

# 2015 White Paper on Small and Medium Enterprises in Japan and White Paper on Small Enterprises in Japan (outline)

April 2015

Small and Medium Enterprise Agency

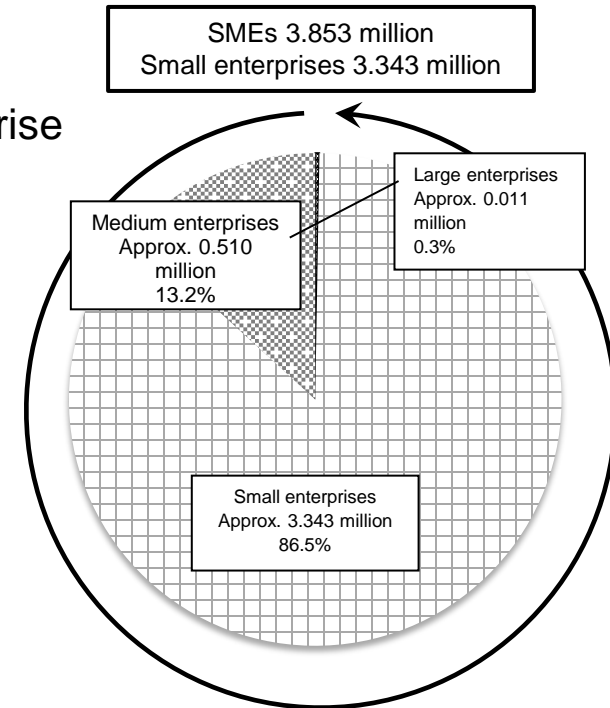
# 2015 White Paper on Small and Medium Enterprises in Japan and White Paper on Small Enterprises in Japan

## <White Paper on Small and Medium Enterprises in Japan>

- Annual Report Based on Article 11 of the Small and Medium-sized Enterprise Basic Act (Statutory White Paper)
- The 52<sup>nd</sup> White Paper; Scheduled to be approved by the Cabinet and submitted to the Diet on April 24, 2015.

## <White Paper on Small Enterprises in Japan>

- Annual Report Based on Article 12 of the Basic Act for Promoting Small Enterprises (Statutory White Paper)
- The 1<sup>st</sup> White Paper; Scheduled to be approved by the Cabinet and submitted to the Diet on the same day as the approval and submission of the White Paper on Small and Medium Enterprises.



Business type	Definitions under the Small and Medium-sized Enterprise Basic Act		
	SMEs		Small enterprises* (Micro businesses)
	Stated capital or number of employees		Employees
Manufacturing industry and others	300 million yen or less	300 or fewer	20 or fewer
Wholesale trade industry	100 million yen or less	100 or fewer	5 or fewer
Service industry	50 million yen or less	100 or fewer	5 or fewer
Retail trade industry	50 million yen or less	50 or fewer	5 or fewer

	Number of enterprises	Number of employees
Large enterprises	0.011 million	13.97 million
SMEs	3.853 million	32.17 million
Small enterprises	3.343 million	11.92 million

\*Note: In order to differentiate businesses in an understandable manner that sole proprietorships are also included, rather than the term “small enterprises,” the term “micro businesses” will be used hereinafter.

# Structure of the 2015 White Paper on Small and Medium Enterprises in Japan

## Part I. Developments among SMEs and Micro Businesses\* in FY 2014

- Chapter 1 Economic Developments in Japan
- Chapter 2 Developments among SMEs and Micro Businesses
- Chapter 3 Environment Surrounding SMEs and Micro Businesses

## Part II. Further Dramatic Growth of SMEs and Micro Businesses

- Chapter 1 Innovations and Development of Sales Channels by SMEs and Micro Businesses
- Chapter 2 Securement and Fostering of Human Resources by SMEs and Micro Businesses

## Part III. Considering “Regions”

### –Confronting Their Own Changes and Characteristics–

- Chapter 1 Specific Efforts for Regional Revitalization
- Chapter 2 Responses by Regions in Light of Changes in Economic and Social Structures

