

# **2022 White Paper on Small and Medium Enterprises in Japan**

## **2022 White Paper on Small Enterprises in Japan**

**(Summary)**

**April 2022**

**Small and Medium Enterprise Agency**

# Summary of the 2022 White Paper on Small and Medium Enterprises in Japan and the 2022 White Paper on Small Enterprises in Japan

- SMEs continue to face challenges associated with COVID-19, which has been spreading for two years, and surging oil and raw material prices, as well as supply restraints such as Material and parts procurement issues and labor shortage.
- Despite these severe conditions, some SMEs are implementing initiatives toward achieving future growth while ensuring their survival through business restructuring, based on a keen awareness of changes in the supply-demand structures of the SME sector as well as trends such as digitalization and carbon neutralization.
- Themed around business self-transformation, this whitepaper presents the essential initiatives for businesses in the COVID phase and post-COVID phase.
- More specifically, it analyzes what kind of initiatives (e.g., business restructuring) are necessary in order for SMEs aiming to evolve into medium-sized enterprises or to become core players in the supply chain (scale-up enterprises) in the short to medium-term and sustainable growth-oriented small businesses that support the local economy (power-up enterprises) to be able to take on new challenges.

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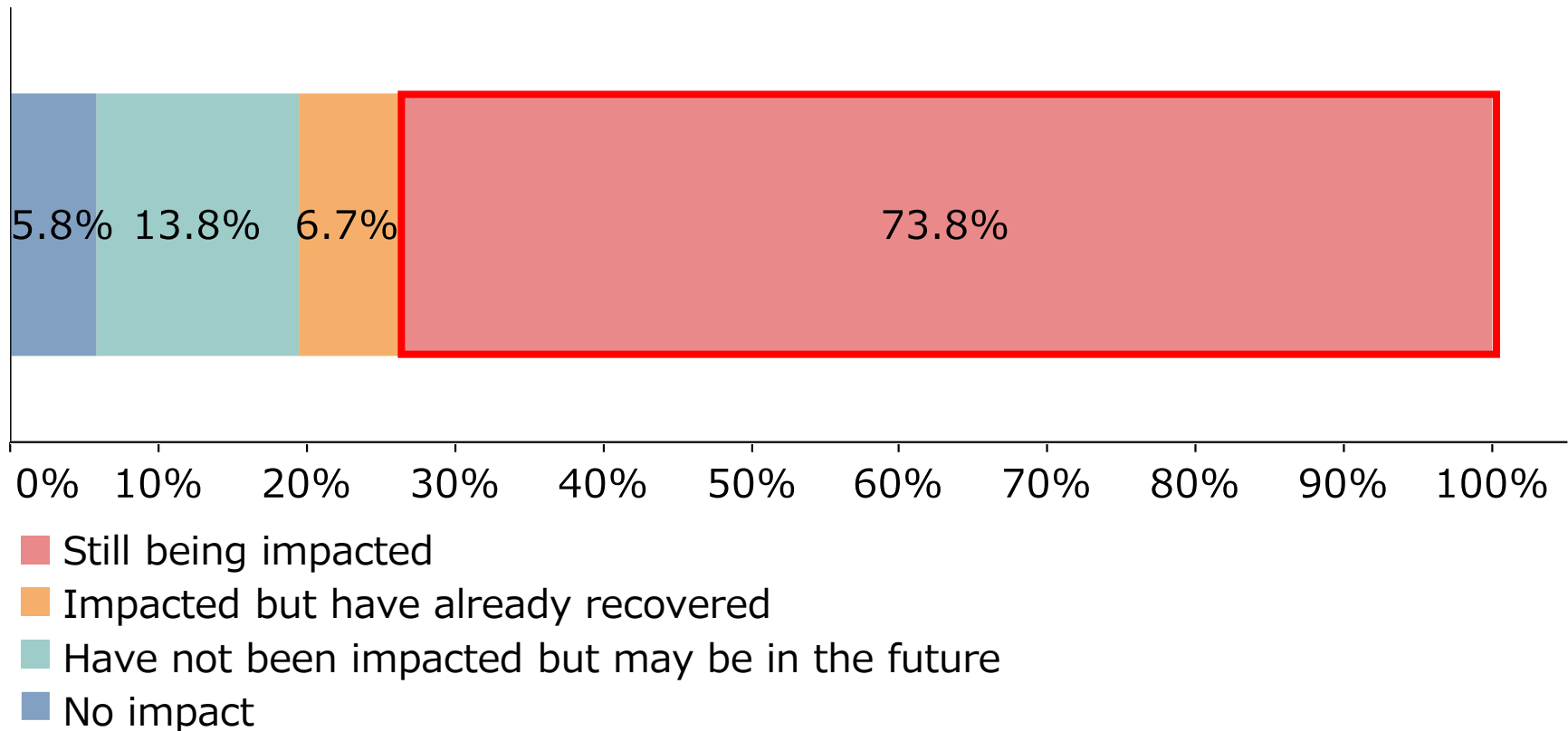
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## Trends in the SME/Small Business Sector (Business Conditions and Performance 1)

- As of February 2022, the COVID-19 pandemic **continues to impact a large number of SMEs.**

**Fig** Impact of the COVID-19 pandemic on business activity



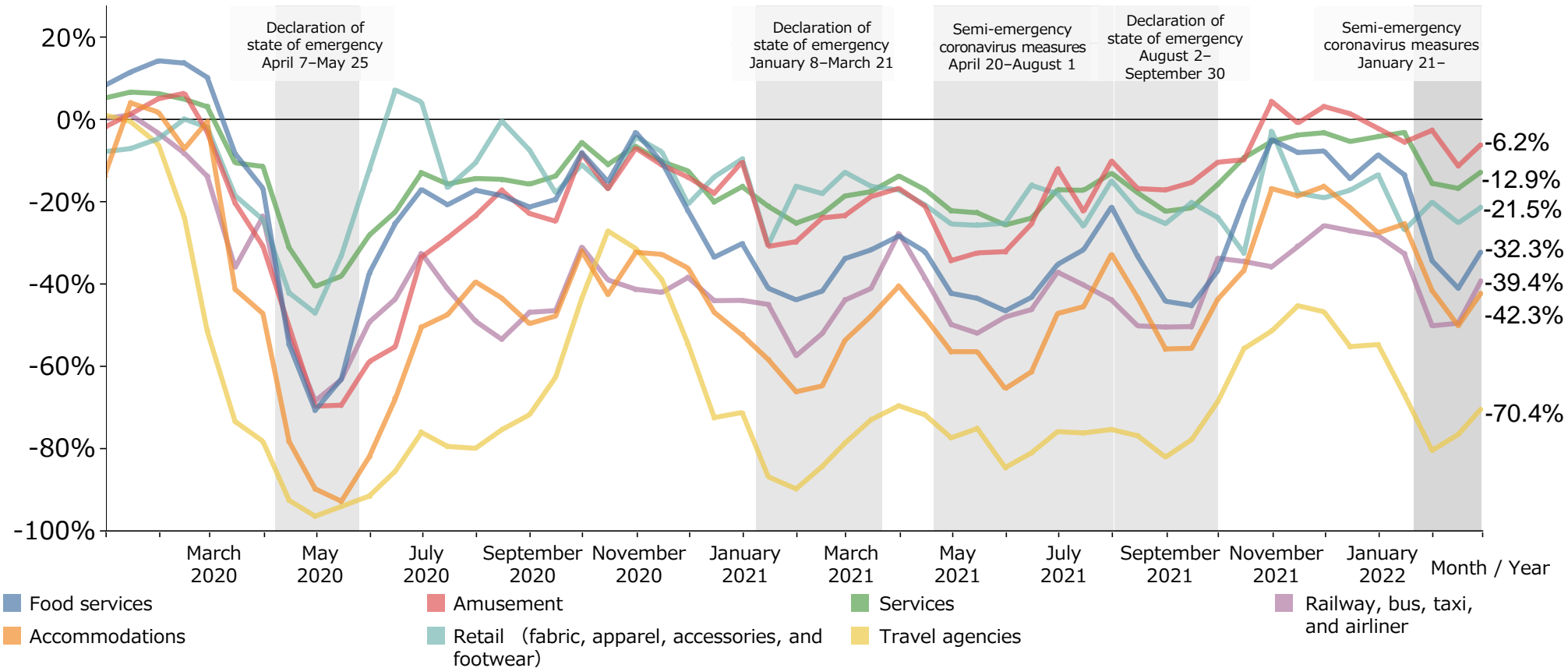
Source: Tokyo Shoko Research, Ltd., "20th COVID-19 Questionnaire Survey" (February 2022)

Note: the survey covers enterprises with less than 100 million yen in capital.

# Trends in the SME/Small Business Sector (Business Conditions and Performance 2)

- Sales of many enterprises in 2020, especially in the **Accommodations and Food services sectors**, were **significantly lower compared to pre-COVID levels**.

