

2018 White Paper on Small and Medium Enterprises in Japan

2018 White Paper on Small Enterprises in Japan

(Summary)

**April 2018
Small and Medium Enterprise Agency**

Characteristics of the 2018 White Paper on Small and Midsize Enterprises in Japan and the 2018 White Paper on Small Enterprises in Japan

- The 2018 White Papers explain a large number of case examples of leading SMEs and small enterprises committed to productivity improvement along with survey results, showing 113 case examples, more than double the number in the FY2017 White Papers.
- Focusing on the ten key points listed below, the FY2018 White Papers, as practical documents, aim to provide clues for SMEs and small enterprises in improving productivity.

Ten Key Points of the 2018 White Paper on Small and Medium Enterprises in Japan and the 2018 White Paper on Small Enterprises in Japan

(Analysis of current situations)

1. While **business conditions** among SMEs are showing **improving trends**, the **gap in productivity** between them and big enterprises is **expanding**.
2. **Business transactions involving subcontractors are steadily improving** toward future-oriented business practices.

(Theme-by-theme analysis in the 2018 White Paper on Small and Medium Enterprises in Japan)

3. With regard to the introduction of IT and other themes, **the operating processes should be reviewed** as a basic premise for improving productivity.
4. Advances in programs to introduce **cross-trained or concurrently-appointed workers** in wide-ranging business sectors have also contributed to productivity improvements.
5. For IT introduction, **local IT vendors and other familiar SME advisors** play important roles.
6. Effects of IT drastically improve through **collaboration beyond business turfs and the framework of each enterprise**.
7. **Forward-looking investment is important for productivity improvements**. Encouragement for such investment needs to continue.
8. **M&As by SMEs are increasing** against the backdrop of business succession and contributing to productivity improvements. Matching of M&As needs to be reinforced.

(Theme-by-theme analysis in the 2018 White Paper on Small Enterprises in Japan)

9. In many small enterprises, owners handle a large portion of business operations. **As an urgent task, owners' work should be streamlined** through the introduction of IT and other means.
10. **Support organizations play important roles** for the penetration of policy measures into small enterprises.

1. While business conditions among SMEs are showing improving trends, the gap in productivity between them and big enterprises is expanding.

- Ordinary profits at SMEs are at a record high level. Business conditions among them are showing improving trends and dispersions between urban and rural areas are narrowing.
- But the gap in productivity between SMEs and big enterprises are expanding. Improving SME productivity is urgently needed.

