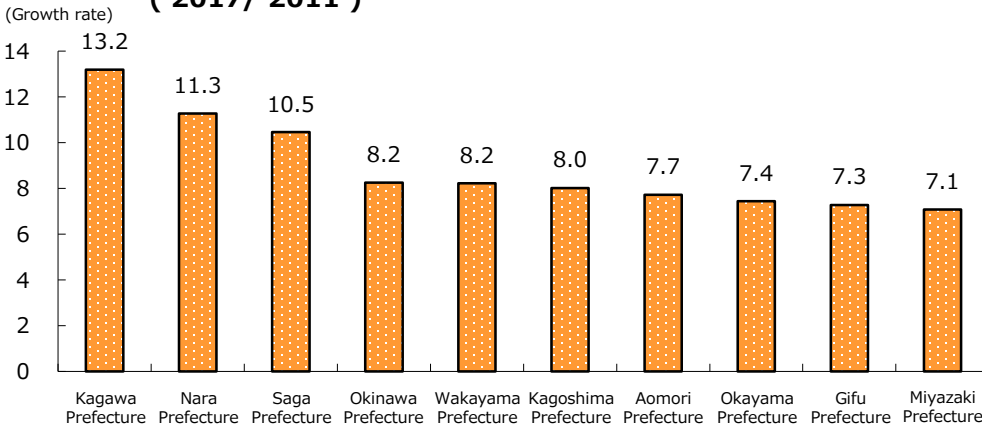


Fig.2 Changes in the number of overseas guests who stayed at accommodation facilities by prefecture (magnification) (2017/2011)



[Case] Umemori Co., Ltd. (Nara City, Nara Prefecture)

A company which understands the needs of inbound tourists by providing "experience = intangible consumption."

- Umemori Headquarters (100 employees and 10 million yen in capital) is a company which runs a sushi workshop "Umemori Sushi School."
- It started the business as a round sushi restaurant in a rural area and has been providing sushi distribution services. Under the philosophy "bring happiness to people through eating," it decided to **provide "experience" of sushi making** and launched a sushi school in 2012.
- At first, it targeted local residents. The company then focused on increasing overseas tourists on their way to Todaiji Temple and **changed the main target to overseas tourists.**
- At the sushi school, overseas tourists can wear an authentic sushi chef uniform and experience sushi making so that **they feel like they are a real sushi master.** To enhance entertaining features, the managers speak Japanese to create an atmosphere of authenticity. The sushi school expanded to 4 facilities and **300,000 overseas visitors** have participated **in 5 years.**



Sushi School

Expected roles (position in the Small and Medium Enterprises Basic Act)

- It has been 20 years since 1999, when the Small and Medium Enterprises Basic Act was revised and the image of SMEs in the 21st century was first developed. That image has not changed considerably.
- However, **the expected roles of SMEs have changed as society has changed.** It is important for SMEs to reconsider their position and find their own roles in 21st century society.

Fig.1 Points of revision in the Small and Medium Enterprises Basic Act (1999 revision)

	Small and Medium Enterprises Basic Act (before revision)	Small and Medium Enterprises Basic Act (after revision)
Political philosophy	○ "Correction of difference"	○ Provide training and support for diverse and active SMEs (Differences as a result are accepted)
Political goal	○ Productivity improvement (Sophistication of structure in SMEs) ○ Improvement of business conditions (Correction of disadvantages in business activities)	○ Promotion of management reform and establishment of business ○ Strengthening of management platforms ○ Streamlining the adaptation to economic and social environmental changes (*Voluntary efforts of independent SMEs are assumed)

Fig.2 Points of revision in the Small and Medium Enterprises Basic Act (1999 revision)

	Image of SMEs in the 21st century
(1)	Nursery of market competition
(2)	Innovators (Provision of diverse finance and services, formation of new relationships for the division of labor)
(3)	Providers of attractive working opportunities
(4)	Developers of local economies and communities

Fig.3 Expected roles of future SMEs (from four viewpoints)

	"Roles" of SMEs
(1)	Role of leading Japan's economy
(2)	Role of supporting supply chains
(3)	Role of revitalizing local economy
(4)	Role of supporting local life and communities

Expected Roles (leading Japan's economy)

- Research and development to create new finance and services are important under conditions where the decrease of international competitiveness is concerned.
- **SMEs are attractive partners for large enterprises.** Supplement the company's management resources through collaboration with other enterprises and research and development can further enhance competitiveness of SMEs.

Fig.1 Changes in sales to research and development expenses

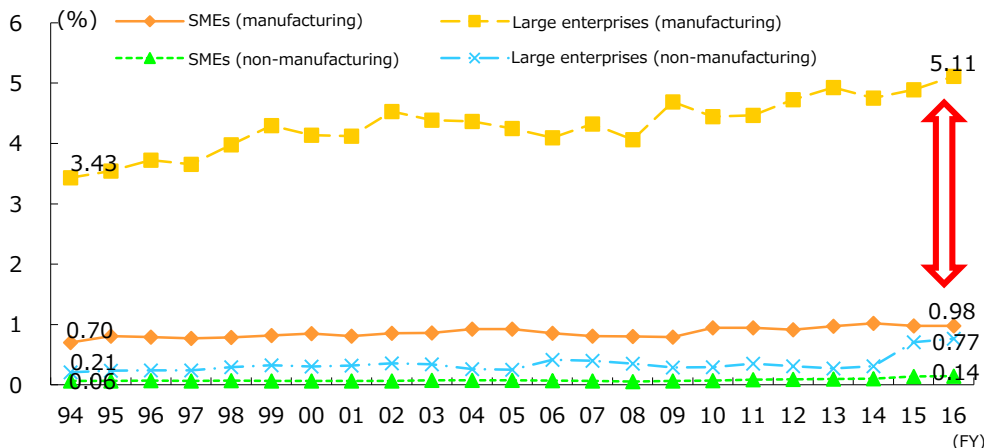
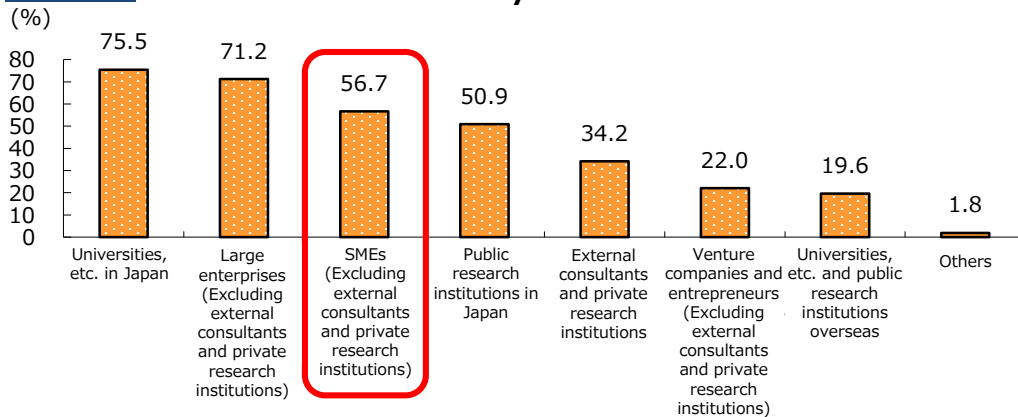


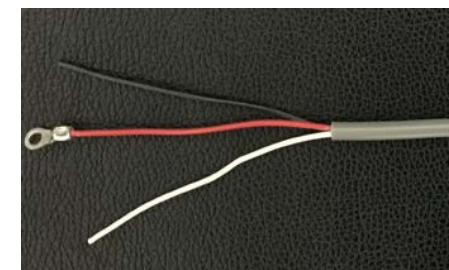
Fig.2 External partners of enterprises with a capital of more than 100 million yen .



[Case] HCI Co., Ltd. (Izumiotsu City, Osaka Prefecture)

A company which realizes open innovation to solve problems of large enterprises using a unique technology

- HCI (48 employees and 20 million yen in capital) is a company which produces and sells cable wire manufacturing devices and provides robot system Sier services.
- The company had a unique technology of stably twisting extremely thin cables used for mobile phones.
- Mitsubishi Electric Corporation, a major electric appliance maker, has been developing a robot system which produces wire harnesses. **Handling of soft cables was difficult, however, and the system didn't reach the adequate accuracy for practical application.**
- HCI, which has been producing a system with a robot of Mitsubishi Electric, **developed a "multiple conductor wire harness auto-manufacturing robot system" using its own technology** and put it into practice.
- With this performance, the relationship between the company and Mitsubishi Electric became stronger and they are currently collaborating to develop a new system and enhancing technologies of AI systems.



Wire harness of the company

* Companies which responded that they collaborated with other organizations in research activities from fiscal 2014 to 2016 were asked to answer if they collaborated for each type of organization in "yes" or "no."