**Fig** Consumer spending trend by sector



Source: Created by the Small and Medium Enterprise Agency based on Nowcast, Inc./JCB Co., Ltd., "JCB Consumption NOW" (as of Feb 28, 2022)

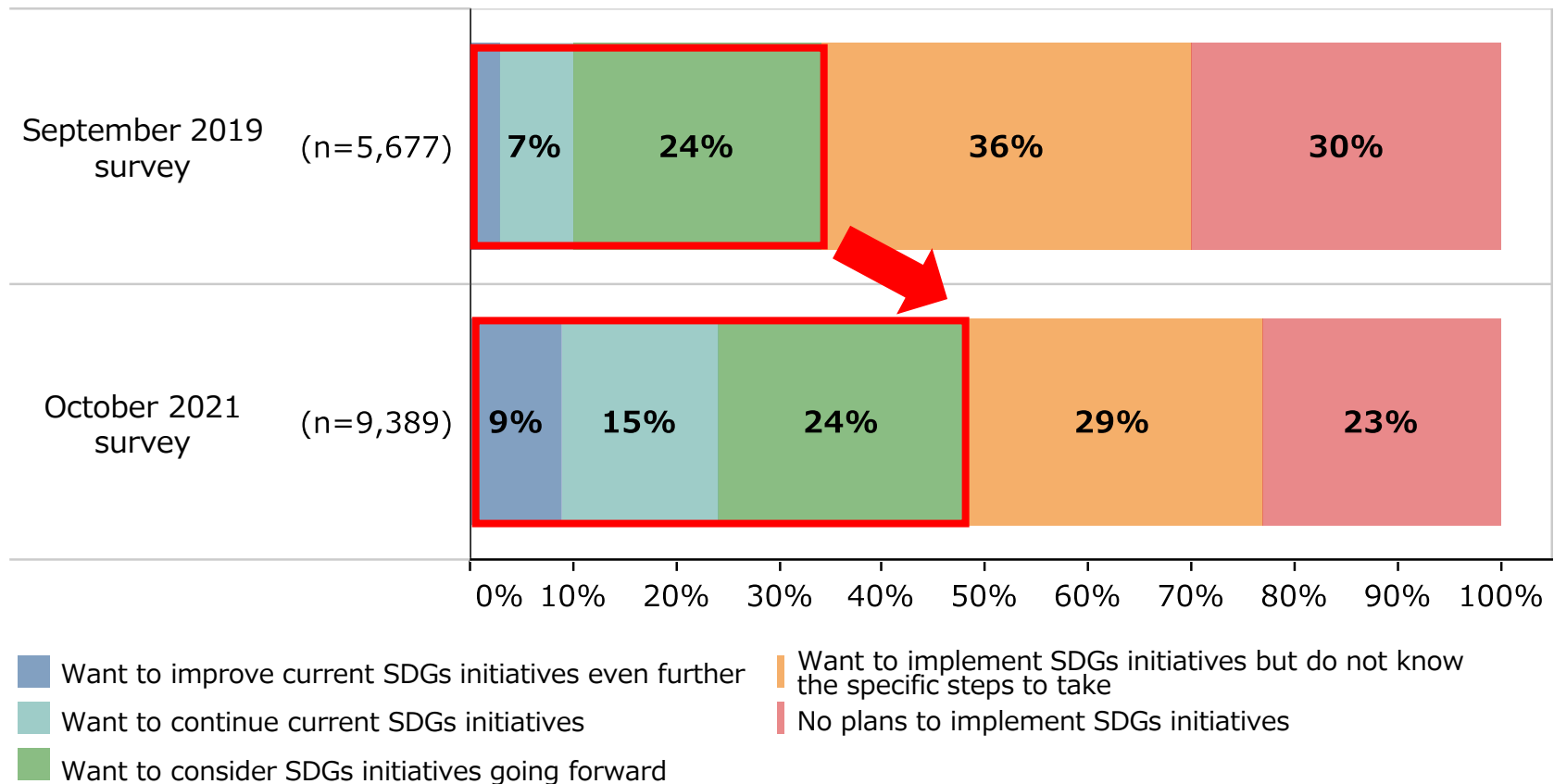
Notes: 1. Shows increase/decrease from the averages from the same period in 2016 to 2018.

2. The periods of declaration of state of emergency and semi-emergency coronavirus measures are those for Tokyo and the prefectures of Saitama, Chiba, and Kanagawa.

# Trends in the SME/Small Business Sector (Motivation for New Initiatives 1)

- In recent years, SMEs **have begun to become more actively involved in SDGs initiatives.**

**Fig** SDGs initiatives by SMEs



# Trends in the SME/Small Business Sector (Motivation for New Initiatives 2)

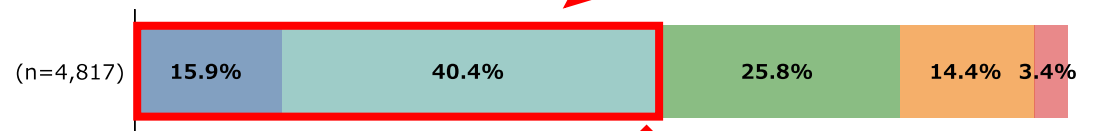
- The **priority of digitalization has grown gradually each year** since before the pandemic. Enterprises that give high or moderately high priority to digitalization in their business policy have **increased by more than 20%**.

**Fig** Priority given to digitalization in business policy

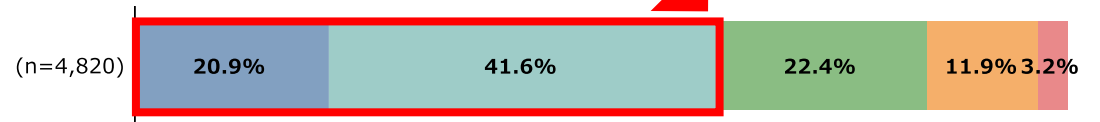
(1) Before the pandemic (2019)



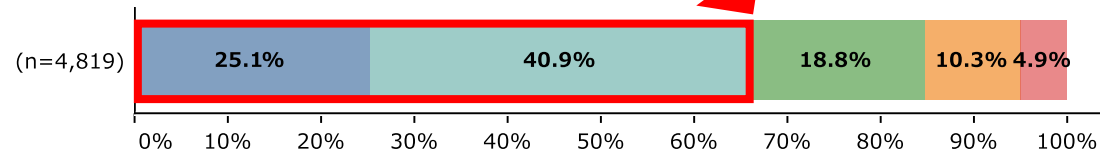
(2) During the pandemic (2020)



(3) Present (2021)



(4) Future (assuming the pandemic has ended)

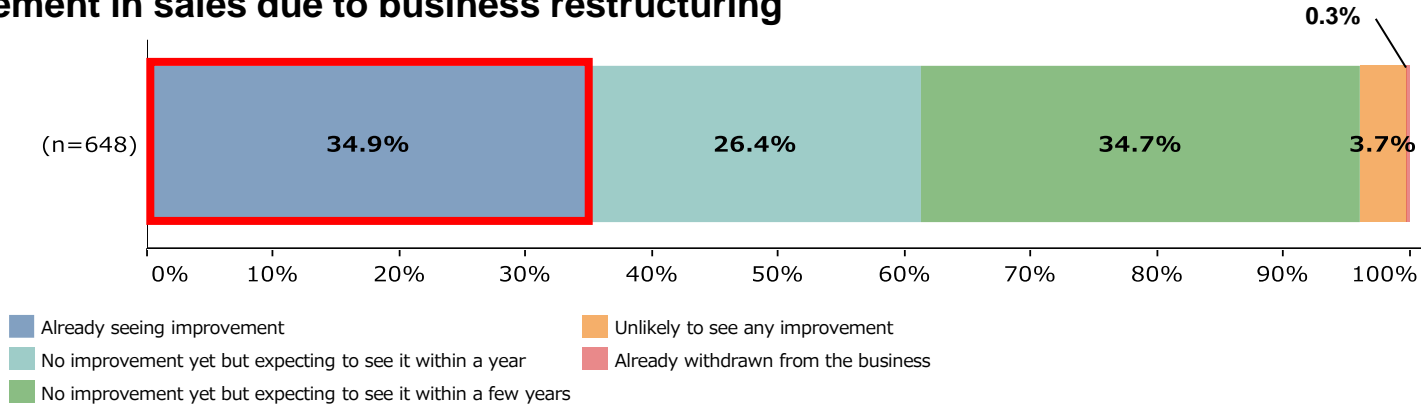


■ High priority in business policy    
 ■ Moderately low priority in business policy    
 ■ Do not know  
■ Moderately high priority in business policy    
 ■ Do not see the need

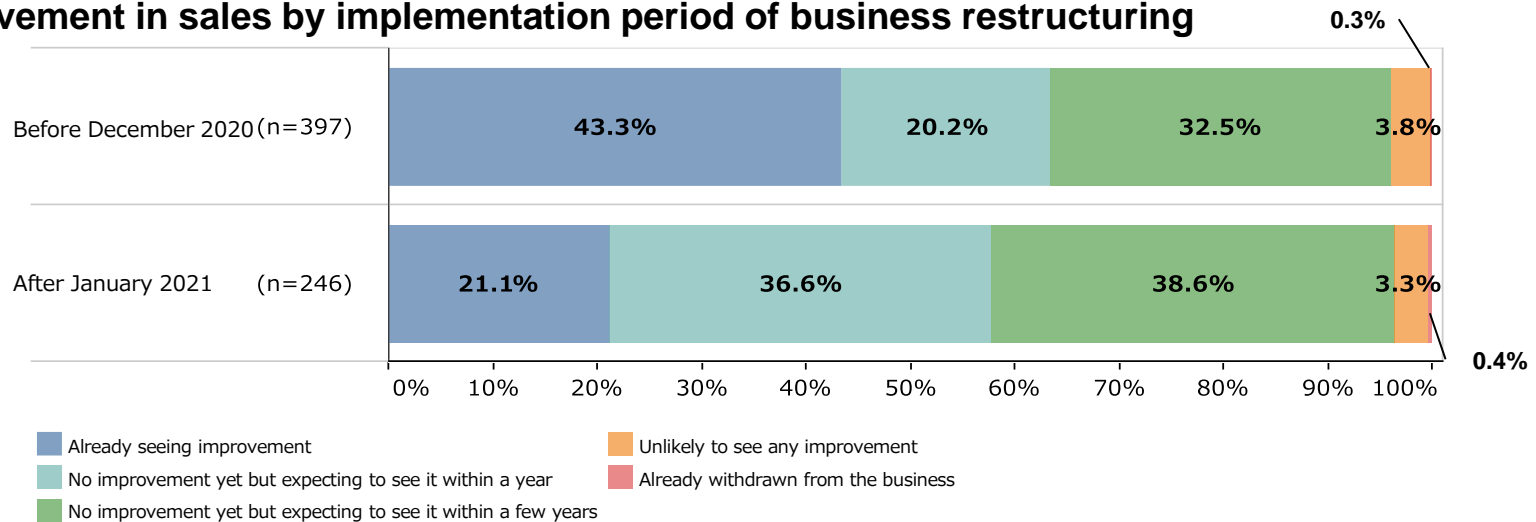
# How SMEs Are Dealing with the Current COVID Situation

- Some enterprises **have restructured their business** during the pandemic and are **already seeing an improvement in sales**. The enterprises that **took action at an early stage** are the ones that are starting to feel the benefits.