Fig. 1 Ordinary profit by scale of enterprises

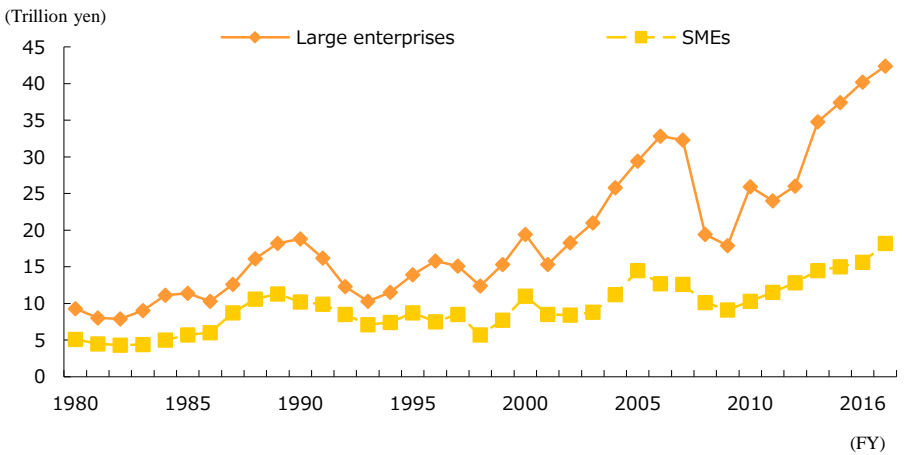


Fig. 2 Region-by-region business conditions among SMEs

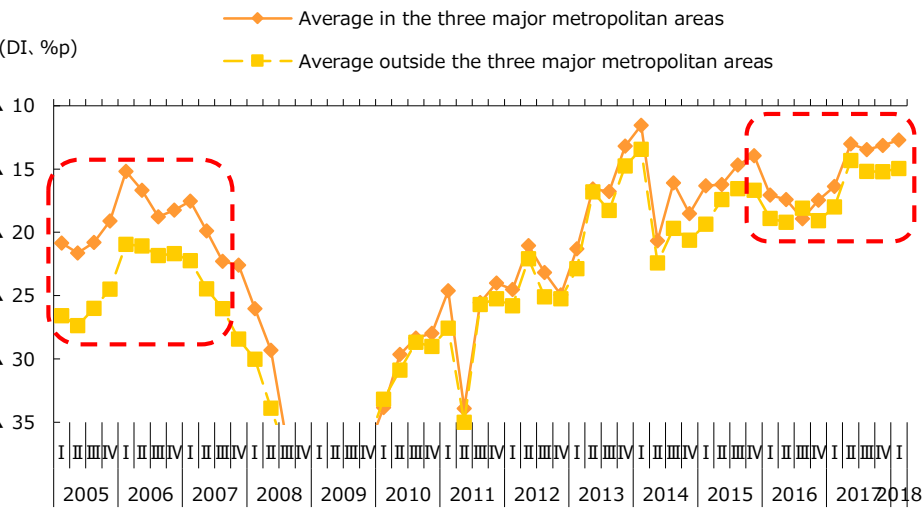
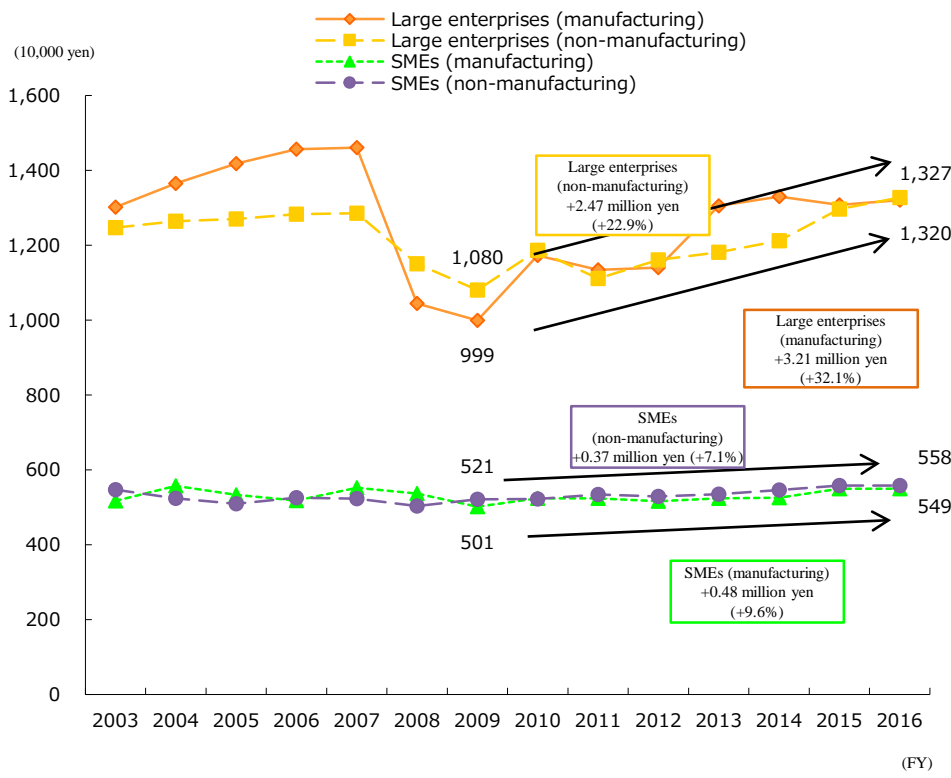


Fig. 3 Changes in productivity by scale of enterprises



Figs. 1 and 3 "Financial Statements Statistics of Corporations by Industry (annually)"
 (Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more, SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen and small enterprises are those whose stated capital is less than 10 million yen.
 Fig. 2: "Survey of SME Business Conditions" (Small and Medium Enterprise Agency and Organization for Small and Medium Enterprises and Regional Innovation)
 (Note) 1. The business conditions diffusion index is calculated by subtracting the ratio (%) of SMEs that answered "worsened" from that of those answering "improved" when asked about business conditions in comparison with previous quarter.
 2. The average DI for the three major metropolitan areas is a figure of prefecture-by-prefecture business conditions indices in the Tokyo metropolitan area (Tokyo, Saitama, Chiba and Kanagawa), the Osaka metropolitan area (Osaka, Kyoto, Hyogo and Nara) and the Nagoya metropolitan area (Aichi, Gifu and Mie) weight-averaged by the number of respondent enterprises in each prefecture. The average DI for areas other than the three major metropolitan areas is a figure of prefecture-by-prefecture business conditions indices in areas other than the three major metropolitan areas weight-averaged by the number of respondent enterprises in each prefecture.

2. Business transactions involving subcontractors are steadily improving toward future-oriented business practices.

- Hearings conducted by business practice investigators (Subcontracting Supervising Inspectors) with subcontractors confirmed improvements in some 25% (*) of all cases.
* The ratio represents the percentage of cases in which specific improvements were confirmed. The remaining 75% do not necessarily involve inappropriate deals.
- In order to realize future-oriented business practices, initiatives should be continuously promoted and realized to improve conditions for making pay hikes possible by spreading appropriate transactions between small and midsize subcontracting enterprises and parent enterprises.

Fig. 1 State of improvements in subcontracting transactions through hearings conducted by investigators with subcontractors

	State of improvements
Payment terms	There were improvements in more than <u>300 cases</u> . There also were many cases of full payments in cash.
Decrease in demand for cost cuts	There were improvements in more than <u>100 cases</u> . “Withdrawal of demand” was reported by some subcontractors.
Mold management	There were some <u>100 cases</u> involving such reports as “primary contractors” cooperation in streamlining of mold storage costs.

The state of improvements was compiled based on reference material (covering 2,040 enterprises) released to the press on Dec. 21, 2017.

Fig. 2 Changes in the terms of trade index

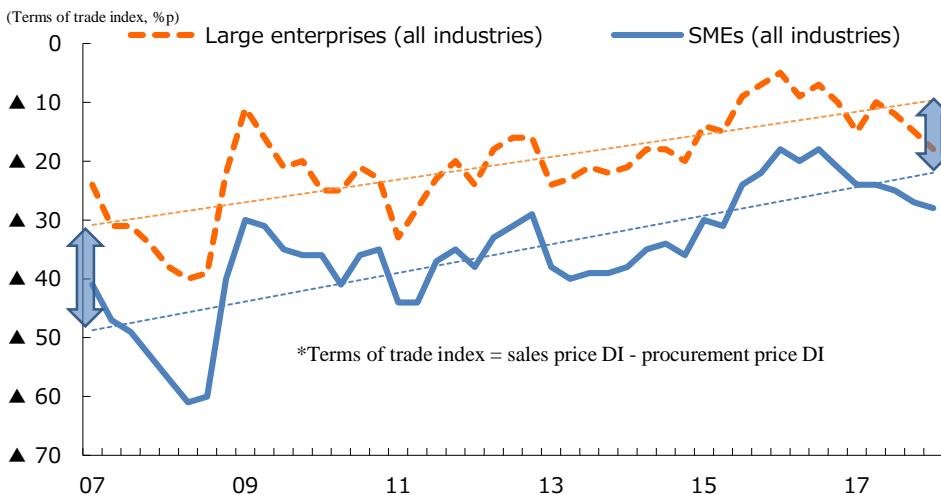


Fig. 3 Business Practice Improvement Initiative (Seko Plan)