(Source) Fig.1: "Basic Survey of Corporate Activities" (Ministry of Economy, Trade and Industry) (rearranged and processed), Fig.2: "2017 Report on Survey on Research and Development by Private Companies" (National Institute of Science and Technology Policy, Ministry of Education, Culture, Sports, Science and Technology)

Expected Roles (supporting supply chains 1)

- "Manufacturing" is Japan's field of expertise and it largely depends on SMEs which build supply chains.
- Changes in transaction levels in the manufacturing industry in the past 10 years were analyzed.
- **No significant changes were seen as a whole.**

Fig.1 Levels of transaction structure in manufacturing industry (configuration ratio)

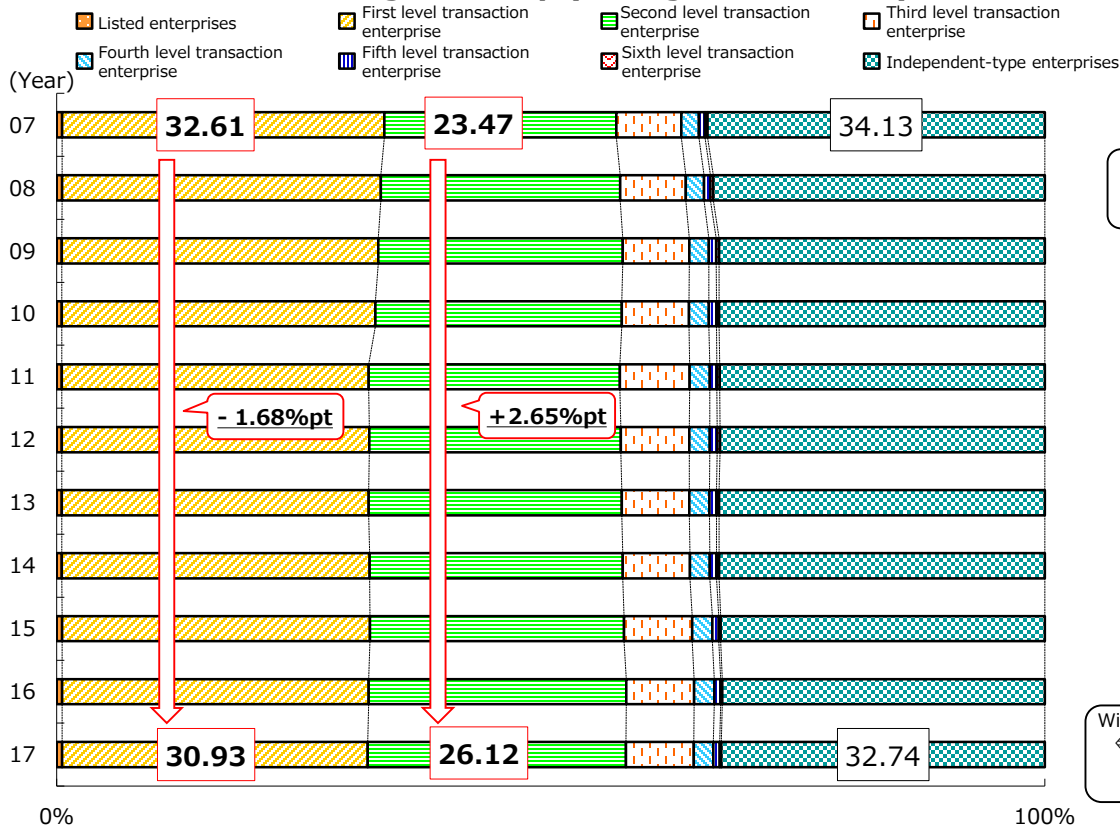
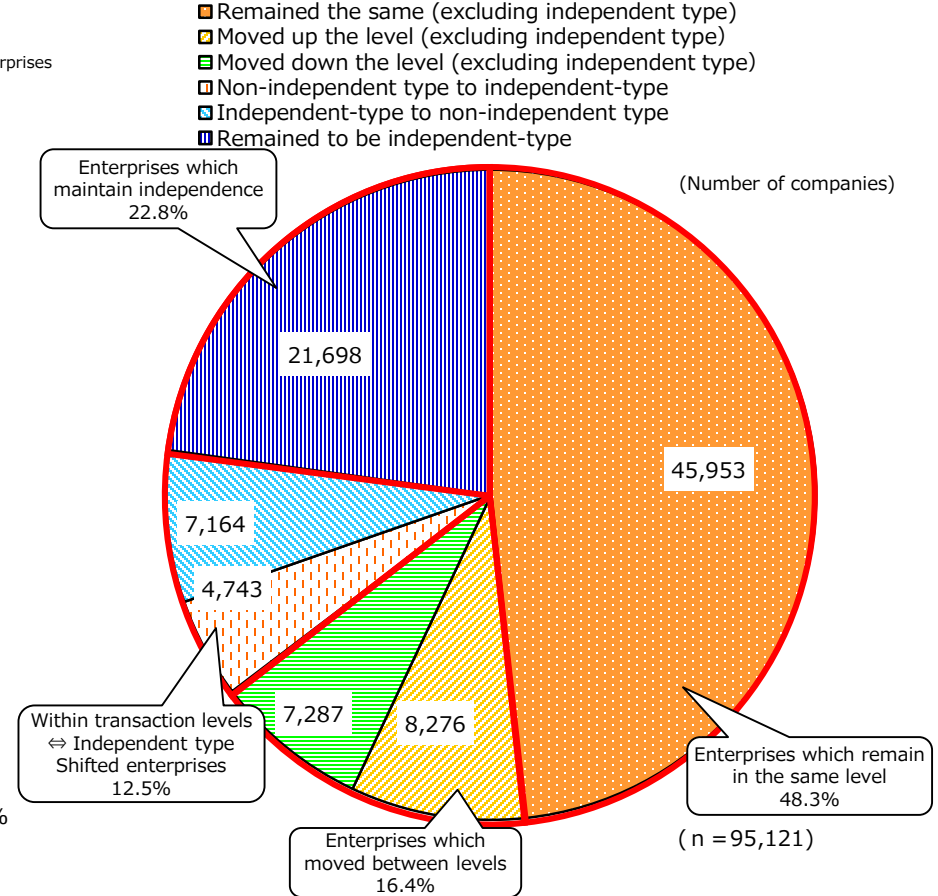


Fig.2 Changes in transaction levels in 2007 and 2017



* Whether there is transaction relationship or not is decided from suppliers and clients of companies in the manufacturing industry listed in the "Corporate Correlation File."
 * "Listed enterprises" here mean enterprises in the manufacturing industry which are listed on the First Section of the Tokyo Stock Exchange.
 * "n transaction enterprises" here mean the number of top enterprises in business relations above listed enterprises.
 * "Independent-type enterprises" here mean enterprises in the manufacturing industry which were not categorized between listed enterprises and the 6th level transaction enterprises.

Expected Roles (supporting supply chains 2)

- Changes in financial index in-between 2007 and 2017 were analyzed by type of level change.
- **In general, enterprises which changed their position have high performance compared to those which haven't changed.**