**Fig. 1** Improvement in sales due to business restructuring



**Fig. 2** Improvement in sales by implementation period of business restructuring



Source: Tokyo Shoko Research, Ltd., "Survey on SME Management Philosophy and Management Strategy" (December 2021)

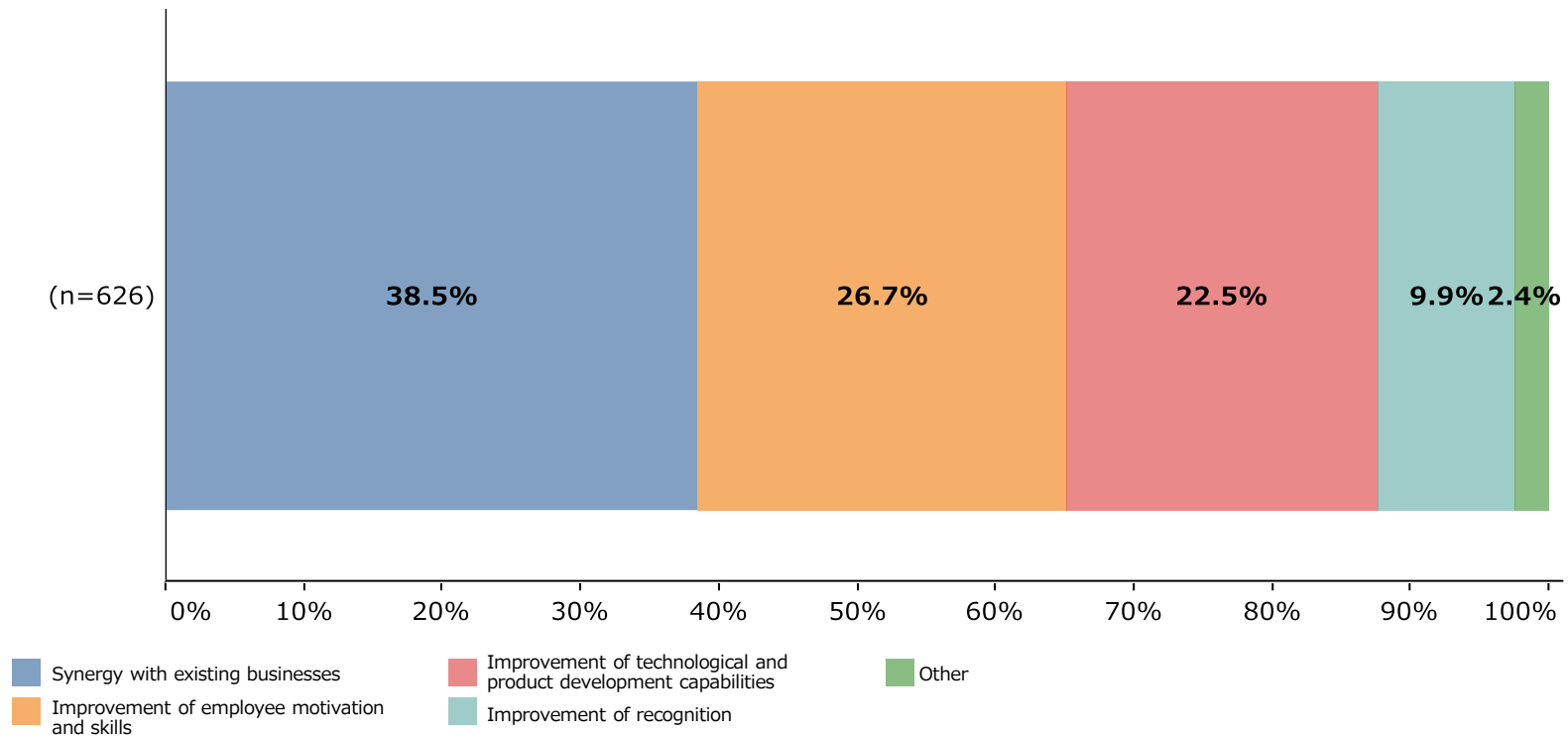
Notes: 1. Both questions are for enterprises that said they have already begun business restructuring. As referred to here, business restructuring means offering new products or changing the way products are offered.

2. Note that the respondents include enterprises that have not applied for the Business Restructuring Subsidy.

# How SMEs Are Dealing with the Current COVID Situation

- Enterprises engaging in business restructuring have not only seen an improvement in sales but **also seen synergy** (e.g., utilizing newly developed sales channels in existing businesses) with their existing businesses.

**Fig** Non-sales benefits due to business restructuring



Source: Tokyo Shoko Research, Ltd. "Survey on SME Management Philosophy and Management Strategy" (December 2021)

Notes: 1. Both questions are for enterprises that said they have already begun business restructuring. As referred to here, business restructuring means offering new products or changing the way products are offered.

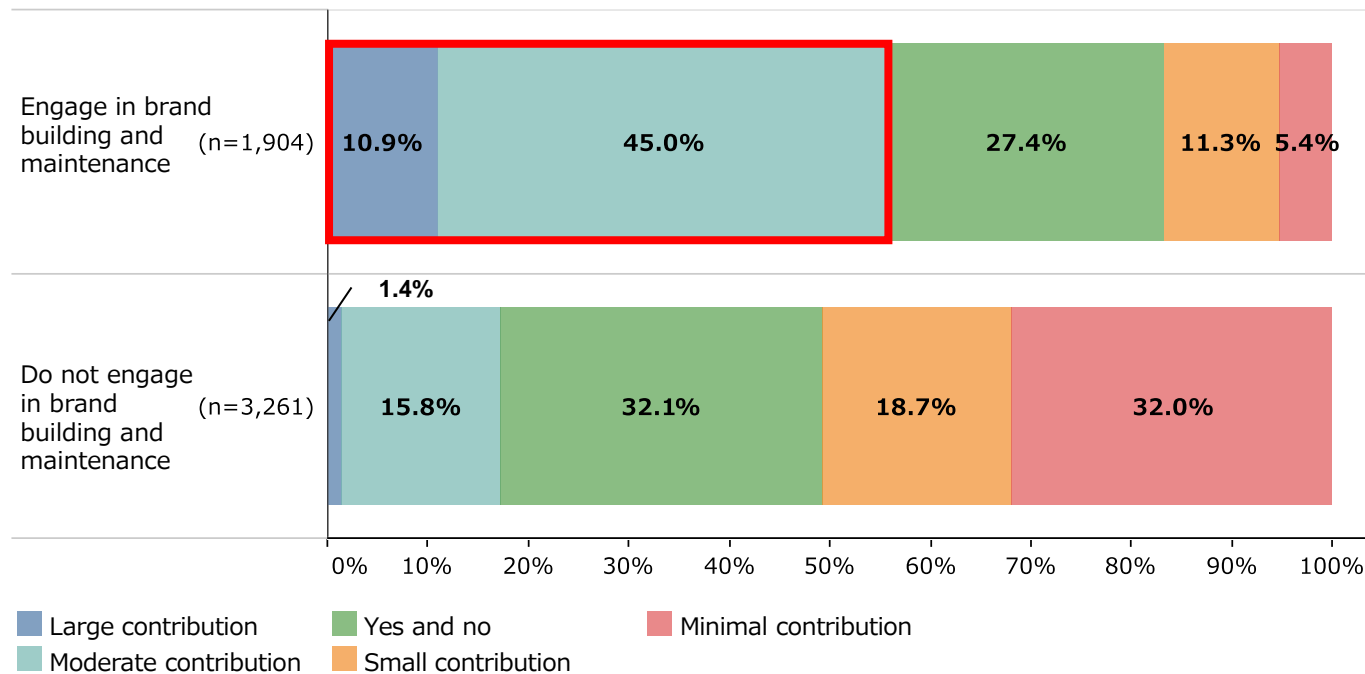
2. Note that the respondents include enterprises that have not applied for the Business Restructuring Subsidy.



## Management Capabilities and Organization That Encourage Enterprise Growth (Brand Building 1)

- **Brand building**, which is a type of intangible investment, creates **unique added value** and helps enterprises gain the **pricing power necessary to establish fair prices**.
- Enterprises that **engage in brand building and maintenance** tend to see a greater **contribution of their house brand to trade prices**.

**Fig** Contribution to trade prices in enterprises that do or do not engage in brand building and maintenance



Source: Tokyo Shoko Research, Ltd. "Survey on SME Management Philosophy and Management Strategy" (December 2021)