- (i) **Clarification and strict implementation of cross-sectoral rules**
 - Increasing the number of violation cases from 66 to 141 by including “inappropriate cost-cutting activities” and “passing die storage costs to subcontractors”
 - Adding “cooperation in improving productivity” and other practices to desirable business practices for larger contractors and their subcontractors
 - Larger contractors should make payments to their subcontractors in cash as much as possible and implement other measures to take leadership in improving business practices.
- (ii) **Development of voluntary action plans by sector, etc.**
 - Of sectors that have developed subcontracting guidelines, the automobile industry and some other large enterprises were requested to develop and steadily implement voluntary action plans to improve business practices and increase added value. A follow-up to the request has been conducted. **At the end of March 2017, 21 groups in eight sectors had developed such plans.**
- (iii) **On-site inspection by business practice investigators (Subcontracting Supervising Inspectors)**
 - Subcontracting Supervising Inspectors have been deployed to hold more than 2,000 interviews with subcontractor SMEs annually and use the data from the interviews to improve business practices.

Fig. 1: Compiled from “Hearings with subcontractor enterprises” (Small and Medium Enterprise Agency)
Fig. 2: “Short-Term Economic Survey of Enterprises in Japan” (Bank of Japan)

(Note) The terms of trade index in the Chart 2 is calculated by subtracting the procurement price DI from the sales price DI.

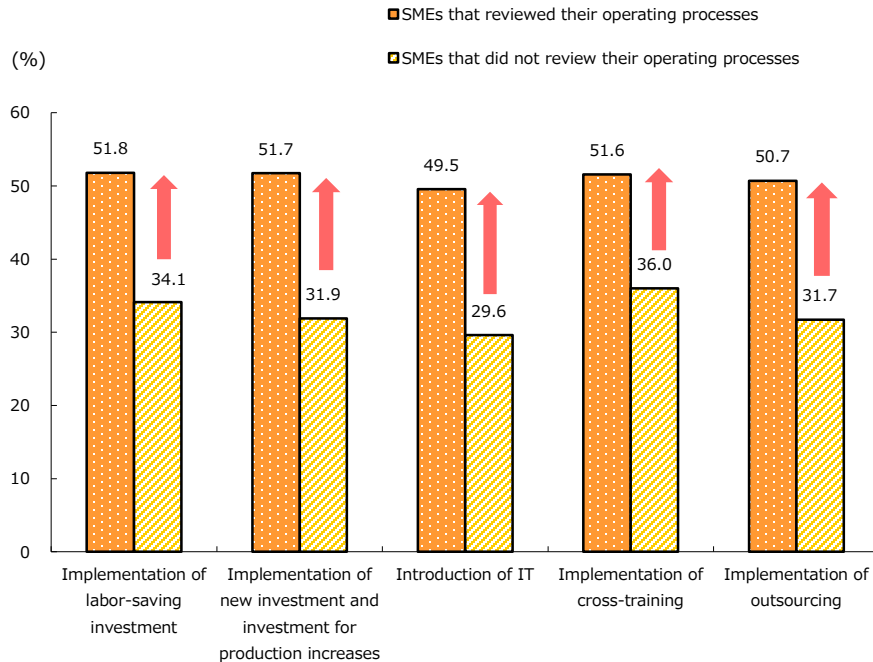
The sales price DI (procurement price DI) is calculated by subtracting the ratio (%) of SMEs that answered “dropped” from that of those answering “rose” when asked about price trends in comparison with three months earlier.

3. Review of operating processes is a basic premise for improving productivity, including for IT utilization

- Initiatives to improve productivity, such as business investment and IT utilization, are expected to become more effective if combined with careful review of operating processes. Review of operating processes is a basic premise for better business practices.

Fig. 1

Ratio of SMEs that improved productivity through various means: those reviewing operating processes versus those that do not.



Source: “Survey of Measures for Productivity Improvement to Address Labor Shortage” (Mitsubishi UFJ Research and Consulting Co., Ltd.) (December 2017)

- (Note) 1. SMEs that made “labor-saving investment” and “new investment and investment for production increases” are enterprises that have made “positive investment” or “passive investment” over the past three years.
 2. SMEs that introduced IT are enterprises that answered “introduction of IT” as “a comprehensive assessment of entire enterprises” in the questionnaire.
 3. SMEs that implemented “cross-training” and “outsourcing” are among those that answered “an acute shortage of labor” or “a moderate shortage of labor” as well as “a shortage of working manpower” or “a shortage of both working manpower and core manpower.”
 4. SMEs that “reviewed their operating processes” are those that implemented one or more of “visualization of operations,” “review of unnecessary operations and overlapped operations and simplification of operations,” “standardization or manualization of operations” and “segmentalization of operations and review of segmented assignments.”

[Case example] Houyu Co., Ltd. (Nagareyama City, Chiba Prefecture)

An enterprise that has improved its productivity through the promotion of IT utilization after thoroughly visualizing operations

[Outline of the enterprise]

- A manufacturer of plastic products in Nagareyama City, Chiba Prefecture (17 employees and 3 million yen in capital)

[Specific measures]

- The enterprise thoroughly visualized operations in cooperation with a registered SME management consultant and found that processes such as the replacement of dies served as a bottleneck lowering the capacity utilization rate and earnings.
 - ⇒The enterprise has created an IT system that has installed sensors in facilities to collect and analyze data on their capacity utilization through cloud computing.
 - ⇒Under the leadership of its president, the enterprise has promoted a PDCA program to improve productivity through the utilization of the system.

[Effects]

- Productivity improvement by around 20% and a 3.9-fold rise in profitability

[Cost]

- About 1.1 million yen to introduce IT (of which 790,000 yen was a subsidy from the program to support manufacturers)
- The development of the system took 1.5 months.