Fig.1 Sales comparison (median value) in 6 category types

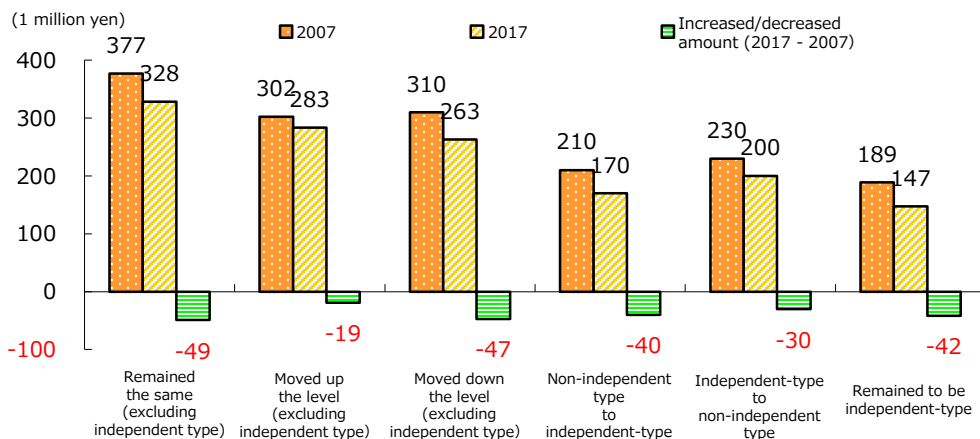


Fig.2 Comparison of company profit (median value) in 6 category types

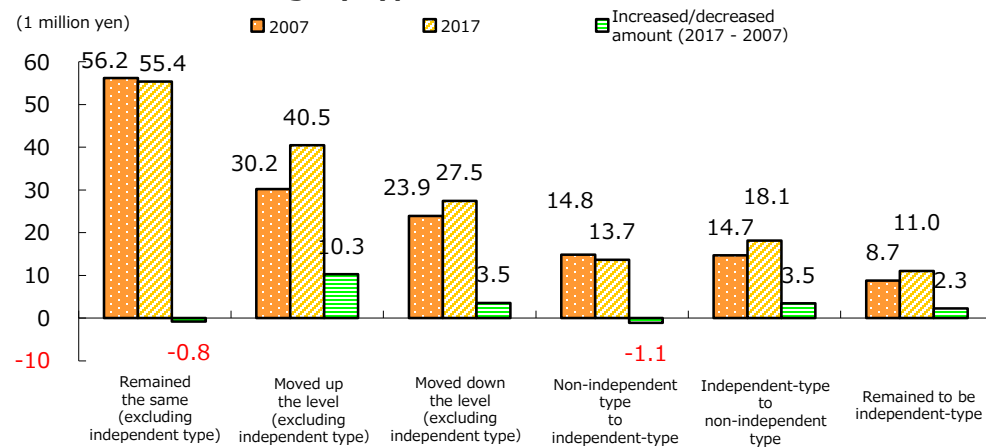


Fig.3 Comparison of operating profit on sales (median value) in 6 category types

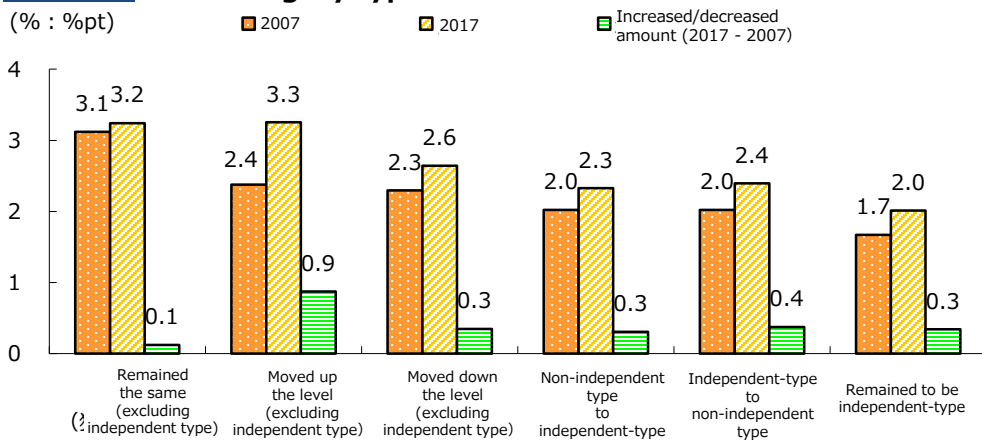
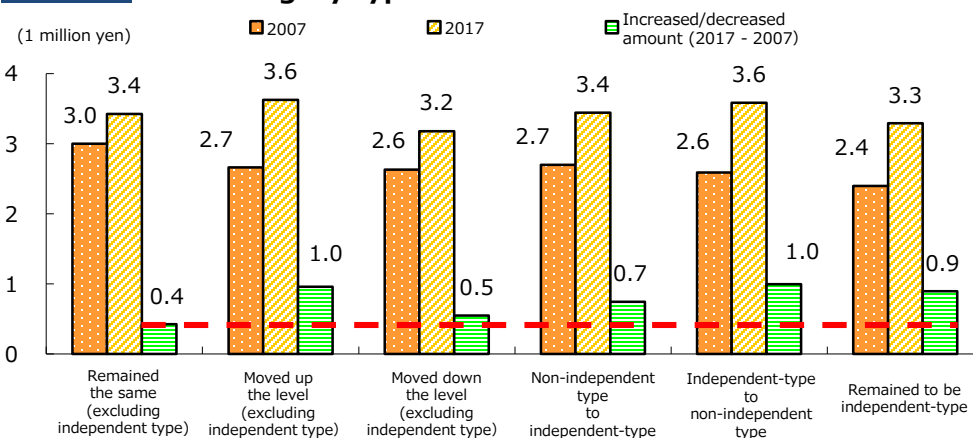


Fig.4 Comparison of labor productivity (median value) in 6 category types



* Fig.1 - 4 : Limited to enterprises whose data is found in 2007 and 2017.

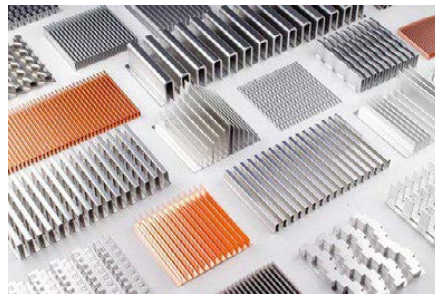
* Fig.4: "Labor productivity" = "Added value ÷ number of employees" "Added value" = "Company profit + depreciation + rent + taxes and public dues + labor costs"

Expected Roles (supporting supply chains 3)

[Case] Saijo Inx Co., Ltd. (Kyoto City, Kyoto Prefecture)

A company which established its position in supply chains by changing from "contract type" to "proposal type"

- Saijo Inx (103 employees and 46 million yen in capital) is a company which manufactures electric/electronic parts and thin sheet metal processed products.
- Since its establishment, the company has expanded performance well with large domestic electric apparatus and parts makers as clients. However, after a significant fall in orders when the Lehman Shock occurred, it **realized the limitations of the "contract type" business model**, which manufacture by orders from clients.
- While seeking a new business model, the company realized that the "sample manufacturing" which clients order is an opportunity to know "new developed products" of the client. It then aimed at **shifting to a "proposal type" business model that manufactures key parts necessary for the new products**.
- There were challenges such as the difficulty of budget estimation and stock risk. However, the point that the company can **decide the price** depending on added value was attractive.
- Developed production systems such as introducing production equipment and changed the business model. As a result, business opportunities increased, receiving inquiries from heavy industry, automobile and power generator makers with which the company previously had no transactions.

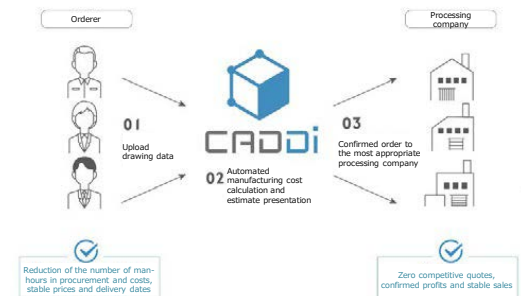


Fin products, the company's representative key parts

[Case] CADDi Inc. (Sumida Ward, Tokyo)

A company which makes complicated budget estimates for procurement highly efficient using an innovative ordering system

- CADDi (30 employees and 190 million yen in capital) is a company which matches various metal processed products using AI technology.
- In general, presidents of small factories are busy with making an estimate for every order but 80% of orders are lost, which is a significant burden for them.
- The company's system takes metal processing small factories as partners and **build production commission with fixed prices**. It provides **appropriate matching of the orderer with a small factory depending on the needs** and takes confirmed orders.
- With this system, **small factories as partners can be released from the huge burden of making estimates and acquire stable orders throughout the year**.
- At the same time, **orderers** are introduced the most appropriate company with the most profitable costs from partner companies. Then, **as prices are fixed, there is no need to obtain competitive quotes** and the most appropriate matching can be done by AI. Therefore, estimates can be presented within a day in principle and in 7 seconds at shortest.



Structure of CADDi

Expected Roles (revitalizing local economy)

- **Effective use of "local resources" is expected to revitalize local economy.**
- However, under a changing economic environment and industrial structure, **the number of enterprises and shipping amount of "local industries" using local resources are decreasing in many fields.**

Fig.1 Number of production companies in local representative industry (commodity)

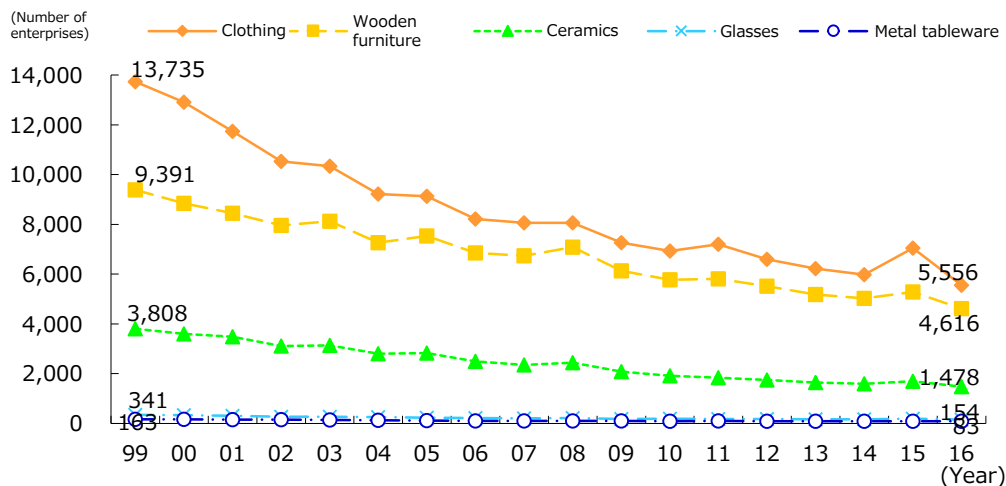


Fig.2 Number of production companies in local representative industry (food and beverages)