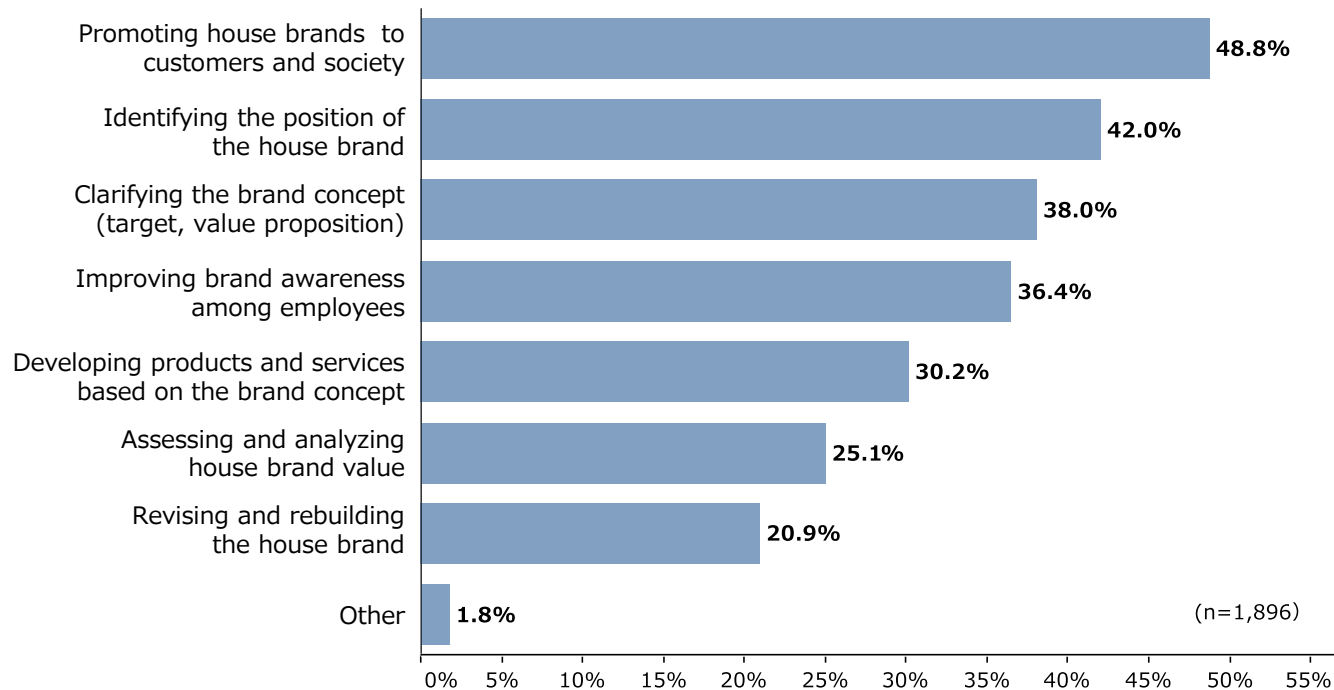
Notes: 1. As referred to here, brand means the general image customers have of a company and its products and services.

2. The question asks whether house brands contribute to raising or maintaining trade prices.

## Management Capabilities and Organization That Encourage Enterprise Growth (Brand Building 2)

- Brand building and maintenance should involve not only **promoting house brands** but also efforts such as **clarifying brand concepts** and **improving brand awareness among employees**.

**Fig** Implementation of brand building and maintenance



Source: Tokyo Shoko Research, Ltd. "Survey on SME Management Philosophy and Management Strategy" (December 2021)

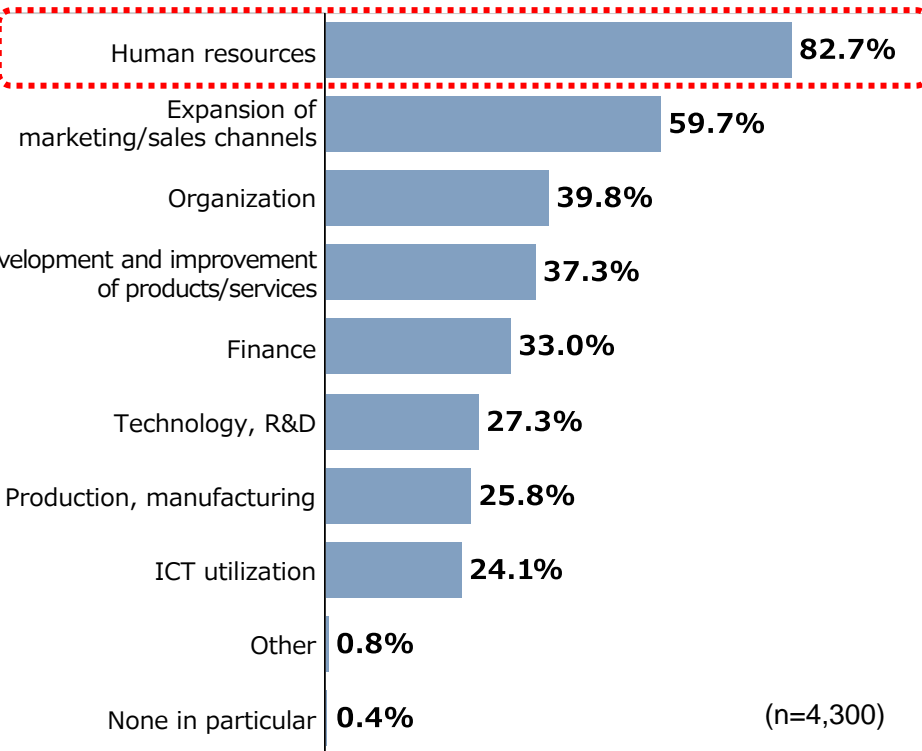
Notes: 1. The question is for enterprises that said they engage in brand building and maintenance.

2. The total is not 100% because it is a multiple answer question.

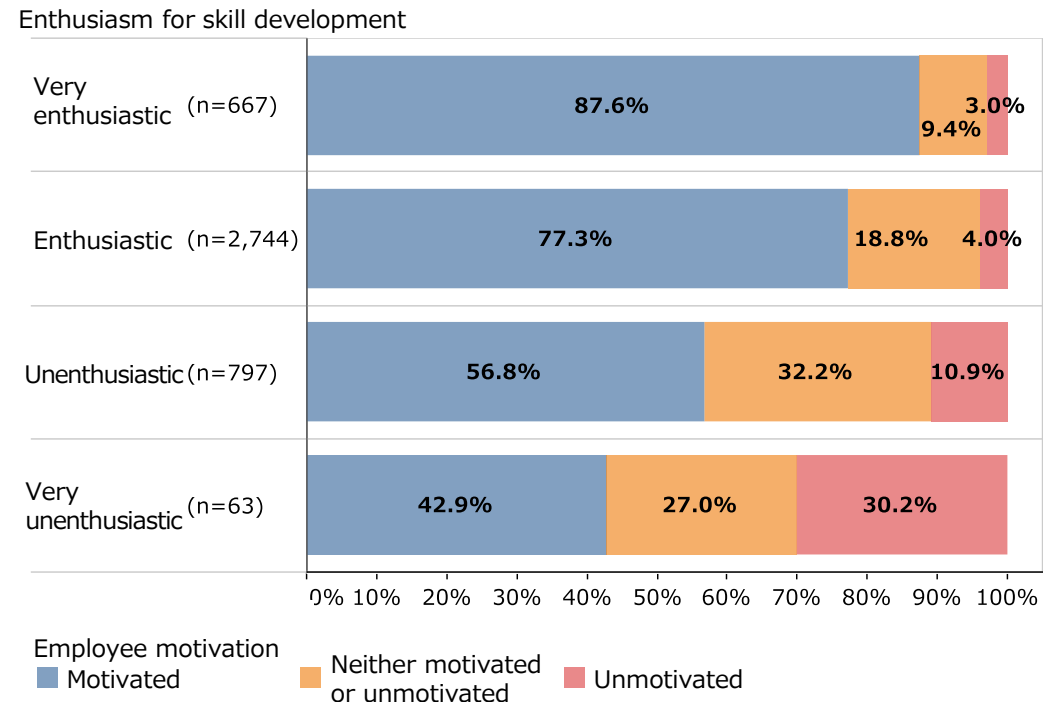
# Management Capabilities and Organization That Encourage Enterprise Growth (Investment in Human Capital 1)

- As SMEs **place much value on people as a management resource**, they need to engage in employee skill development. This is important from the **perspective of improving employee motivation** as well.

**Fig. 1** Management issues that managers prioritize



**Fig. 2** Employee motivation by enthusiasm for skill development



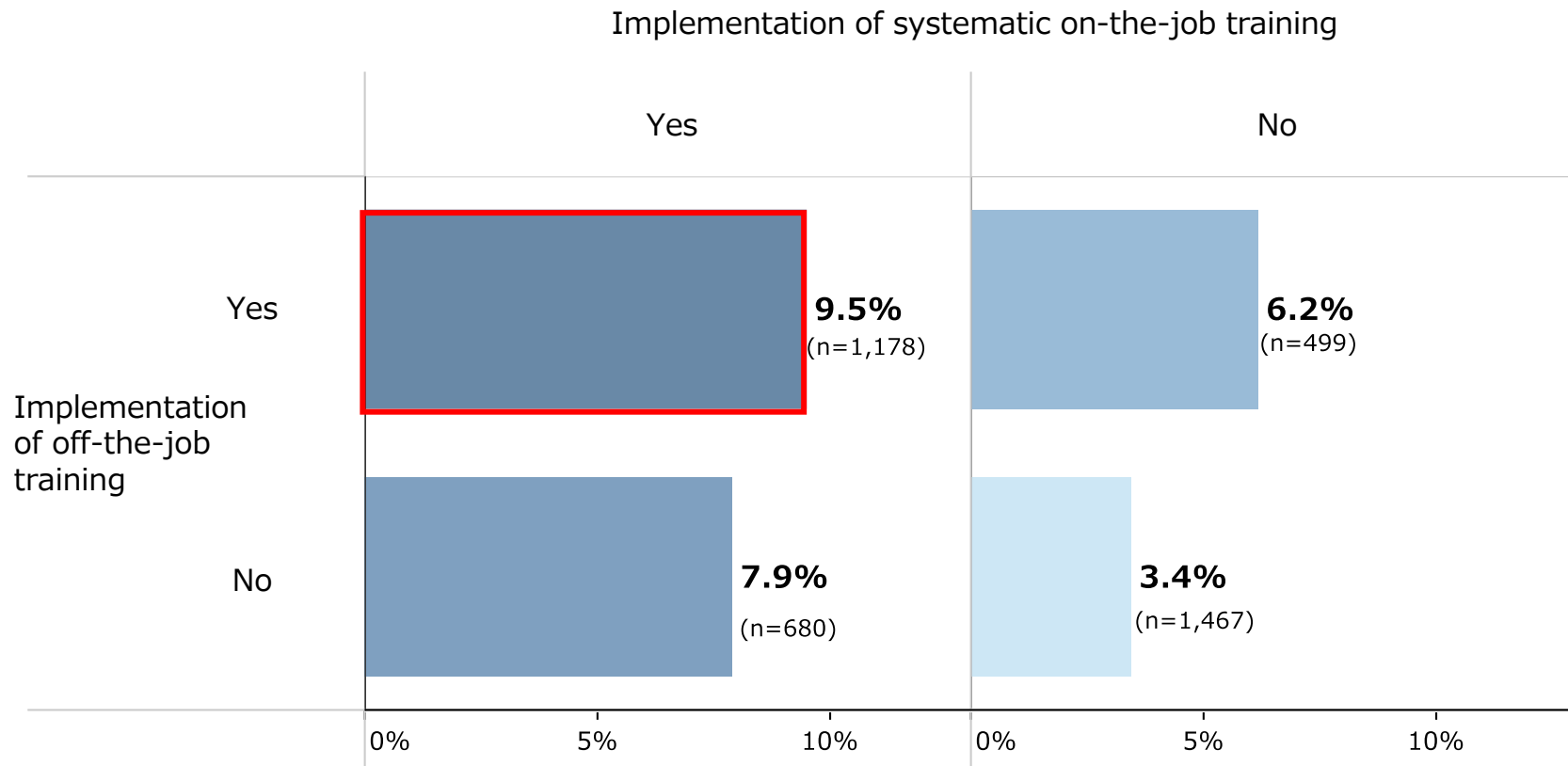
Source: Teikoku Databank, Ltd., "Survey on SME Management Capabilities and Organization" (December 2021)

Note: the total is not 100% because it is a multiple answer question.