Replacement of dies



4. The introduction of cross-trained or concurrently-appointed workers has progressed in a variety of sectors and contributed to productivity improvements.

- In response to labor shortages, the introduction of cross-trained or concurrently-appointed workers has been making headway in a variety of sectors, while non-manufacturing sectors, such as wholesalers, retailers and services providers, need to strive as earnestly as manufacturers to introduce such strategies.

Fig. 1 Sector-by-sector state of introduction of cross-trained or concurrently-appointed workers

- Efforts are being made and have been activated in comparison with three years earlier.
- Efforts are being made but have not been activated in comparison with three years earlier.
- No efforts are being made

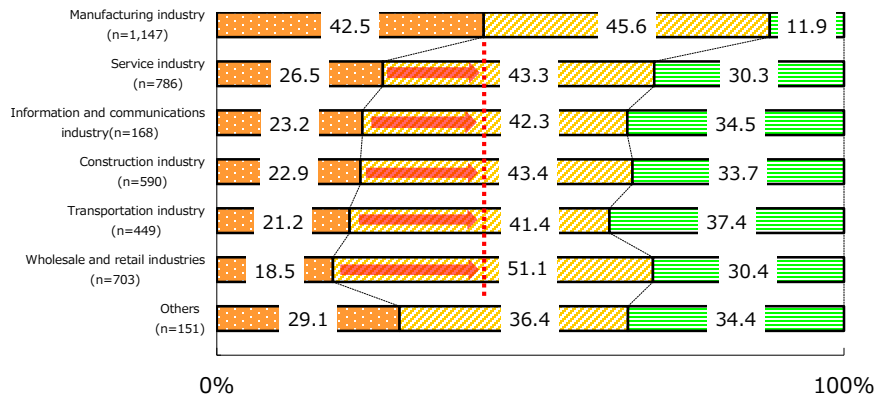
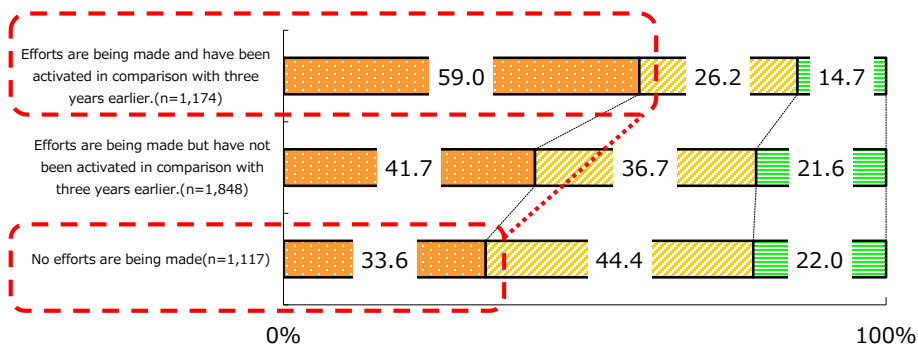


Fig. 2 Productivity compared with three years earlier from the viewpoint of initiatives to introduce cross-trained or concurrently-appointed workers

- Improved
- Unchanged
- Dropped



Figs. 1-2: "Survey of Measures for Productivity Improvement to Address Labor Shortage" (Mitsubishi UFJ Research and Consulting Co., Ltd.) (December 2017)

Fig.2: 1. Data were collected excluding those from SMEs that answered "don't know" concerning productivity compared with three years earlier.

2. Data on labor productivity were collected treating answers "considerably improved" and "moderately improved" as "improved" and "moderately dropped" and "considerably dropped" as "dropped."

[Case example] ENVIRONMENTAL TECHNICAL CO., LTD (Takasaki City, Gunma Prefecture)

An enterprise that has improved its productivity by cross-training employees and standardizing entire operations following the preparation of employees' skill maps

[Outline of the enterprise]

- The enterprise in Takasaki City, Gunma Prefecture, engages in environment assessment surveys and other services. (82 employees and 50 million yen in capital)

[Specific measures]

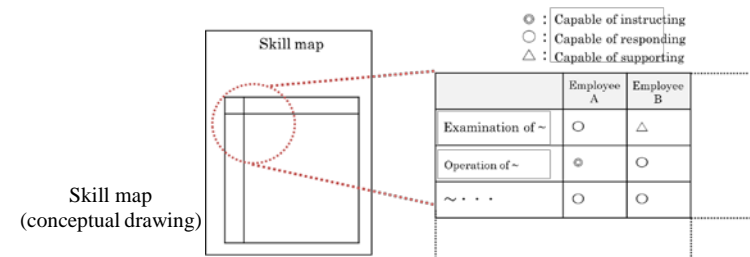
- When an order bias occurred, work centered on an employee conducting specialized surveys and examinations.
 ⇒ Employees' skills were visualized on a list (skill map).
 ⇒ It has become possible to assign employees to other sections flexibly in accordance with their skills.

[Effects]

- The average length of work per capita per year has dropped from 1,500 hours to 1,400 hours.

[Cost]

- Overtime work increased in the first four months until employees became familiar with the work system.



5. Local IT vendors and other familiar SME advisors are important for IT utilization.

- Advisors to SMEs about IT are often local IT makers and sellers. It is important for them to encourage SMEs to introduce IT.