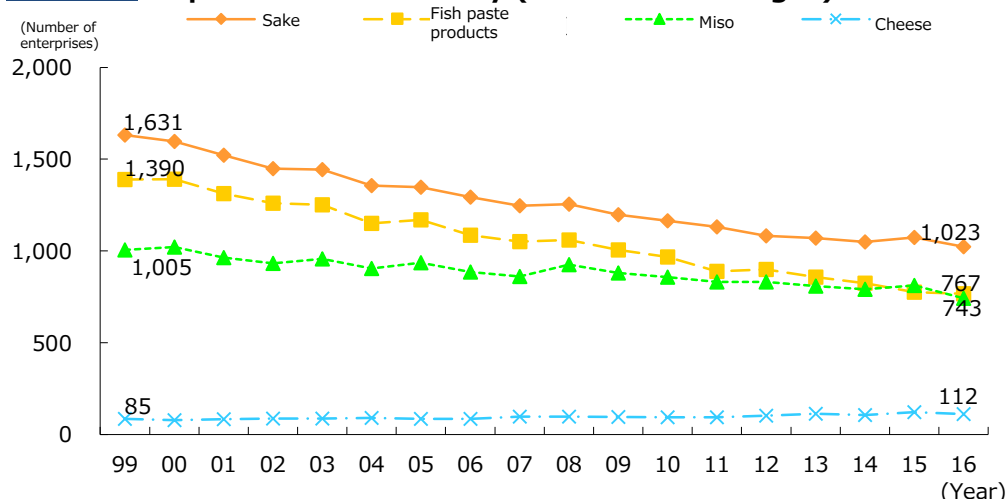


Fig.3 Shipment amount in local representative industry (commodity)

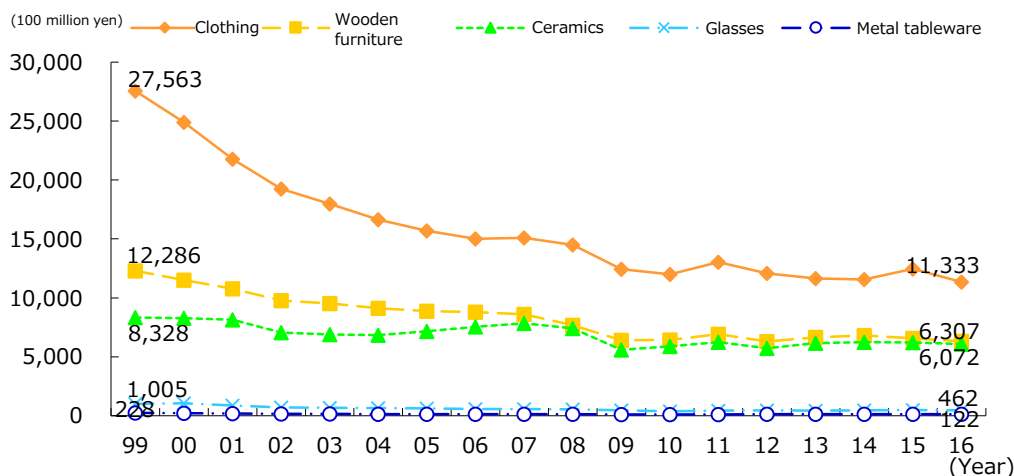
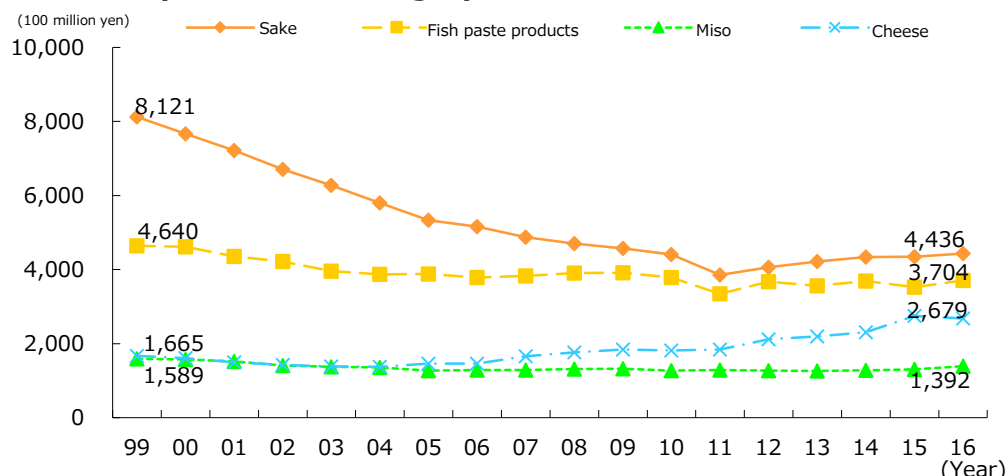


Fig.4 Shipment amount in local representative industry (food and beverages)



(Source) "Census of Manufactures" (Ministry of Economy, Trade and Industry) (rearranged and processed)

Expected Roles (revitalizing local economy)

- It is important to expand sales routes including overseas and develop products that matches the needs of the market in order to maintain and develop local produce.

[Case] Takazawa Shoten Co., Ltd. (Nanao City, Ishikawa Prefecture)

A company that is targeting overseas development using advantages of local produce

- Takazawa Shoten (27 employees and 10 million yen in capital) is a company which manufactures Buddhist service items such as Japanese candles and incense.
- The company has expanded its operation capacity during the high economic growth period and maintained the top share in Japanese candles in Japan to date.
- However, the president, concerned about the risk of long-term decreasing demand for Japanese candles as the population in Japan has been falling, has sought new growth opportunities for Japanese candles.
- He received a request to participate in a trade fair in Paris from the Ishikawa Prefectural government and decided to sell products **overseas to find out the value of Japanese candles.**
- As a result, he discovered that Japanese candles which are made from plant-based ingredients are highly valued internationally and felt assured of the potential of entering overseas markets.
- **"Japanese Candle Nanao," which is designed to appeal the image of using plant-based ingredients, was developed** as a new product to satisfy overseas needs and the company is expanding overseas sales routes.



Japanese candles of the company

[Case] Community Trading Company Yamaguchi Co., Ltd. (Shimonoseki City, Yamaguchi Prefecture)

A community trading company established by a local bank which supports sales route expansion of local products

- Community Trading Company Yamaguchi (9 employees and 50 million yen in capital) is a company which was established based on the comprehensive partnership agreement on regional revitalization led by Yamaguchi Prefecture and Yamaguchi Financial Group.
- The company owns general trading functions which contribute to the sales route expansion of products in the prefecture and provides **guidance on quality management and marketing support.** It provides generous support for local product makers which are striving for sales route expansion.
- The company **purchases all of the carefully selected products in the prefecture as "Yamaguchi 3-Star Selections" and sells them in the metropolitan area.**
- The product candidates for "Yamaguchi 3-Star Selections" are chosen from the public by Yamaguchi Prefecture and decided by judges including buyers from the metropolitan area from the viewpoint of "care and story behind the product and the use of ingredients made in Yamaguchi Prefecture."
- When a product was approved as a product development candidate, **two thirds of the research and development expenses are subsidized by the prefecture** with a limit of 1.5 million yen per company to **develop the product in cooperation with the company and a maker.**
- At present, 16 companies and 34 items are sold as "Yamaguchi 3-Star Selections."

Expected Roles (supporting local life and communities)

- As the population decreases, it is urgently important to maintain the living community in depopulated areas.
- **It is necessary to create a more efficient system and encourage efforts of local residents.**

[Case] Cosmos Berry's Co., Ltd. (Nagoya City, Aichi Prefecture)

A company which promotes new network management (local platform) by local retail and service enterprises

- Cosmos Berry's (73 employees and 100 million yen in capital) is a company which promotes new network management by local small and medium retail and service enterprises.
- Retail and service industries are business models which tend to depend on local demands. However, there is a concern over local demands especially in rural areas due to the decreasing birthrate and aging of the population and depopulation.
- Under these environmental changes, the company proposed "format store" as a new model of community-based small and medium retail and service industries.
- This model **builds a collaborative relationship (local platform), not a contractor-subcontractor relationship, through the horizontal division of labor between several different industries in the area with a member as a leader.**
- Specifically, it is a model whereby the company receives notice of a need by a customer and then introduces a partner company that can fulfill that need. It is a one-stop system in which **local residents can solve issues in life at the first place of inquiry and partner companies can share customers' needs between them to identify demands.**
- This system has been spreading nationwide since 2014, and there are 5 cases in Yamagata, Chiba, Nagano, Kagawa and Fukuoka prefectures as of the end of February 2019.