## Management Capabilities and Organization That Encourage Enterprise Growth (Investment in Human Capital 2)

- Enterprises that conduct both systematic on-the-job training and off-the-job training show the highest rate of sales growth. Thus, it is essential to **conduct systematic on-the-job training and off-the-job training** to promote employee skill development.

**Fig** Sales growth rate of enterprises that do or do not conduct systematic on-the-job training and off-the-job training



Source: Teikoku Databank, Ltd., "Survey on SME Management Capabilities and Organization" (December 2021)

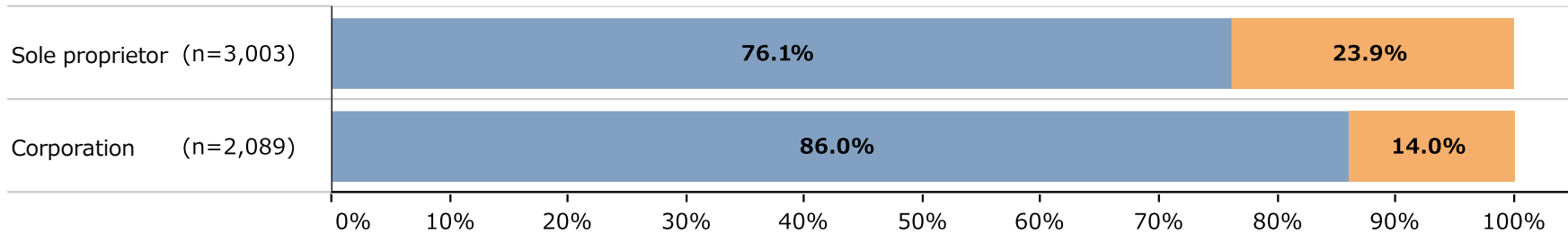
Note: the sales growth rates are based on comparing the medians from 2015 and 2020.

# Small Businesses Reviewing Their Current Business

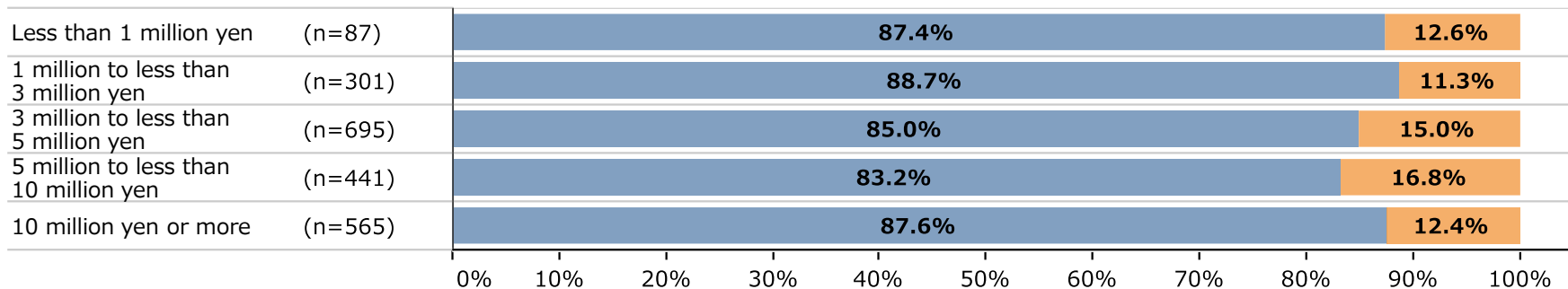
- Small businesses are actively **reviewing their business, regardless of organizational type or capital size.**

**Fig** Small businesses reviewing their business by organizational type and capital size

## By organizational type



## By capital size



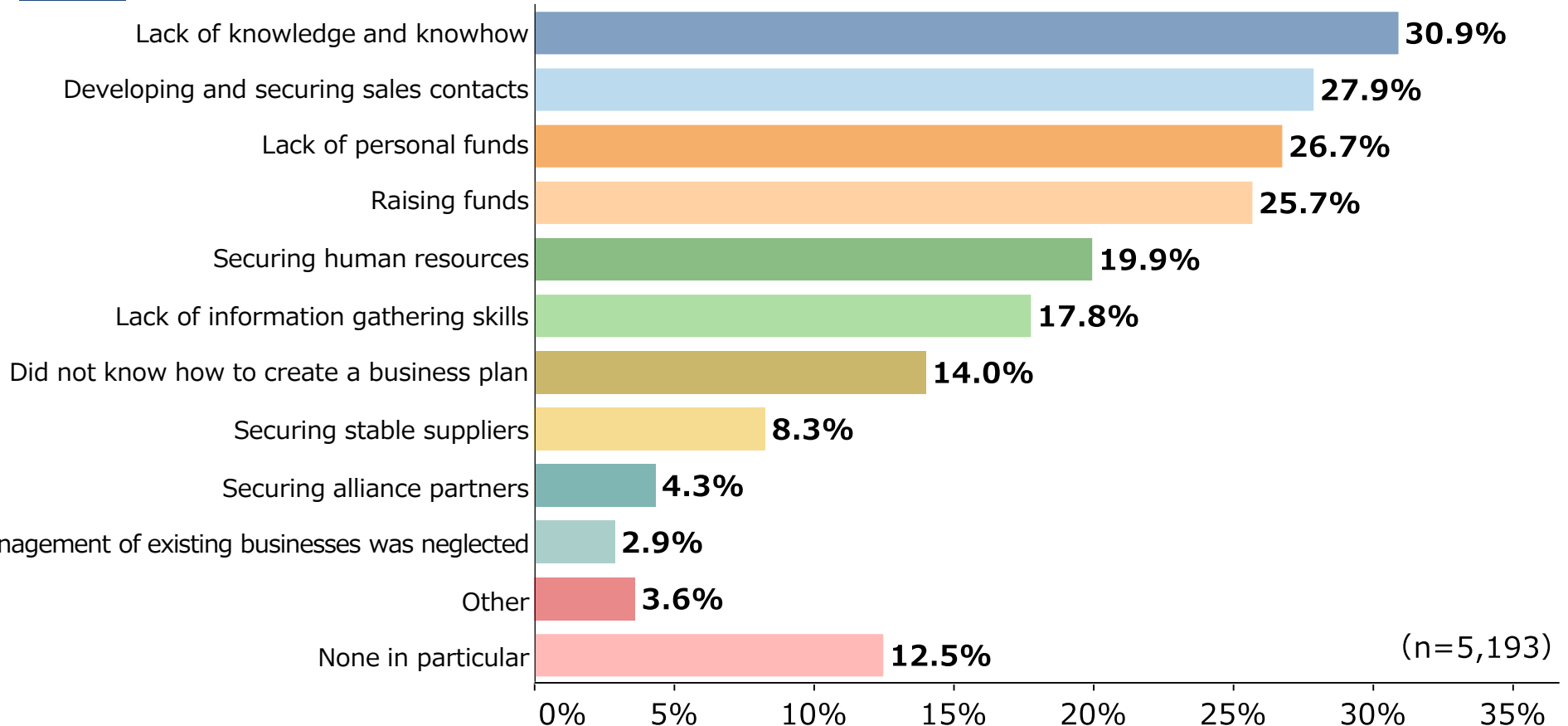
■ Have reviewed the business
 ■ Have not reviewed the business

Source: Mitsubishi UFJ Research and Consulting Co., Ltd., “Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community” (December 2021)  
 Notes 1. The “Have reviewed the business” category includes small businesses that have engaged in at least one of the four specific initiative types related to reviewing their business since the start of the pandemic; the “Have not reviewed the business” category consists of small businesses that have not engaged in any of the initiative types.  
 2. The figures are from small businesses that said the pandemic has had a moderate or significant negative impact on sales.

# Small Businesses Reviewing Their Current Business

- Small businesses trying to review their business are **facing challenges** such as the following: **lack of knowledge and knowhow**, **developing and securing sales contacts**, **raising funds**, and **securing human resources**.

**Fig** Challenges faced by small businesses when reviewing their business



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., "Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community" (December 2021)

Notes: 1. The total is not 100% because it is a multiple answer question.

2. The question asks what kind of challenges the small businesses faced when engaging in their most important initiative for reviewing their business.

# Small Businesses Reviewing Their Current Business

- **Small businesses that consulted a support organization** when reviewing their business **have higher expectations for sales growth** compared to those that did not.