Fig. 1 External IT advisors

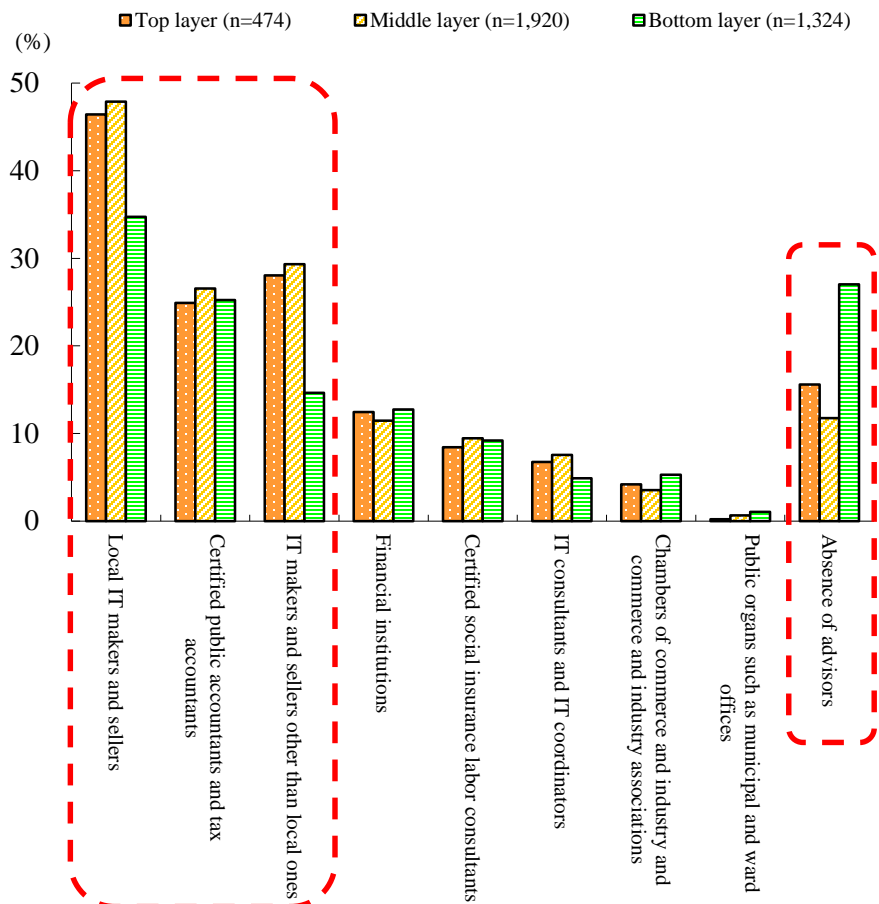


Fig. 1: "Survey of Measures for Productivity Improvement to Address Labor Shortage" (Mitsubishi UFJ Research and Consulting Co., Ltd.) (November 2017)

(Note) 1. The top layer means a group of SMEs that have achieved expected effects of IT utilization, the middle layer a group of SMEs that have achieved effects of IT utilization to some extent, and the bottom layer a group of SMEs that have not achieved effects of IT utilization or have yet to introduce IT.

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

[Case example] EiGrain Co., Ltd. (Hachioji City, Tokyo)

An enterprise that has steadily advanced the utilization of IT through the creation of a long-term relationship with a local IT sales enterprise

[Outline of the enterprise]

- A producer and retailer of bread in Hachioji City, Tokyo (70 employees and 3 million yen in capital)

[Specific measures]

- Although the enterprise has no employee well versed in IT, it has introduced a cloud-computing payroll and employment management system based on a proposal for use of an IT subsidy made by a local IT seller it has maintained a long-term relationship with.
 - ⇒ For each store, attendance data, which used to be managed on paper, are now managed on cloud computing, and payroll accounting is automated.

[Effects]

- The number of employees needed for clerical work has dropped from seven per day to three per day.

[Cost]

- The cloud computing-based payroll and attendance management system and support services cost about 1.8 million yen (utilizing a subsidy for IT introduction)



Store of the enterprise



Representative Director:
Toshio Iwata

6. Effects of IT improve considerably through collaboration among different business units and between enterprises.

- To enhance the effects of IT utilization, it is important to share data between multiple business functions.
- In addition, a further improvement in productivity can be expected from sharing data between SMEs.

Fig. 1 The number of business areas sharing data and labor productivity

[Classification of business areas: finance and accounting/personnel affairs and labor services/customer management/inventory management/order reception and placement]

(Ratio of SMEs that have improved labor productivity, %)

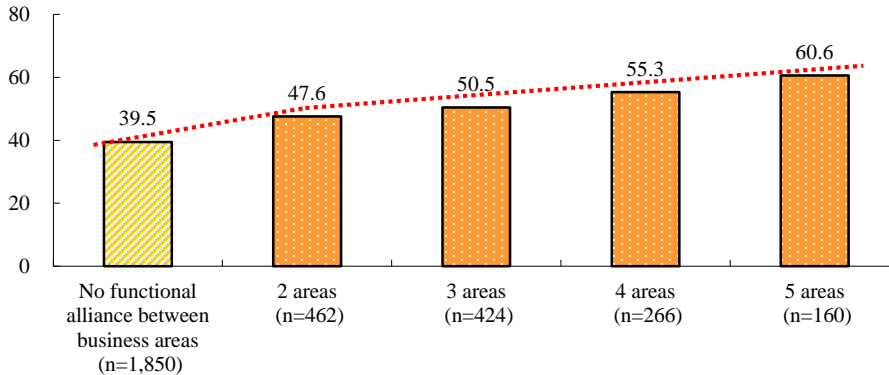
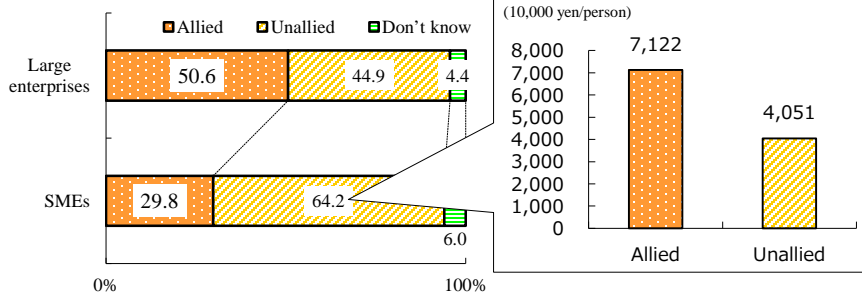


Fig. 2 The state of alliance between SMEs for the implementation of “aggressive IT”

Presence or absence of alliance between SMEs



[Case example] KONNO CORPORATION (Adachi Ward, Tokyo)

An enterprise that is trying to increase added value by creating a system with other enterprises in the same business sector to jointly receive orders, manage manufacturing operations, and share data with them

[Outline of the enterprise]

- A sheet-metal processor in Adachi Ward, Tokyo (36 employees and 30.2 million yen in capital)

[Specific measures]

- The enterprise has achieved successful results through the utilization of in-house cloud computing and proposed a joint order reception system with two enterprises which belong to the same business sector but have separate areas of specialty.