[Case] Limited Liability Company Aba Village (Tsuyama City, Okayama Prefecture)

A company which was established by local residents to protect their livelihood.

- Aba Village (181 employees and 5.27 million yen in capital) is a company which was established by local residents and operates a shop handling a gas station and daily commodities for residents.
- In Aba Village, which was merged into Tsuyama City due to depopulation, local infrastructures continued to close one after another and a gas station which was needed by residents also had to shutdown.
- The autonomous committee comprising residents formed a policy of **establishing and managing the gas station by residents** and the company was established in 2014.
- The company has operated not only a gas station but a delivery-type supermarket in cooperation with Tsuyama Industry Support Center through partnership with a local supermarket for people who have difficulty in going shopping.
- The support period of the center will end in March 2019. Therefore, to maintain people's livelihood, the company took over the project as a mobile supermarket after reviewing the profitability.
- Products are sold at prices 20% - 30% more expensive than normal prices in this model. However, there is a considerable advantage for the elderly who cannot use a car, and this model change was implemented with the consent of local residents. **It plays an important role as a foundation of local infrastructure.**

Recognizing risks of natural disasters

- **More than half of enterprises do not recognize risks** posed by of natural disasters to their companies.
- Hazard map is an effective tool to understand risks, but the number of enterprises which have checked risks remains less than half the total even if the company faces risk of damage by disasters.

Fig.1 Status of understanding the company's risks of natural disasters by number of employees

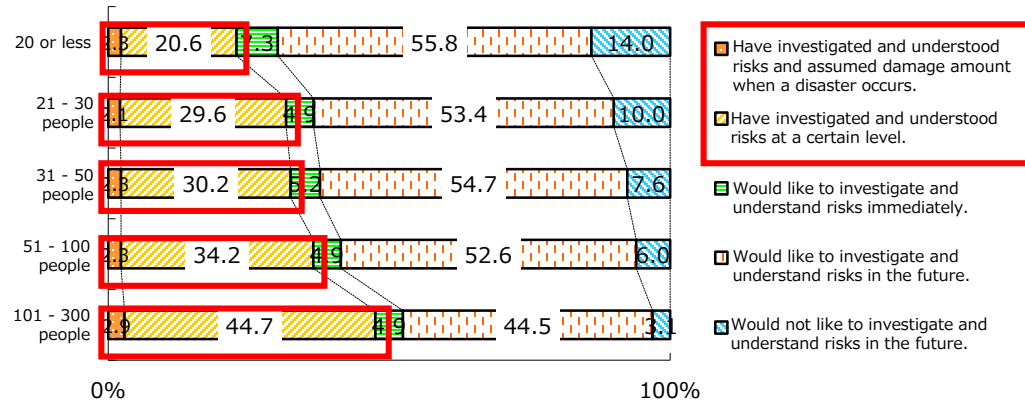
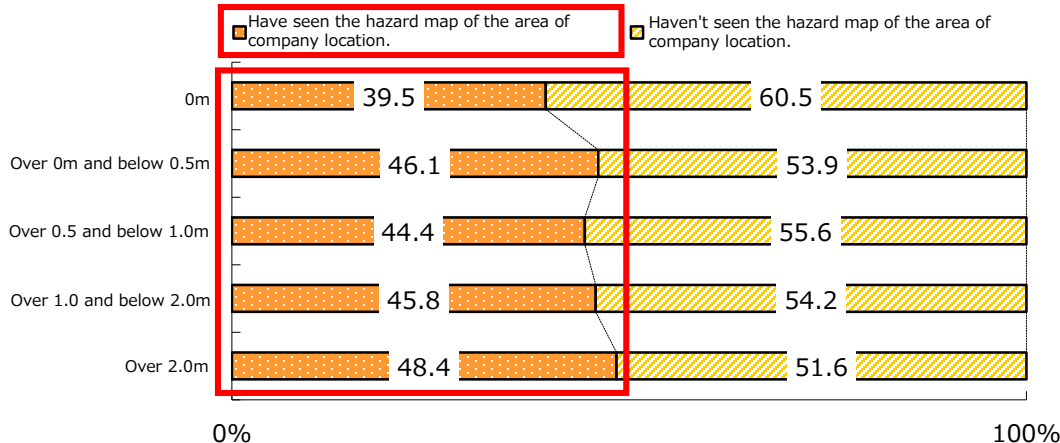


Fig.2 Status of checking the hazard map by inundation risk category of the company on the hazard map



[Case] Ikechanchi Dream Care Co., Ltd.
(Yaizu City, Shizuoka Prefecture)

A company which strives for ensuring the safety of users and employees through the relocation of businesses on the heights based on the hazard map.

- Ikechanchi Dream Care (40 employees and 4 million yen in capital) is a company which runs 17 care facilities.
- After seeing the tsunami damages from The Great East Japan Earthquake, the company worried about its disaster prevention system and started to take measures in advance.
- While doing this, the company **checked the hazard map of the area of company location and found that one of the facilities in Yaizu City is in an assumed tsunami and inundation disaster area.**
- The company thought that it was necessary to **relocate part of their facilities to high ground** to ensure the safety of users and employees in case of a disaster and to continue the business.
- The company increased the number of suppliers to provide services for users who are unable to move without having to evacuate when a disaster occurs.

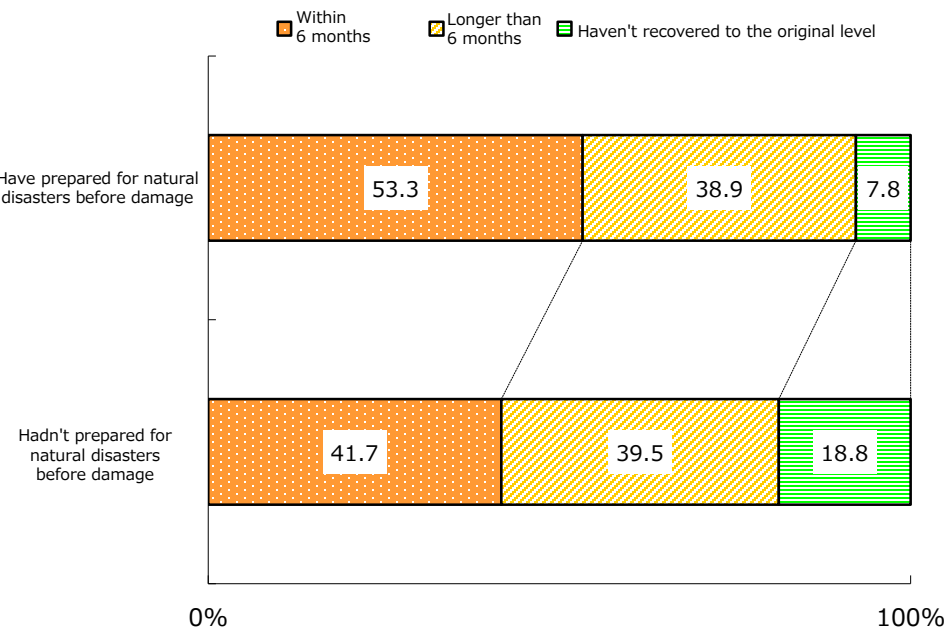


Facility which was relocated and built on a hill

Disaster prevention and reduction measure 1

- The more a company takes disaster prevention and reduction measures, the shorter it takes to recover sales.

Fig.1 The period it took to recover the fallen sales to the original level by presence of preparation for natural disasters before a disaster happened



(Note) Calculated for enterprises with 21 employees or more.

[Case] Marutaya Florist (Gero City, Gifu Prefecture)

A business which has started with a small disaster prevention measure through the lessons learned from disaster experience

- Marutaya Florist (4 employees, a private company) is a florist which has 2 shops managed by two generations.
- The florist took measures against disaster prevention after one of the shops was heavily damaged due to the flood of Hida River caused by the 1999 Typhoon No. 16.
- More specifically, the shop entrance was raised, automatic doors were installed to enhance the sealing degree of the entrance, a deodorizing ventilator was installed, and repositioning of cables and outlets of main electrical equipment was undertaken.
- A flood disaster was caused by torrential rains in July 2018, and the products on the shop floor were damaged. However, **products in the refrigerator for fresh flowers were not damaged as they were above the flood level and the main electrical equipment sustained no defects.**
- As a result, **on the following day of the disaster, the shop was opened and continued operation** although it required cleaning up.