#### Note about the term “SMEs and micro businesses”:

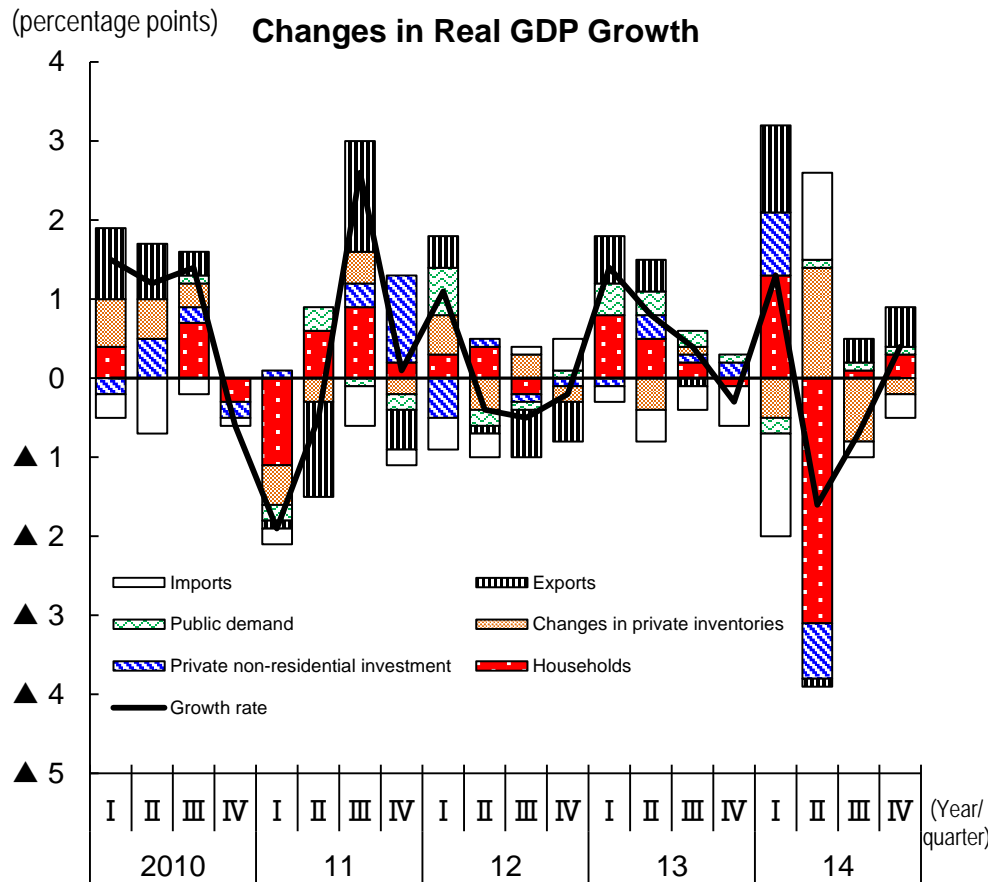
The term “small and medium enterprise” is defined in Article 2, Paragraph 1 of the Small and Medium-sized Enterprise Basic Act as a concept that even includes small enterprises. However, the government uses the term “SMEs and micro businesses” in order to expressly indicate that sole proprietorships are included in the scope of measures and support. Accordingly, the term “SMEs and micro businesses” shall be used in this White Paper, excluding cases where this term is used as a strict legal term and cases where there are statistical restrictions.

# Part I

## Developments among SMEs and Micro businesses in FY 2014

# I. Developments among SMEs and Small enterprise in FY 2014 (1)

- Although the Japanese economy has recovered, primarily driven by domestic demand including consumer spending, **GDP growth rates fell into the negative for two consecutive quarters, the second quarter and the third quarter of 2014**, because **consumer spending was weak**, due to **the impacts of the consumption tax hike** and other causes. Thereafter, GDP growth rates **turned positive in the fourth quarter of 2014**, due to **growth in exports** and **increases in consumer spending**.
- Although business conditions for SMEs steadily continued to improve from the first quarter of 2013, **they deteriorated in the second quarter of 2014**. Thereafter, there were periods when they remained flat. But currently, **they are showing movement toward picking up**.