⇒The enterprise has created an IT system to share information on progress in production concerning jointly received orders and the state of inquiries with the two partners on cloud computing.

⇒The enterprise also has opened a portal site for customers.

[Effects]

- The number of jointly received orders came to 15 per year (out of 30 inquiries).

[Cost]

- Running cost is about 15,000 yen to 30,000 yen per month (Separate cost is needed for own development of app).



President and CEO: Hiroyoshi Konno

Fig. 1: “Survey of Measures for Productivity Improvement to Address Labor Shortage” (Mitsubishi UFJ Research and Consulting Co., Ltd) (November 2017)

Fig. 2: “Basic Survey of State of Information Processing” (Ministry of Economy, Trade and Industry) (rearranged and processed)

(Note) 1. “Aggressive IT” means the utilization of IT not only for cost cuts but also for the realization of increases in sales and added value.

2. “Allied” means an SME which has formed an alliance with at least one of “an enterprise in the same business sector,” “an enterprise beyond the same business sector and in a different sector” or “a group of enterprises.”

7. Forward-looking investment is important for improving productivity and needs to be encouraged continuously.

- Business investment by SMEs is on a moderate upward trend.
- Recent business spending mainly aims at maintenance and renovation due to aging equipment. SMEs need to further promote forward-looking investment that can help improve their productivity.

Fig. 1 Business investment by SMEs

(Trillions of yen, the average in the last four quarters)

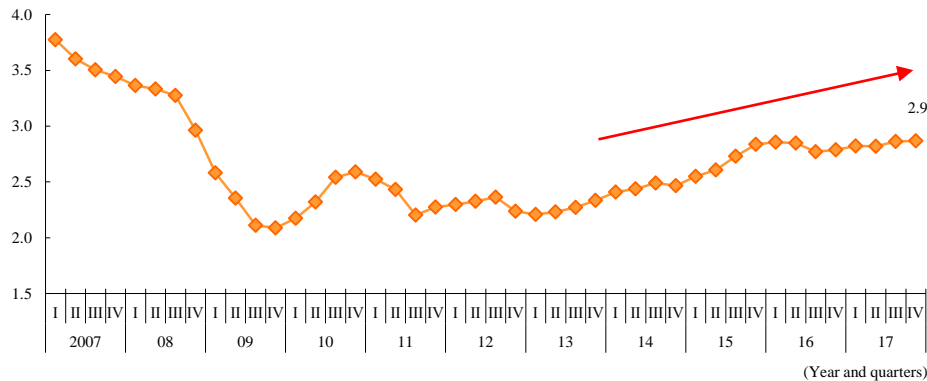


Fig. 2 Purposes of business investment by SMEs

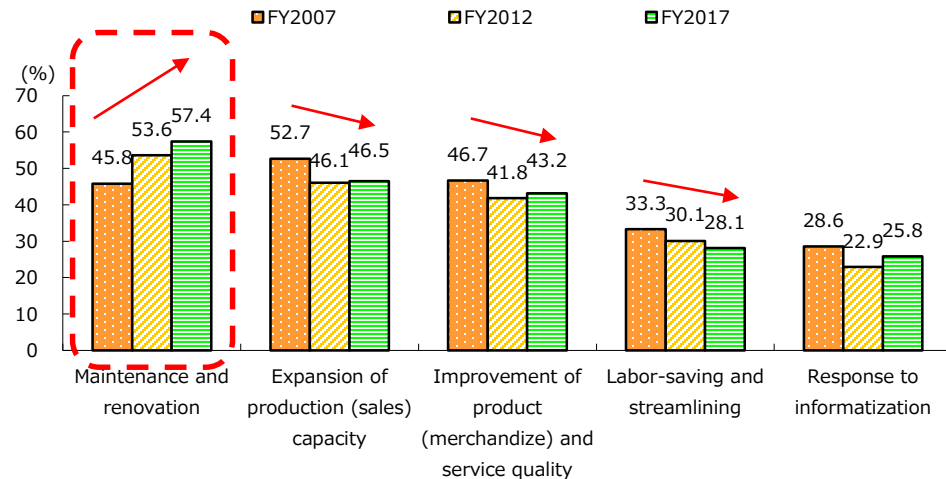


Fig. 1: "Financial Statements Statistics of Corporations by Industry (quarterly report)" (Ministry of Finance)

Fig. 2: "Business Outlook Survey" (Cabinet Office and Ministry of Finance)

(Note) Excerpt of top five forecasts in fiscal 2017

[Case example] Koiwai Co., Ltd. (Miyagi plant)

A plant that has improved its productivity while addressing a shortage of labor with the introduction of a robot and other measures

[Outline of the enterprise]

- A nonferrous metal enterprise in Kanagawa Prefecture. The Miyagi plant engages mainly in metallic casting. (140 employees and 20 million yen in capital)

[Specific measures]

- The plant had a difficult time filling a worker shortage due to dangerous and heavy labor required by metallic casting and the effects of the Great East Japan Earthquake.
⇒The plant has introduced a robot for the highly dangerous process of casting large parts.
- ⇒The plant has also introduced an electric-powered hand lift to make work easier for women.