**Fig** Expectations for sales growth of small businesses that did or did not consult a support organization

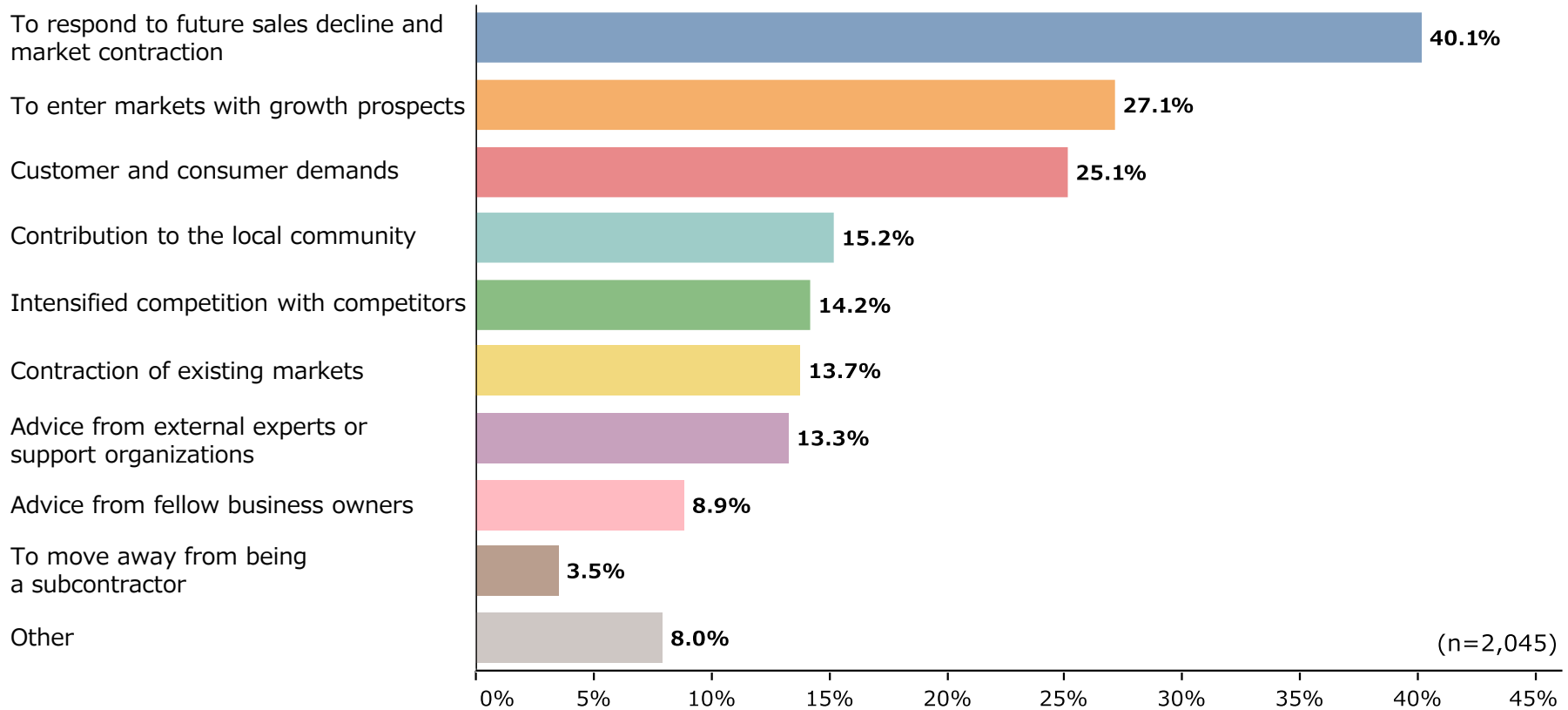


Source: Mitsubishi UFJ Research and Consulting Co., Ltd., "Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community" (December 2021)  
Notes: 1. The question asks small businesses whether they consulted a support organization when engaging in their most important initiative for reviewing their business, and their expectations for sales growth going forward.  
2. The figures are from small businesses that said the pandemic has had a moderate or significant negative impact on sales.

# Medium to Long-Term Small Business Initiatives That Encourage Sustainable Growth

- Some small businesses that have reviewed their business due to **reasons other than sales decline** are making efforts to **review their business from a medium to long-term perspective in anticipation of future market trends**.

**Fig** Reasons why small businesses decided to review their business (excluding sales decline)



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., "Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community" (December 2021)

Notes: 1. The total is not 100% because it is a multiple answer question.

2. The question asks small businesses why they decided to engage in their most important initiative for reviewing their business.

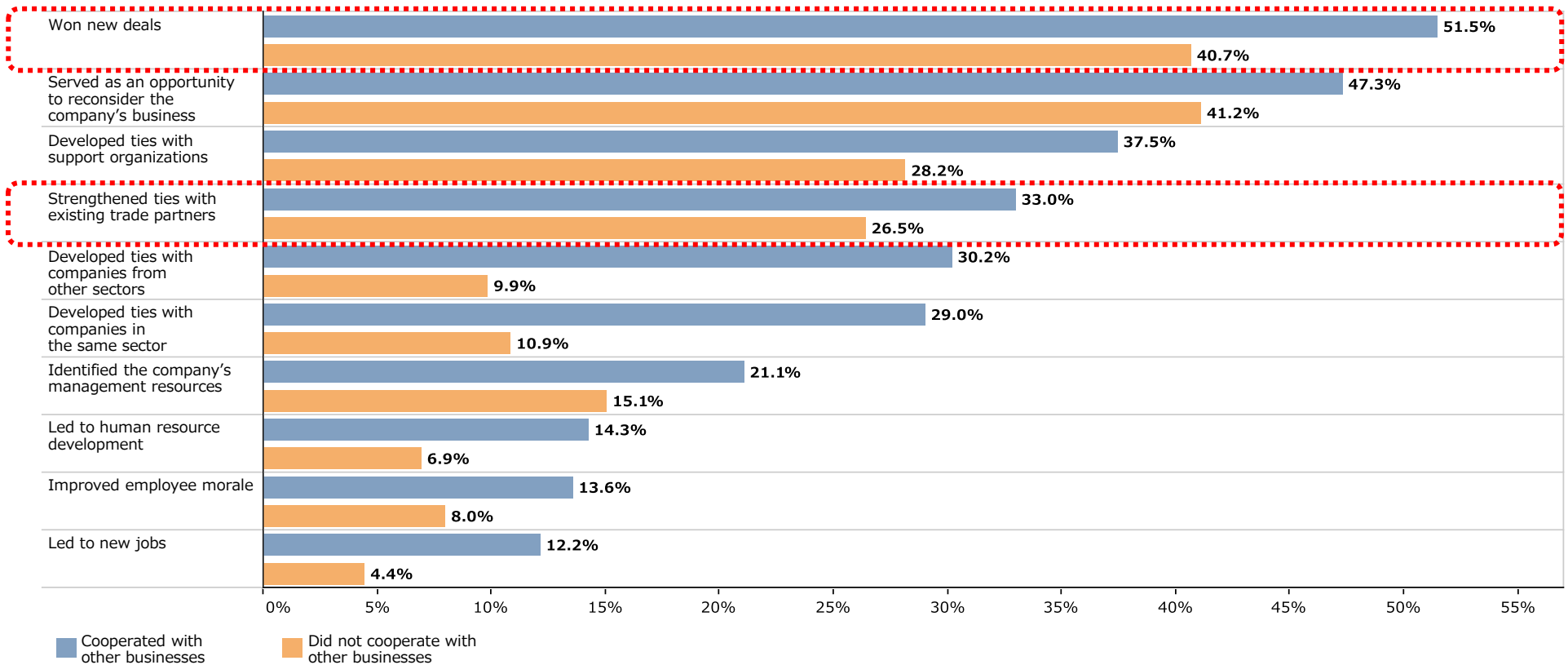
3. The results are based on the responses from small businesses that did not choose sales decline as one of the reasons for reviewing their business.



# Medium to Long-Term Small Business Initiatives That Encourage Sustainable Growth

- **Initiatives such as joint product development with other businesses** are expected to lead to positive business impacts, such as **winning new deals** and **strengthening ties with trade partners**.

**Fig** Positive business impacts due to business review achieved by small businesses that did or did not cooperate with other businesses



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., "Survey on the Cooperative and Problem-Solving Activities of SMEs in the Local Community" (December 2021)

Notes: 1. The total is not 100% because it is a multiple answer question.

2. The question asks small businesses about the positive business impacts of their most important initiative for reviewing their business.

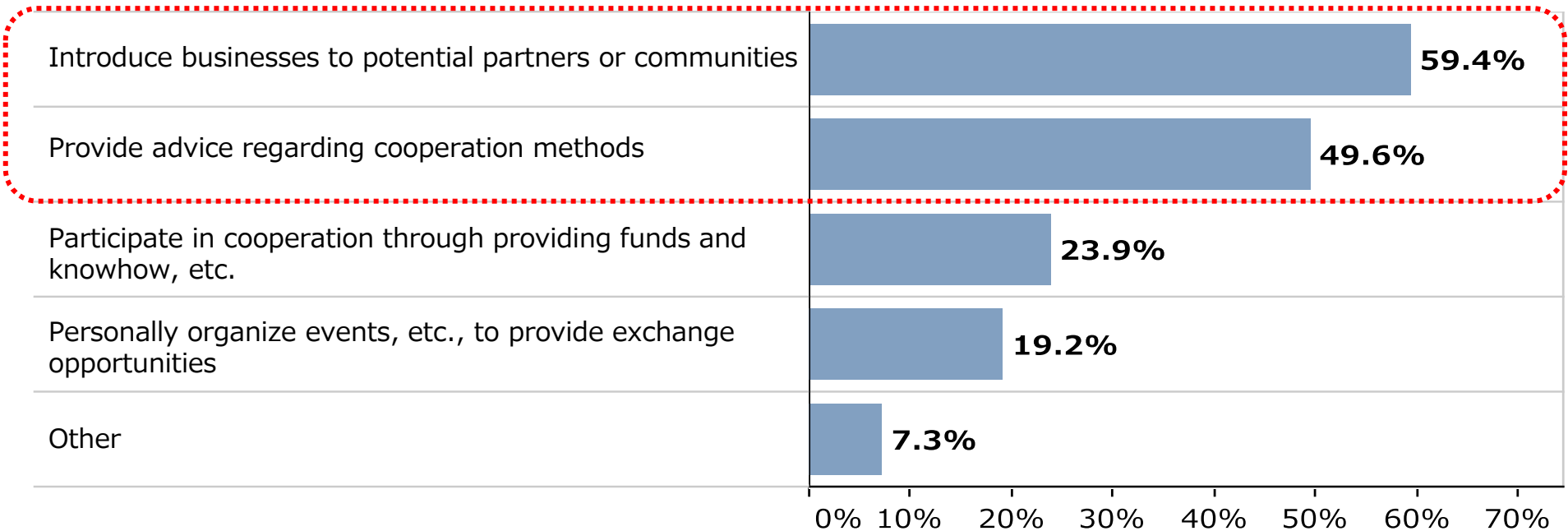
3. The results are based on the responses from small businesses that did not choose sales decline as one of the reasons for reviewing their business.