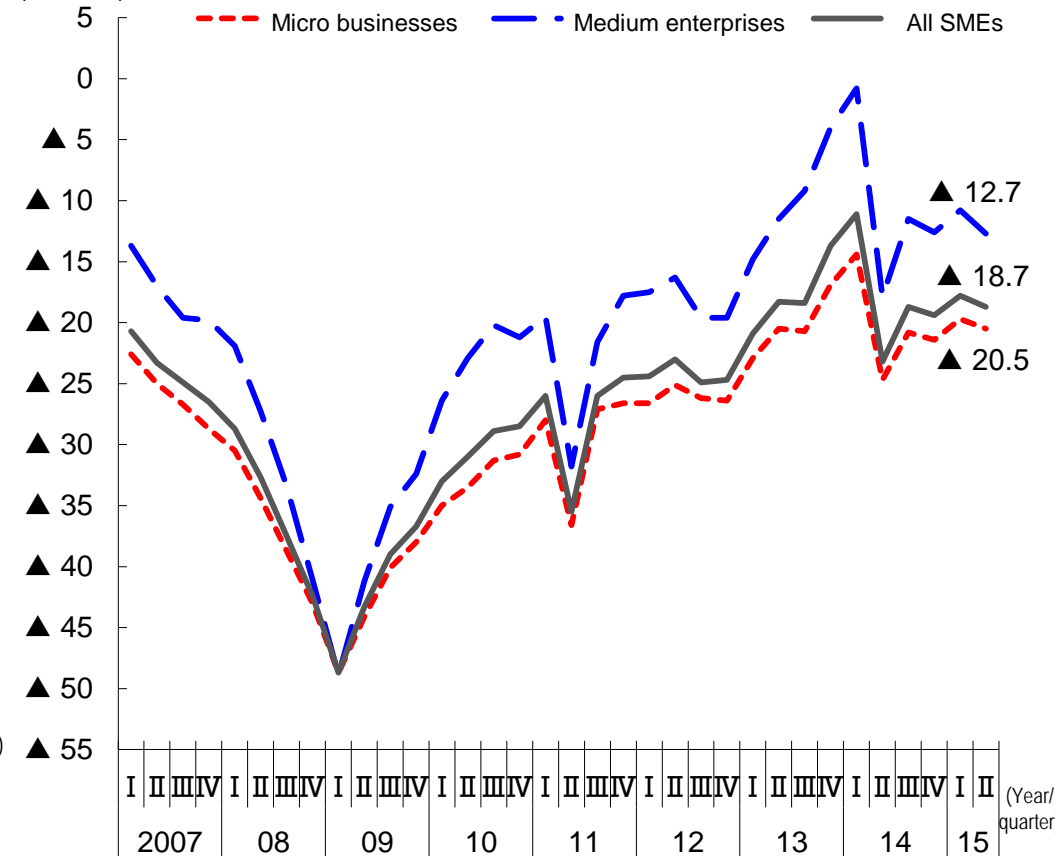
Source: National Accounts of Japan, Cabinet Office

Notes: 1. Chained at prices in CY 2005

2. Figures are sourced from the 2<sup>nd</sup> Preliminary Quarterly Estimates of GDP Oct.-Dec. 2014 (announced on March 9, 2015).

## Trends in Business Conditions DI for SMEs and Micro businesses by Enterprise Size

(Diffusion Index, seasonally-adjusted change from the previous quarter)



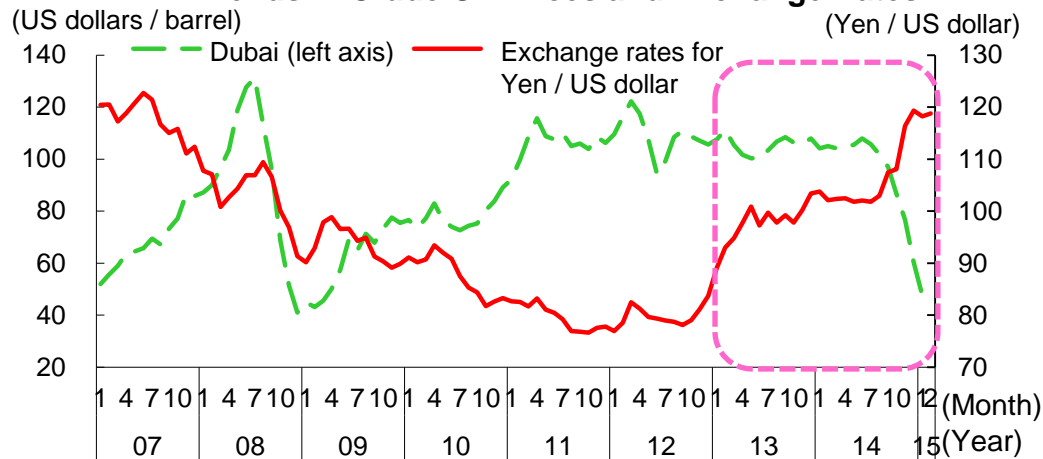
Source: Survey on SME Business Conditions, Small and Medium Enterprise Agency (SMEA) and Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ)

Note: The business conditions DI is calculated by subtracting the percentage of enterprises that answered "worsened" from the percentage of enterprises that answered "improved" when questioned about business conditions in comparison with the previous quarter.