Exterior of the shop



Refrigerator for fresh flowers



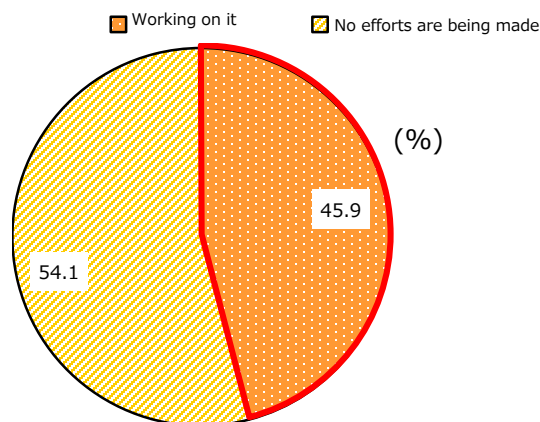
Electrical equipment placed in upper area

Disaster prevention and reduction measure 2

- **Efforts for the disaster prevention and reduction measures are not sufficient in many small-scale enterprises.**
- The largest number of enterprises said the reason was that they "didn't know where to start."

Fig.1 Percentage of enterprises which are working on specific preparations for natural disasters

(1) More than 20 employees



(2) 20 employees or less

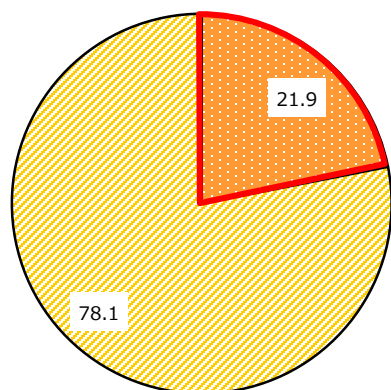
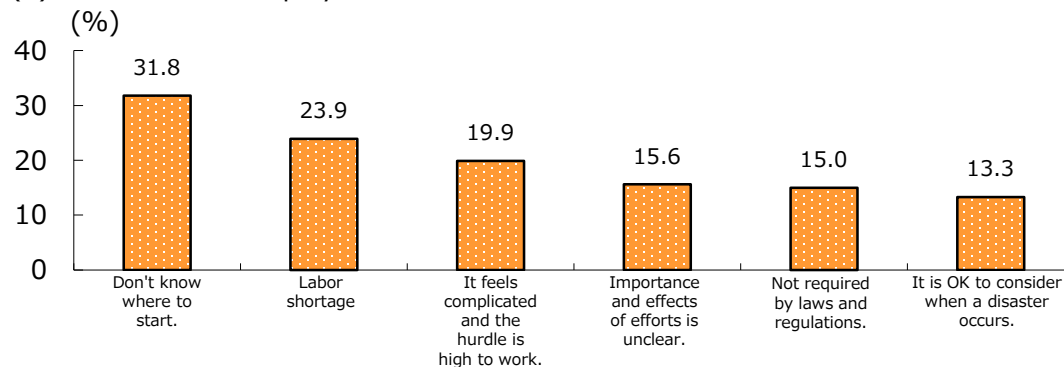
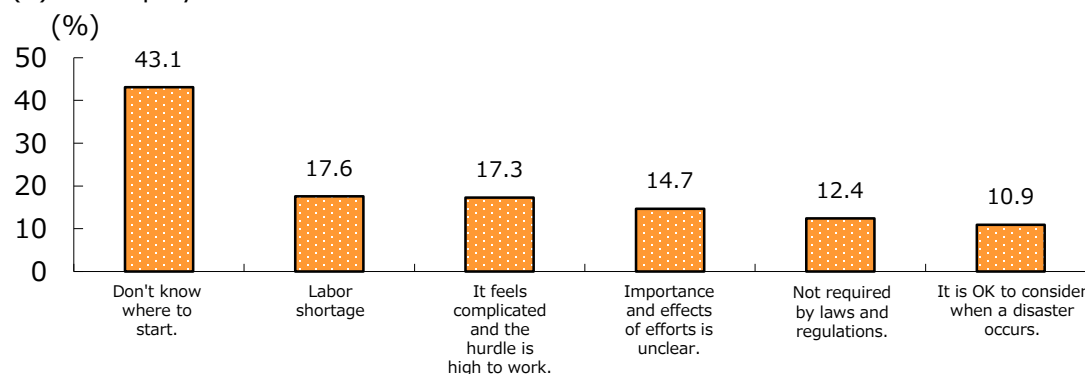


Fig.2 Reasons for not working on preparations for natural disasters

(1) More than 20 employees



(2) 20 employees or less



* The total of answers does not necessarily become 100% because multiple replies were allowed.

* Items with more than 10% response rate excluding "others" and "no specific reasons" are derived.

Formulation of BCP 1

- **The formulation rate of Business Continuity Plan (BCP) is less than 10% as a whole,** and there is room for further efforts.
- As encouragement by clients can push BCP formulations, a certain level of support is required for clients.

Fig.1 Status of BCP formulation by number of employees

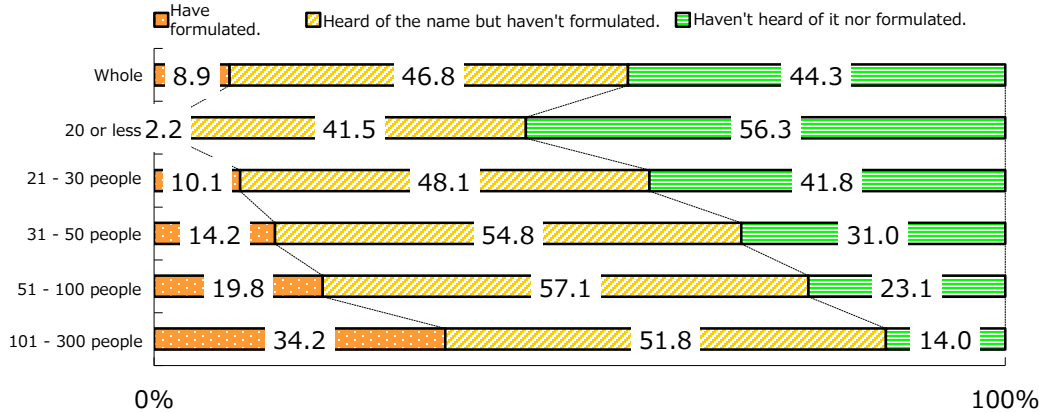
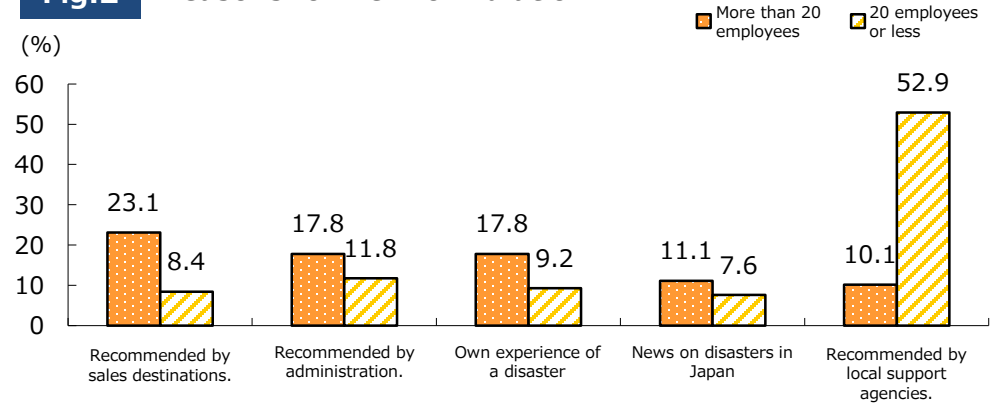


Fig.2 Reasons for BCP formulation



* The total of answers does not necessarily become 100% because multiple replies were allowed.
 * The top 5 items with higher response rate excluding "no specific reasons" and "others" are shown.