4. The number of responses are as follows: Cooperated with other businesses (n = 427), Did not cooperate with other businesses (n = 1,618).

# Small Businesses Solving Local Issues

- When addressing local issues, small businesses do not need to work alone but can share their management resources with other businesses.
- **Support organizations can introduce businesses to potential partners and also offer advice about how to cooperate with them.** Therefore, businesses can **utilize the networks and knowhow offered by support organizations** to make their cooperative efforts even more effective.

**Fig** Cooperation-related support provided by support organizations



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., "Questionnaire on SME Support Organizations' Understanding of the Realities of SMEs and Small Businesses" (December 2021)

Notes: 1. The figures are from support organizations that said they were consulted by and provided support to or were not consulted by but provided support to businesses regarding cooperation.

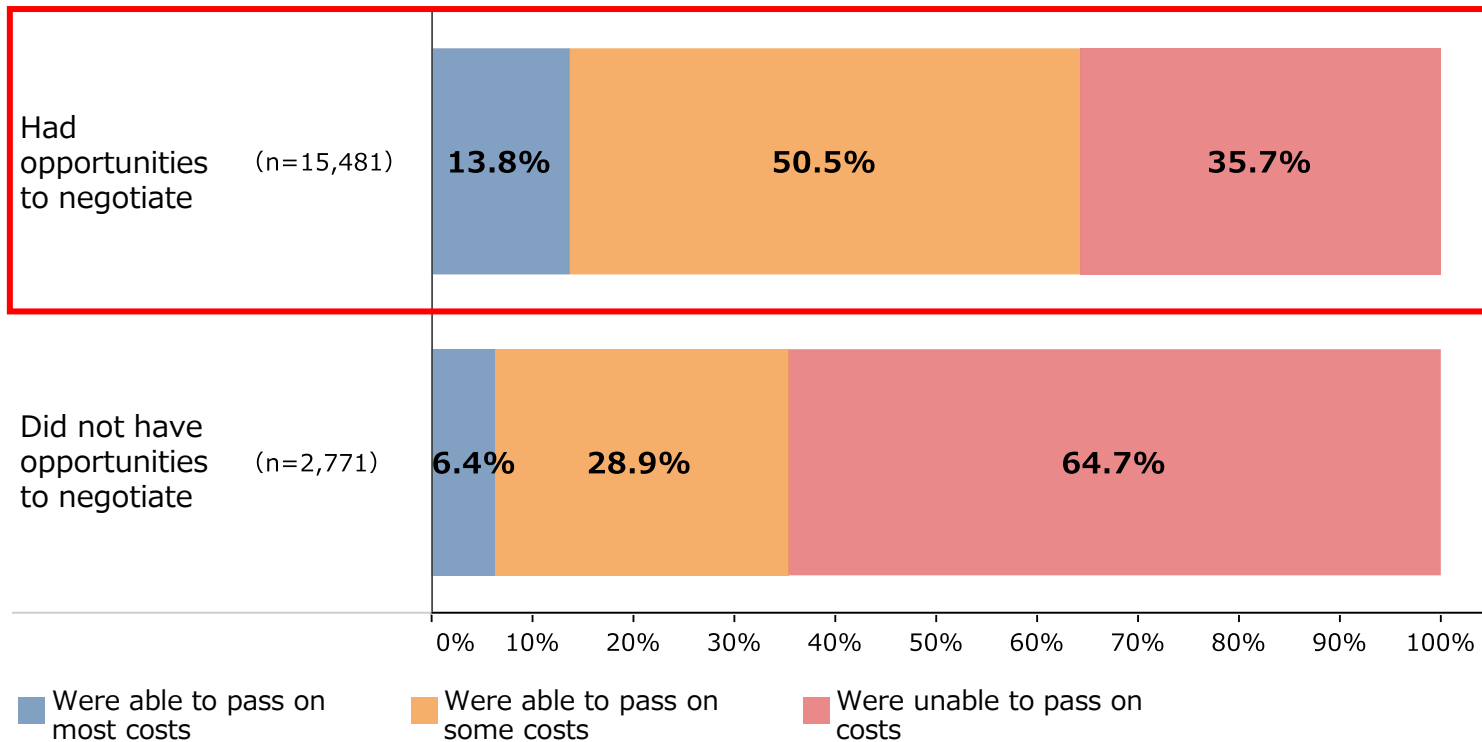
2. The total is not 100% because it is a multiple answer question.

# Common Foundation: Ensuring Fair Transactions

- As much as 60% of enterprises that did not have opportunities to negotiate with their trade partners said they could not pass on costs to prices. **Therefore, enterprises need to negotiate with their trade partners in order to pass on costs to prices.**

Fig

Whether enterprises that did or did not have opportunities to negotiate sales prices and unit prices with trade partners were able to pass on costs to prices in response to cost increases in general



Source: Tokyo Shoko Research, Ltd., "2021 Survey on Improvements in Transaction Conditions" (October 2021)

Notes: 1. The figures are based on questionnaire responses from businesses that receive orders.

2. Responses from enterprises that said there is no need to pass on costs to prices in response to cost increases in the past year are excluded.

# Common Foundation: Digitalization

- **The number of businesses that are working on improving operational efficiency through digitalization (phase 3) has increased** since the beginning of the pandemic.
- However, **there are some businesses whose operations are still mainly carried out on paper or verbally (phase 1)**, and **businesses that are successfully working on digital transformation (phase 4)**, for example, business model transformation through digitalization, **only make up about 10% of the total.**

**Fig. 1 Phase of digitalization initiatives**

<b>Phase 4 (10.2%)</b>	<b>Transforming the business model and improving competitiveness through digitalization</b> Example: utilizing data accumulated on the system to expand sales channels and develop new products
<b>Phase 3 (46.7%)</b>	<b>Optimizing operations and analyzing data through digitalization</b> Example: managing sales, customer, and inventory information with a system and reviewing the work flow
<b>Phase 2 (34.9%)</b>	<b>Migrating from an analog to a digital tool-based operational environment</b> Example: using digital tools for email and conducting accounting electronically
<b>Phase 1 (8.2%)</b>	<b>Carrying out most operations on paper or verbally (i.e., not promoting digitalization)</b>

**Fig. 2 Status of digitalization initiatives**

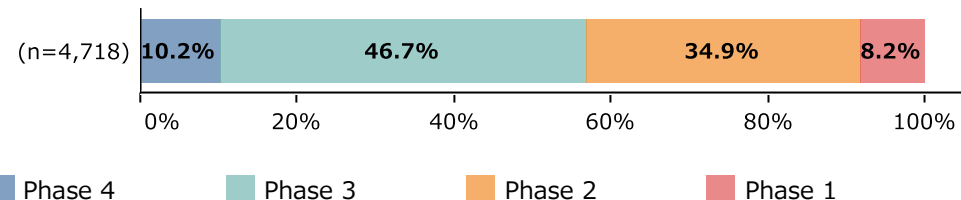
① **Before the pandemic (2019)**



② **During the pandemic (2020)**



③ **Present (2021)**



Notes: 1. Information on the initiative phases prepared based on: Ministry of Economy, Trade and Industry, "DX Report 2 (Interim Report)" (compiled as an interim report by the Study Group for Acceleration of Digital Transformation), "Guidelines for Active Utilization of IT," Cabinet Office, "Annual Report on the Japanese Economy and Public Finance 2021," etc.

2. The numbers in brackets indicate the percentages of businesses in the respective initiative phases in 2021.

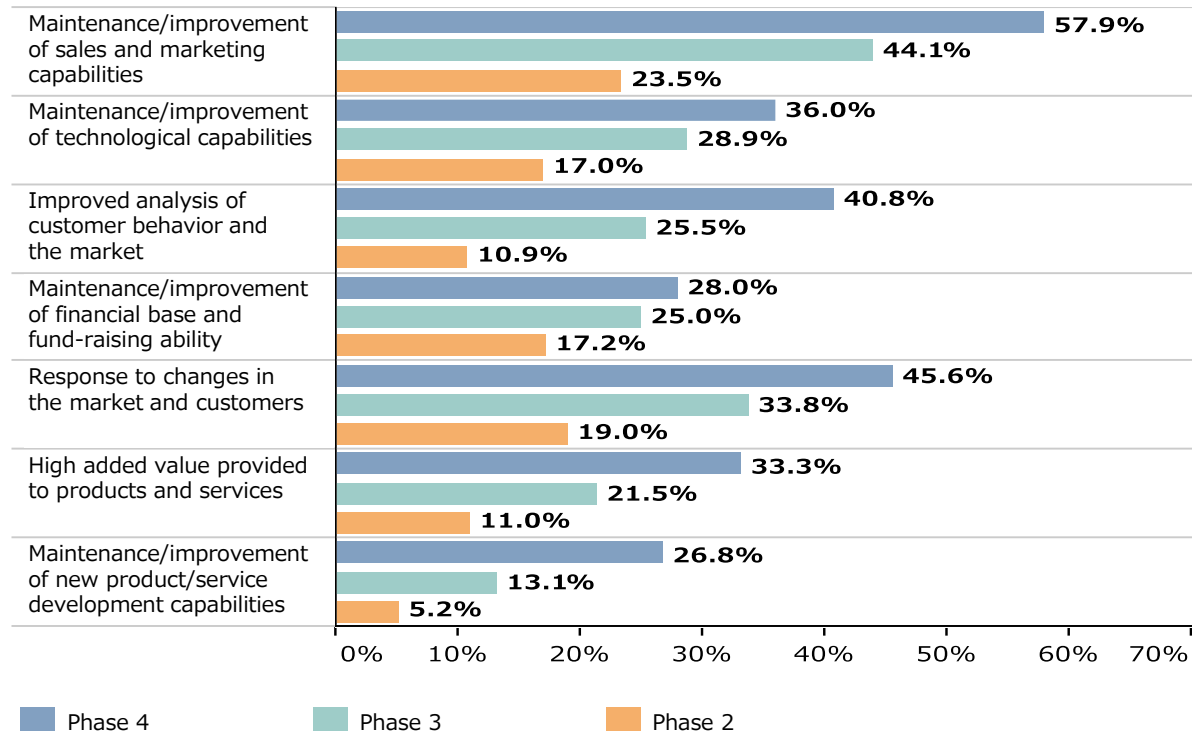
Source: Tokyo Shoko Research, Ltd., "Survey on SME Digitalization and Information Asset Utilization" (December 2021)

Note: enterprises that said they do not know the status of their digitalization initiatives are excluded.