## I. Developments among SMEs and Small enterprise in FY 2014 (2)

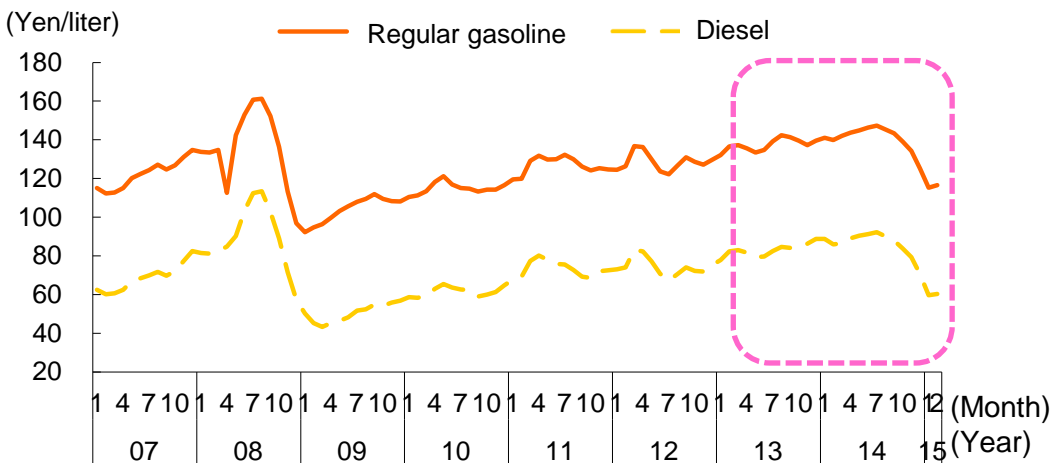
- Since 2013, the prices of domestic petroleum products have been on the rise against the background of a trend toward a depreciation of the yen. Due to this rise, SMEs' and Micro businesses' unit purchase prices for raw materials have been on the rise. During the rise of unit purchase prices, their unit selling prices and average sales per customer have also been on a moderate rise. However, the rise in unit purchase prices of raw materials pushed down profits.
- Due to the decrease in crude oil prices, the prices of domestic petroleum products have decreased as well since the autumn of 2014. Meanwhile, the profitability of SMEs and Micro businesses is continuing to face a challenging environment, and it is thus important to continue to take countermeasures so that a rise in the unit purchase price can be shifted to the selling price.

## Trends in Crude Oil Prices and Exchange Rates



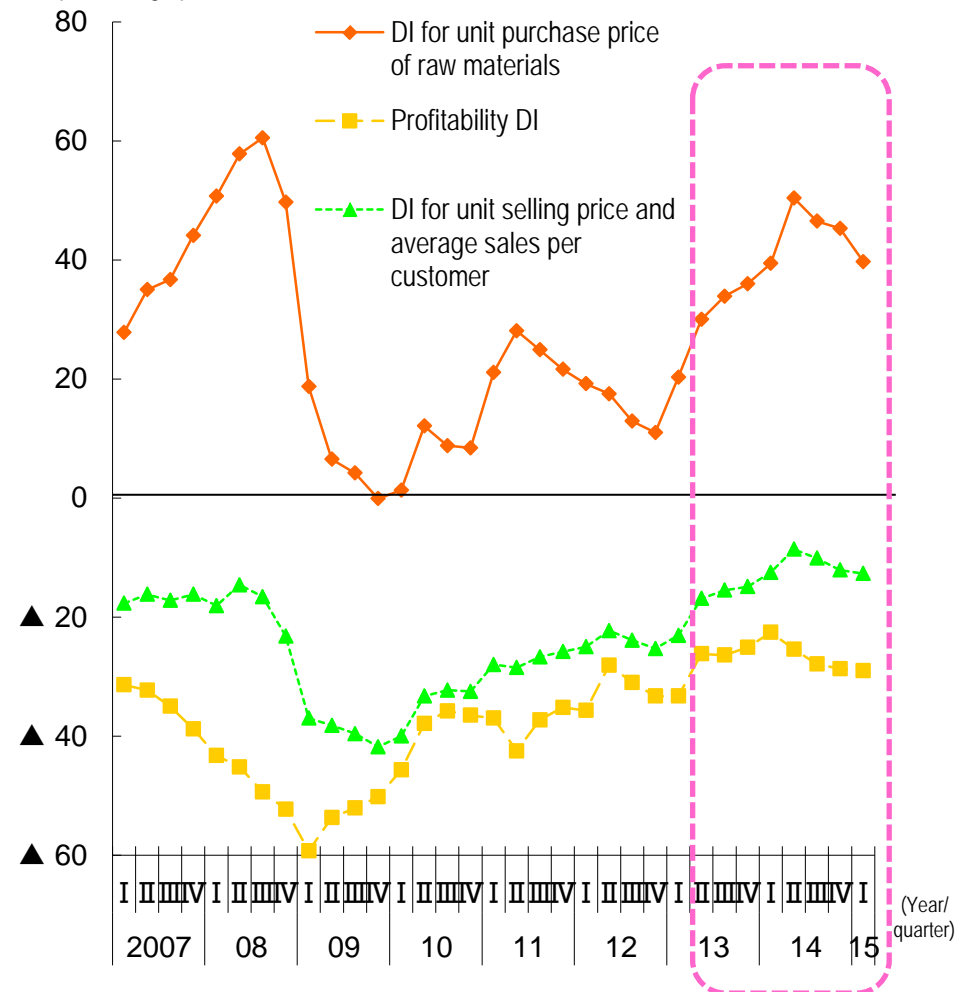
Source: Primary Commodity Prices, IMF; Bloomberg