[Effects]

- The introduction of the robot has increased productivity by 2.3 times and reduced the rate of defective products by 10%.
- The proportion of women has increased to more than half of the part-time and dispatched workers.

[Cost]

- About 50 million yen was invested in the robot (of which 30 million yen was a subsidy from the program to support manufacturers).
- The cost of purchasing the electric-powered hand lift was 820,000 yen.

Before introduction of the robot



After introduction of the robot



8. M&As by SMEs are increasing against the backdrop of business succession and contributing to productivity improvements. Matching of M&As needs to be reinforced.

- The number of M&As by SMEs is currently on an increasing trend against the backdrop of business succession and other issues. M&As offer good opportunities for SME buyers to improve their productivity by taking advantage of synergistic effects.
- As M&A targets are often found through financial institutions and other third parties' introduction, machining work needs to be reinforced.

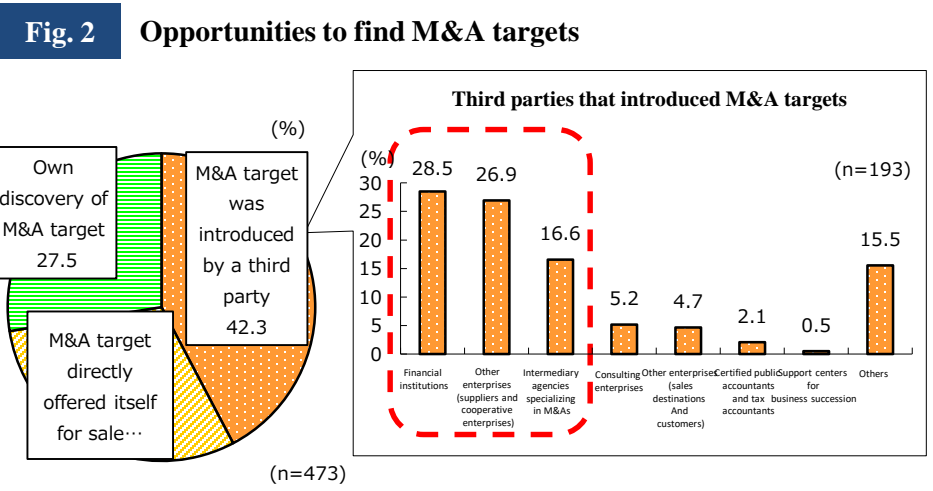
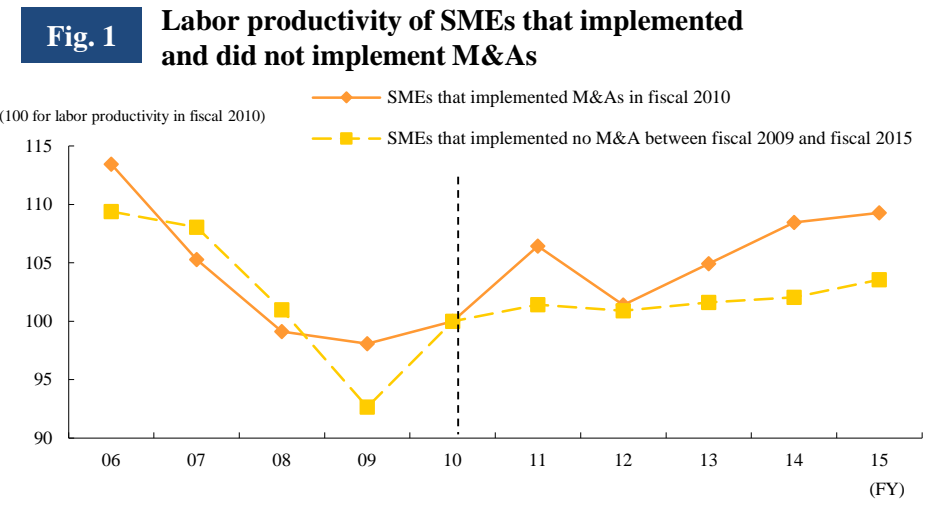


Fig. 1: "Basic Survey of Corporate Activities" (Ministry of Economy, Trade and Industry) (rearranged and processed)
 (Note) Corporate restructuring activities, as mentioned here, means business transfer and acquisition, absorption, and an increase in subsidiaries through acquisition
 Fig. 2: "Survey of Corporate Alliances and Other Issues for Growth" (Mitsubishi UFJ Research and Consulting Co., Ltd.) (November 2017)
 (Note) SMEs that have implemented more than one M&A provided answers about the latest M&As.

[Case example] HME Cooperation (Kuwana City, Mie Prefecture)

An enterprise that has sought to raise its corporate value through M&As

[Outline of the enterprise]
 ➤ The enterprise develops, designs and manufactures measuring machines. (100 employees and 10 million yen in capital)

[Specific measures]
 ➤ The enterprise has acquired operations from three enterprises: operations in a big enterprise that were unable to be continued, operations of a bankrupt enterprise, and operations of an enterprise with difficulty finding a successor. The acquired operations are closely related to the enterprise's business.

[Effects]
 ➤ The enterprise has developed new measuring machines and analytical machines by creating synergistic effects through the combination of the acquired technologies and its own technologies. Group-wide profit and revenue have increased as a result.

[Cost]
 ➤ Business acquisition and other expenses including intermediary fees and expenses for assessing the acquired enterprises' operations.



An infrared ray sensor produced by the enterprise.



President: Kazuya Hattori

9. In many small enterprises, owners handle a large portion of business operations. It is very important that owners' work be streamlined through the introduction of IT and other means.

- In many small enterprises, owners handle a large portion of business operations against the backdrop of labor shortages. Streamlining owners' work by lowering their burden in terms of back-office work through such measures as reviewing operations and introducing IT is urgently needed.