Fig.3 Status of BCP formulation by presence of clients' encouragement in subcontractor companies

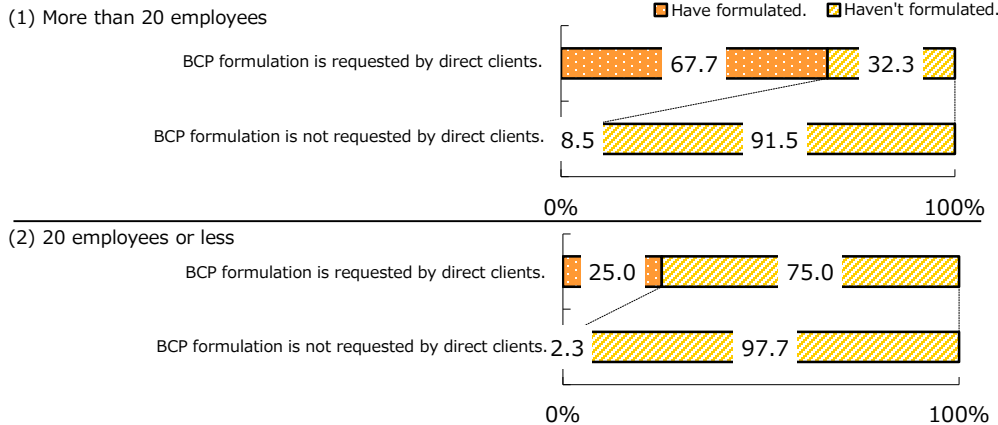
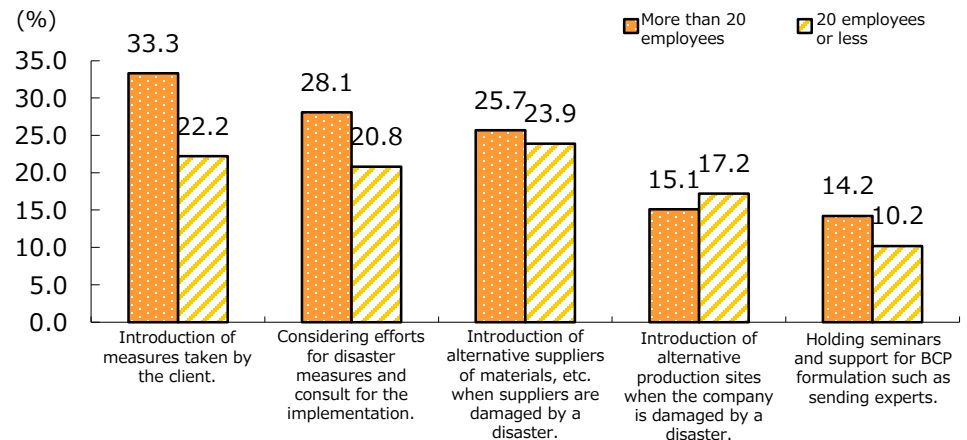


Fig.4 Subcontractor company expectations on disaster prevention measures for clients



Note) 1. Calculated for responses "a subcontractor" for the position in supply chains of major businesses.
 2. Responses on BCP "we know the name but we have not formulated" or "we haven't heard of the name nor formulated" are calculated as "businesses which have not formulated."

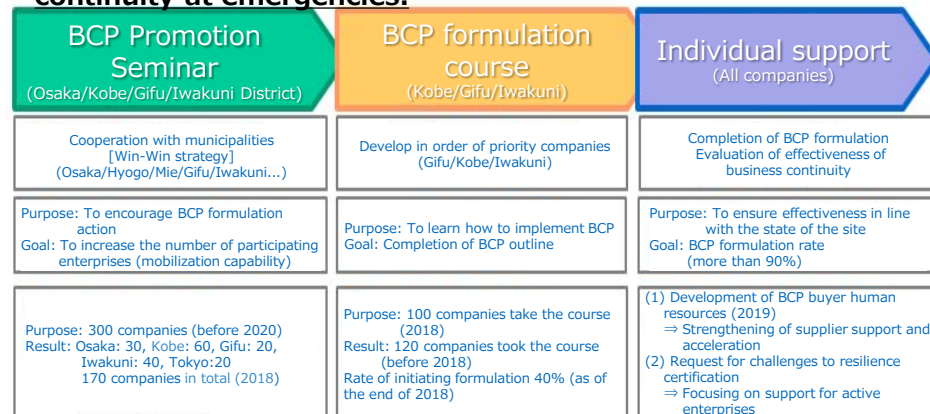
Formulation of BCP 2

- **Cooperation of related parties such as large enterprises and financial institutions is effective for the promotion of BCP.**

[Case] Nabtesco Co., Ltd. (Chiyoda Ward, Tokyo)

A large enterprise which strengthens the company's business continuity through strengthening clients' business continuity

- Nabtesco is a large enterprise which manufactures final products such as brake systems for railway vehicles and door opening/closing devices.
- As a result of checking whether BCP is formulated in 400 important suppliers, 300 suppliers have not formulated it. The company started **initiatives to encourage clients to take in-advance measures to strengthen business continuity.**
- It also signed partnership with prefectures where suppliers are located. The company encouraged suppliers to participate in BCP promotion seminars held by each prefecture and then held a BCP formulation course to support the formulation in each company.
- **It is now strengthening the entire supply chain and its business continuity at emergencies.**



[Case] Kiyo Bank Co., Ltd, Kiyo Lease and Capital Co., Ltd. (Wakayama City, Wakayama Prefecture)

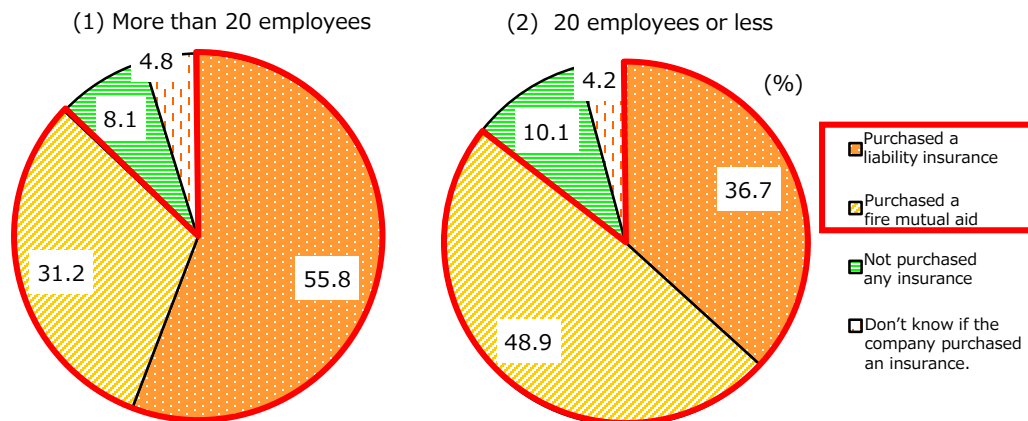
A local bank which strengthens business continuity of local enterprises

- Kiyo Bank is a financial institution which is operated mainly in Wakayama and Osaka prefectures. Kiyo Lease Capital is a lease and investment/consulting company with Kiyo Bank as the parent body.
- It is said that Wakayama Prefecture is highly likely to suffer tremendous damage from the Nankai Trough Earthquake. A questionnaire survey was conducted for suppliers who sell services to main clients of the bank, which showed that **more than 70% of the suppliers have not formulated a BCP plan.**
- The bank **provided education to 3 instructors and 15 staffs who have deep knowledge on the latest trends of BCP** and are able to provide guidance on BCP formulation and training.
- Besides consulting for BCP promotion seminars and BCP formulation, they **provided simulator training for enterprises to enhance the effectiveness of BCP after its formulation.**
- This has led to **the strengthening of the local foundation of the bank** through support for the effective BCP formulation and fixation of local enterprises.

Disaster insurance 1

- Many SMEs purchase liability insurance and fire mutual aid, which contributes to the recovery and restoration when a disaster occurs through prompt funding.

Fig.1 Rate of purchasing a liability insurance and fire mutual aid



(Note) If SMEs purchased both a liability insurance and fire mutual aid, one with a compensation as a main role is used as a response.

Fig.2 Reasons for liability insurance and fire mutual aid being useful by number of employees



[Case] Maiya Co., Ltd. (Ofunato City, Iwate Prefecture)

A company that secured funds necessary for business continuity using earthquake insurance

- Maiya (1,100 employees and 50 million yen in capital) is a grocery supermarket with 18 stores in the whole group and 16 stores within the prefecture.
- It lost 6 stores and 2 management and sales headquarters in the Great East Japan Earthquake and the **financial damage reached was about 1.6 billion yen.**
- However, the company had purchased an earthquake insurance in advance from the lesson learned in the previous earthquake damage, and **received 400 million yen as a liability claim.**
- The company was able to **continue business with most suppliers as it has gained credit by securing sufficient funds** as well as overdraft agreements equivalent to purchases for around a month, which were made in advance with several financial institutions.



Damage state of Takada branch



Store front sales at Ofunato Interchange branch

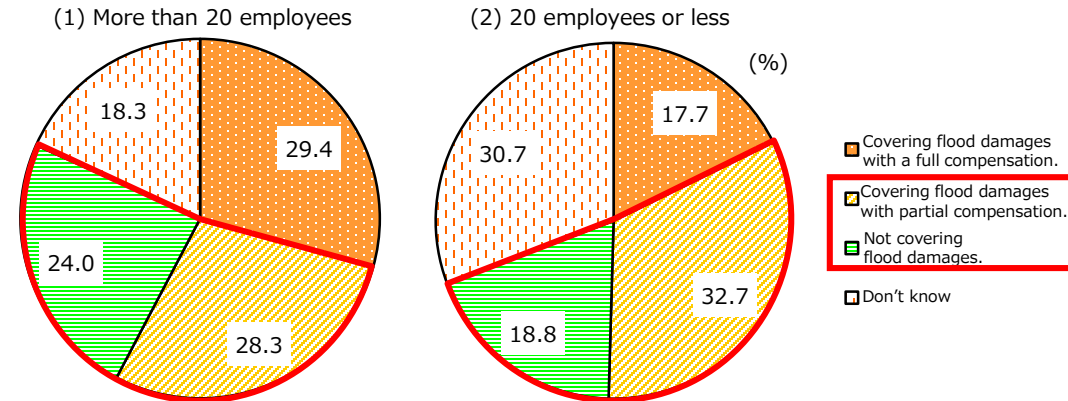
* The total of answers does not necessarily become 100% because multiple replies were allowed.