# Common Foundation: Digitalization

- Businesses tend to feel **individual effects, such as maintenance/improvement of marketing and sales capabilities**, as they advance to higher initiative phases.
- Businesses need to keep making progress in their digitalization initiatives toward the ultimate goal of **attaining a phase that will enable them to establish a new business model**.

**Fig** Effects of digitalization initiatives by initiative phase



Source: Tokyo Shoko Research, Ltd., "Survey on SME Digitalization and Information Asset Utilization" (December 2021)

Notes: 1. The number of responses are as follows: phase 4 (n = 478), phase 3 (n = 2,161), phase 2 (n = 1,625).

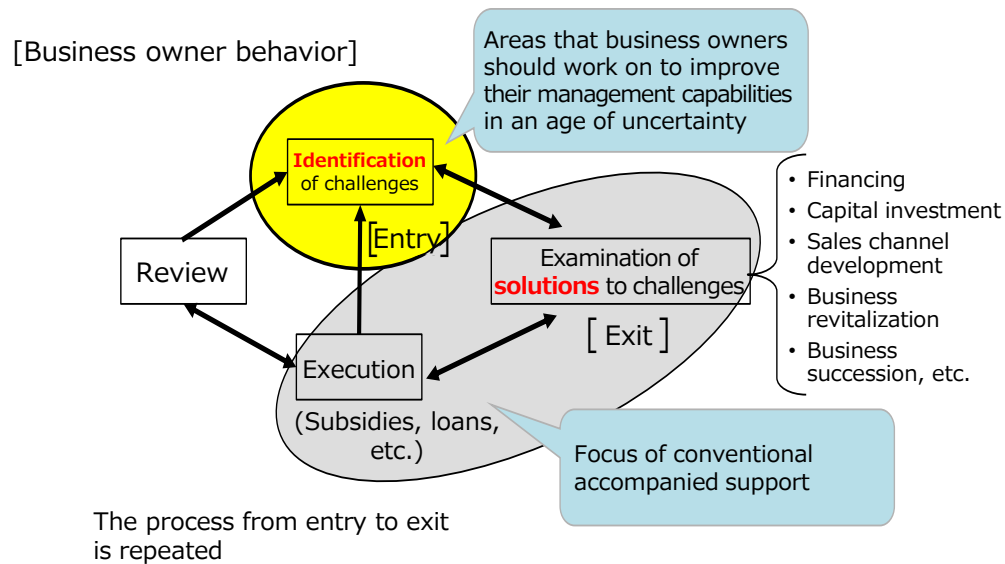
2. The initiative status means the status of digitalization at the time of the questionnaire (2021). Enterprises that said they have not implemented any digitalization initiatives or do not know are excluded.

3. The total is not 100% because it is a multiple answer question.

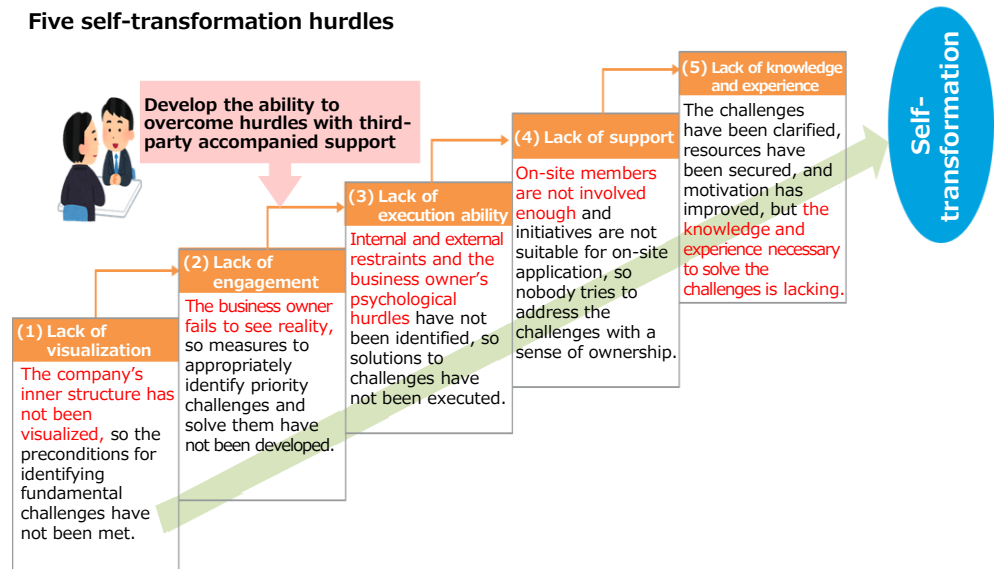
# Common Foundation: Accompanied Support for Management Capability Restructuring

- In order for business owners to achieve self-transformation, they must **identify their management challenges through dialogue with support organizations**.
- To this end, an effective way is for **third-party supporters and support organizations to build trust** with business owners, managers, etc., and provide **accompanied support centered around dialogue**.

**Fig. 1** Business owner behavior and accompanied support



**Fig. 2** Five self-transformation hurdles



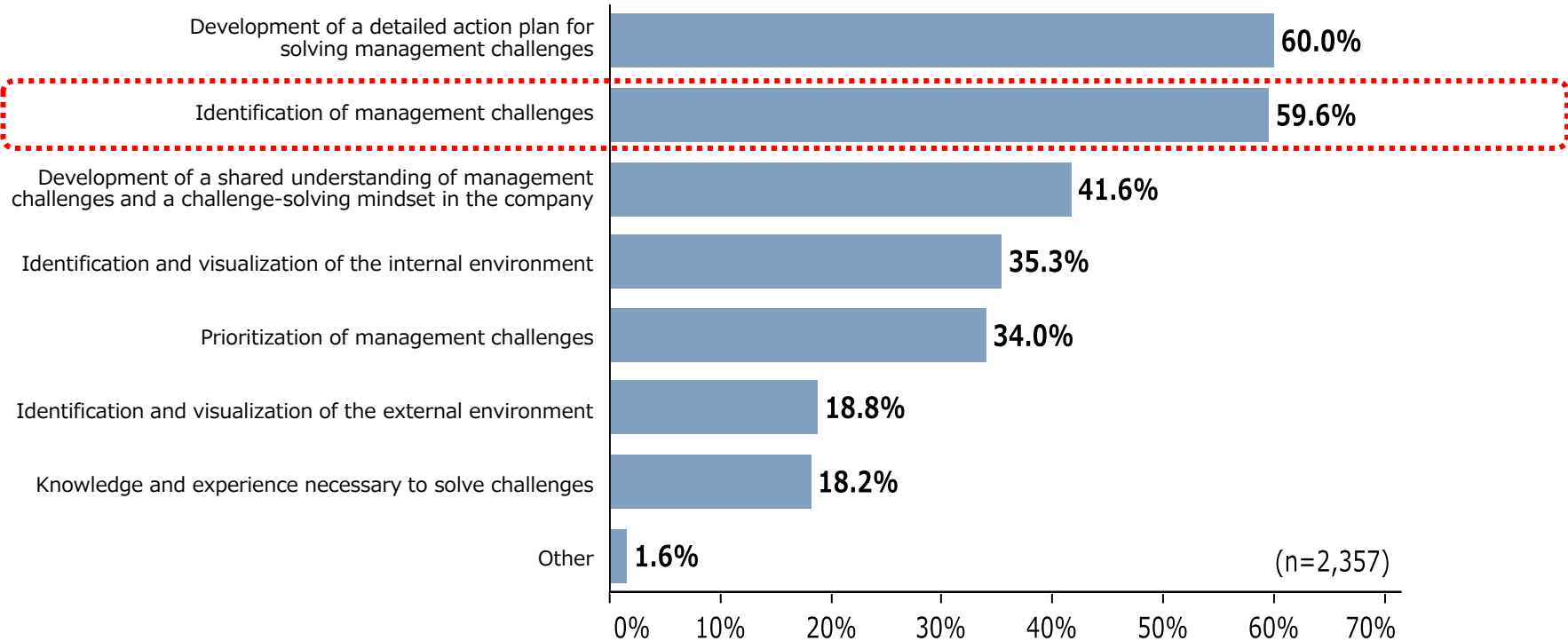
Source: Review Meeting for Accompanied Support (host: Small and Medium Enterprise Agency), "Rebuilding the SME Accompanied Support Model" (March 2022)

Source: Kanto Bureau of Economy, Trade and Industry, "Accompanied Support-Related Initiatives for Regional Core Enterprises by Public-Private Teams" (August 2021)

## Common Foundation: Accompanied Support for Management Capability Restructuring

- In order for **SMEs to improve their self-transformation capabilities** in a rapidly changing business environment, they must not only solve management issues but also **accurately identify the challenges** closely associated with their management capabilities.

**Fig** Important initiatives SMEs need to implement to achieve self-transformation according to support organizations



Source: Mitsubishi UFJ Research and Consulting Co., Ltd., "Questionnaire on SME Support Organizations' Understanding of the Realities of SMEs and Small Businesses" (December 2021)

Notes: 1. The total is not 100% because it is a multiple answer question.

2. The questionnaire asked support organizations about the top three important initiatives that SMEs need to implement to be able to identify their challenges and make independent efforts to address those challenges.