Fig. 1 Measures to address labor shortage

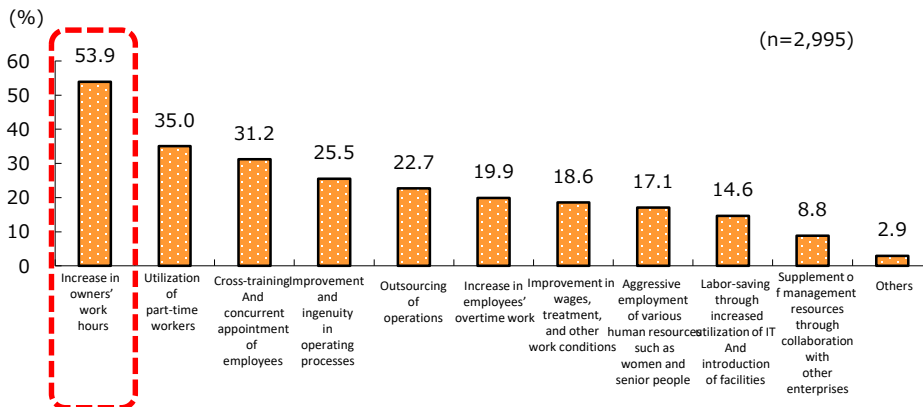
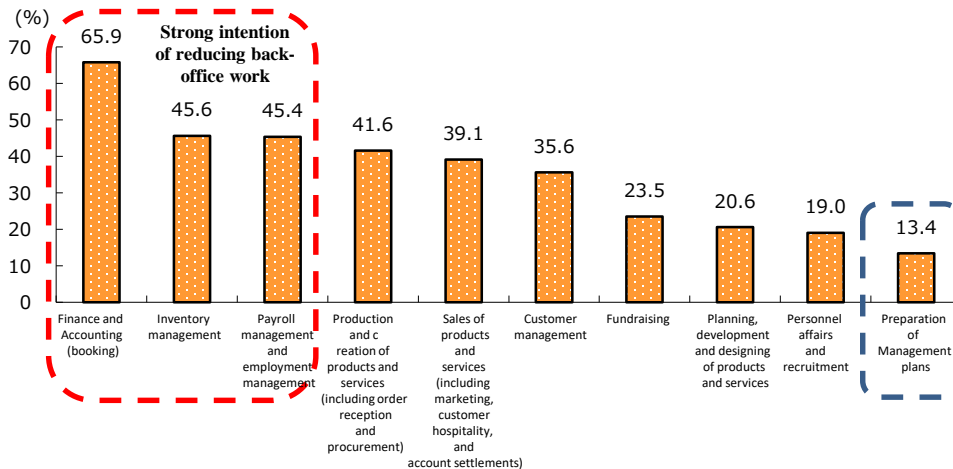


Fig. 2 Owners' intention of cutting work hours



[Case example] Matsuo Noen + Coffee (Matsuura City, Nagasaki Prefecture)

A small enterprise that has been striving to streamline operations and increase sales by such means as adopting mobile point-of-sale registers

[Outline of the enterprise]

- A seed store with a 67-year history (a sole-proprietor business with three employees). Mr. Matsuo opened a café when he succeeded to leadership as its third-generation owner.

[Specific measures]

- The diversification of operations increased the amount of work. The enterprise introduced a cloud computing accounting system and mobile POS registers as recommended by the local chamber of commerce and industry.
 - ⇒ The enterprise has also streamlined its finance operations by linking them to Internet banking.

[Effects]

- Using time saved by the streamlining of operations, the enterprise has opened an online seed shop. Sales have increased thanks to public relations activities through social networking services.

[Cost]

- Cloud computing accounting costs about 900 yen per month.
- The introduction of tablets and other devices for the “air registry” cost a total of 170,000 yen (of which 100,000 yen was a subsidy from the subsidy program for reduced tax rates).



Inside the café

10. Support organizations play important roles for the penetration of policy measures into small enterprises.

- Support organizations, and collaboration between such organizations, have made it possible to smoothly deliver policy measures needed by small enterprises.

[Case example] Izumi Chamber of Commerce and Industry (Kagoshima Prefecture)

- The Izumi Chamber of Commerce and Industry held a session for the announcement of example cases by SMEs, which have adopted subsidies for sustainable growth, for the third consecutive year, encouraging local SMEs to utilize subsidies.
- In addition, the chamber extensively introduces not only subsidies from the Ministry of Economy, Trade and Industry but also grants-in-aid from the Ministry of Health, Labor and Welfare.



Support

[Case example] Bread Factory Mugiho Co., Ltd. (Izumi City, Kagoshima Prefecture)

An enterprise that has increased sales under support from the local chamber of commerce and industry

- A bakery with three employees and 3 million yen in capital
- The enterprise sought advice from the local chamber of commerce and industry when sales declined and adopted a large billboard, using a subsidy from the programs for sustainable growth as advised by the chamber.
- The new billboard enhanced the enterprise's name recognition and contributed to an increase in sales by 3 million yen. The installation of the board cost 240,000 yen (of which 160,000 yen was a subsidy).



[Case example] Fukuoka Yorozu Support Center

A comprehensive support center that has adopted a video phone system enabling counselors with high expertise to give advice to SMEs even in remote areas

- The center has counselors with high expertise, such as a restaurant operator and a director at a TV program production company.
- The center introduced a remote advisory system, using Skype and other software, in November 2014. Setting up inquiry counters at the chambers of commerce and industry and other places, the system has made video phone consultation services available at 24 locations in the prefecture. The cost is low, at less than 20,000 yen for a tablet and other devices.
- An SME operator, who used to spend three hours traveling to the center for advice, and other people, who were reluctant to use the center, now can readily receive advice from counselors with high expertise.
- “As video phone consultation enables both the consulter and consultant to see each other's facial expressions, it considerably enhances the quality of communication in comparison with telephone consultation,” Mr. Sano, chief coordinator at the center, said.
- The center plans to set up inquiry counters in all cities, towns, and villages far from Hakata.

Video phone consultation