(Source) "Survey on Disaster Measures of SMEs," "Survey on Disaster Measures of Small Enterprises" (Mitsubishi UFJ Research and Consulting Co., Ltd.)

Disaster insurance 2

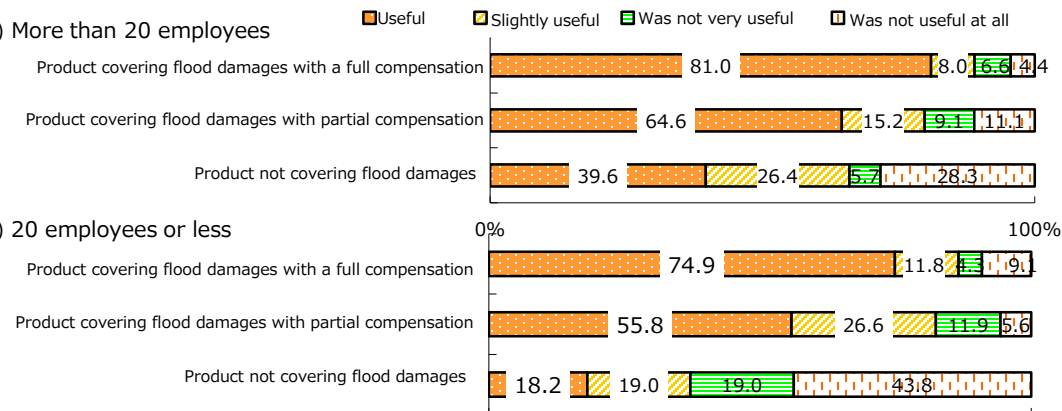
- On the other hand, more than half of companies purchased insurance without or only part of flood damage compensation.
- It is necessary to encourage the purchase of insurance with coverage that accommodate risks which would contribute to the recovery of the business.

Fig.1 Breakdown of liability insurance and fire mutual aid purchased



*Companies which purchased a liability insurance or a fire mutual aid which covers natural disasters are calculated.

Fig.2 Contribution level to business restoration by compensation for flood damages in liability insurance and fire mutual aid purchased



[Case] Yasunaga Co., Ltd. (Yanagawa City, Fukuoka Prefecture)

A company which succeeded in early restoration after a disaster because it changed the insurance that covers flood damages after BCP formulation.

- Yasunaga (54 employees and 38.5 million yen in capital) is a company which provides general sheet metal processing and steel plate cutting services.
- It formulated a BCP in 2012 upon request of main clients. When the company considered storm and flood damages, it found out that its liability insurance does not cover flood damages.
- It was soon after the company had renewed the contract, but **it immediately added flood damage compensation as it knew the importance of the insurance.**

➤ The following month, torrential rain hit Northern Kyushu in July 2012. Devastating damage was incurred on factories and machines by the floods, but the business was smoothly recovered after receiving a liability benefit of 170 million yen.



State of flood

* Data was calculated for companies which responded that the business was damaged by either of "Torrential Rain in Western Japan in July 2018 (The Heavy Rain Event of July 2018)," "Torrential Rain in Northern Kyushu and Typhoon No. 3 in June and July 2017," Typhoon No. 7, 11, 9 and 10, etc. in August and September, 2016" or "Typhoon No. 18 in September 2015."

Small and Medium-sized Enterprises Business Enhancement Act (Act Revising Part of the Small and Medium-sized Enterprises Business Enhancement Act to contribute to the continuity of business activities of SMEs)

- The **bill on Small and Medium-sized Enterprises Business Enhancement Act** was submitted to the ordinary session of the Diet in order **to enhance the disaster response capability of SMEs** and it was **enacted** on May 29. Preparations have been made to **put it into effect this summer**.

(1) Strengthening of disaster prevention and reduction measures of SMEs (revision of the Small and Medium-sized Enterprises Business Enhancement Act)

- Formulation of **basic policies** by the government

1) In-advance measures taken by SMEs

2) Expected cooperation of related parties* surrounding SMEs

- Approval of the **plan** on disaster prevention and reduction measures by the Ministry of Economy, Trade and Industry

1) "Business Continuity Enhancement Plan" implemented by SMEs independently

2) "Cooperative Business Continuity Enhancement Plan" implemented through cooperation between several SMEs

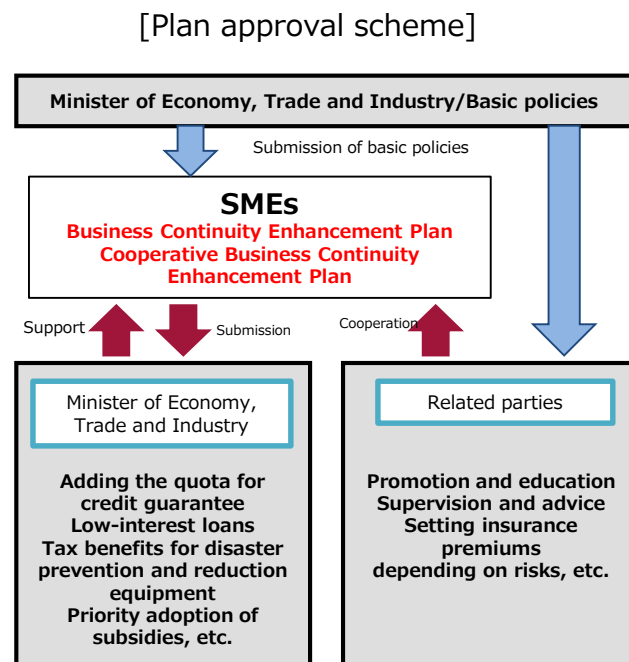
- Support measures** for efforts based on the approval plan

1) Tax benefits (establishment of tax benefits for disaster prevention and reduction equipment)

2) Priority adoption of subsidies

3) Financial support (credit guarantee, low-interest loans, etc.)

- Cooperation** between the national government, local government and related parties (**regulations on making efforts**).



(2) Strengthening of support system by chambers of commerce and industry and commerce and industry associations (revision of the Small-Scale Enterprises Support Act)

- Promotion and clarification of initial disaster responses as duties of chambers of commerce and industry and commerce and industry associations (formulated as "**support plans**.")

Small and Medium-sized Enterprises Business Enhancement Act

Support measures for the promotion of disaster prevention and reduction measures (taxes, financial measures, subsidies)

- Those who received approval of the Cooperative Business Continuity Enhancement Plan were provided **tax benefits and financial support** as well as receiving **privilege in the adoption of subsidies**.

Tax benefits

- **Tax system for the promotion of investment in disaster prevention and reduction of SMEs**

Special depreciation (20%) for capital investment of SMEs and small enterprises who received approval of the Cooperative Business Continuity Enhancement Plan

[Equipment covered]

Disaster prevention and reduction equipment necessary to improve in-advance measures

[Specific examples]

- ✓ Machinery (more than 1 million yen)
:Power generator, drainage pumps, etc.
- ✓ Appliances and fixtures (more than 300,000 yen)
: seismic-control racks, satellite phones, etc.
- ✓ Building accessories (more than 600,000 yen)
:Waterstop board, fire prevention shutters, smoke exhaust equipment, etc.

Financial support

- **Credit guarantee**

Adding a separate quota for credit guarantee in the fidelity insurance of SMEs and small enterprises who received approval of the Cooperative Business Continuity Enhancement Plan.

- **Japan Finance Corporation, expansion of BCP loans**

Decrease the interest of loan for **funds for equipment on the land of a business located in an area which requires measures against tsunami, floods and landslide damages.**

In addition, the interest of loan for funds is decreased from the standard interest for the **disaster prevention equipment** of SMEs and small enterprises who received approval of the Cooperative Business Continuity Enhancement Plan.

Subsidies, etc.

- **Privilege in the adoption of subsidies**

Measures have been considered in which SMEs and small enterprises who received approval of the Cooperative Business Continuity Enhancement Plan can **receive added points for the adoption of subsidies.**

- **Subsidy for the installation of a private power generation equipment**

In order to secure a system to prevent the suspension of business in SMEs and small enterprises in advance in case of power outage caused by a large-scale disaster, **part of expenses required for the installation of a power generator, etc. is subsidized.**