## Trends in Prices of Domestic Petroleum Products



Source: Survey of Petroleum Product Prices, Agency for Natural Resources and Energy, METI

**DI, percentage points**

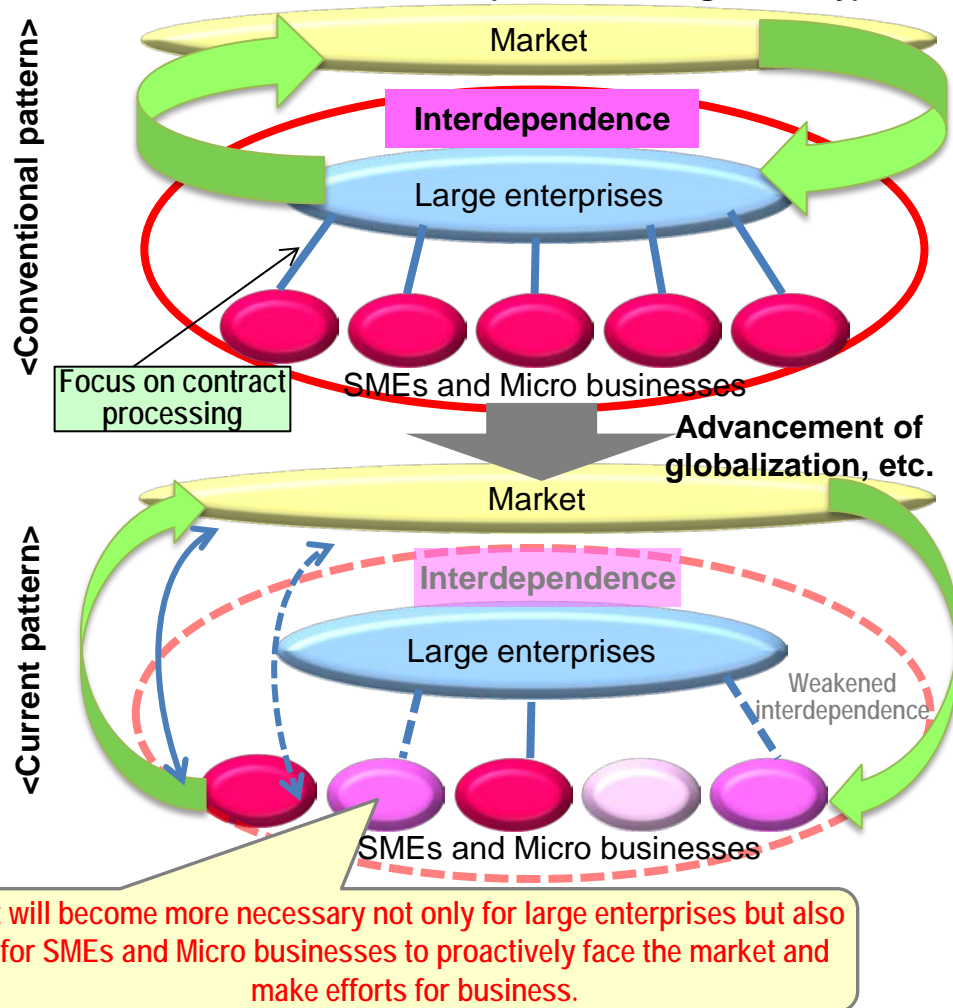


Source: Survey on SME Business Conditions, Small and Medium Enterprise Agency (SMEA) and Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ)

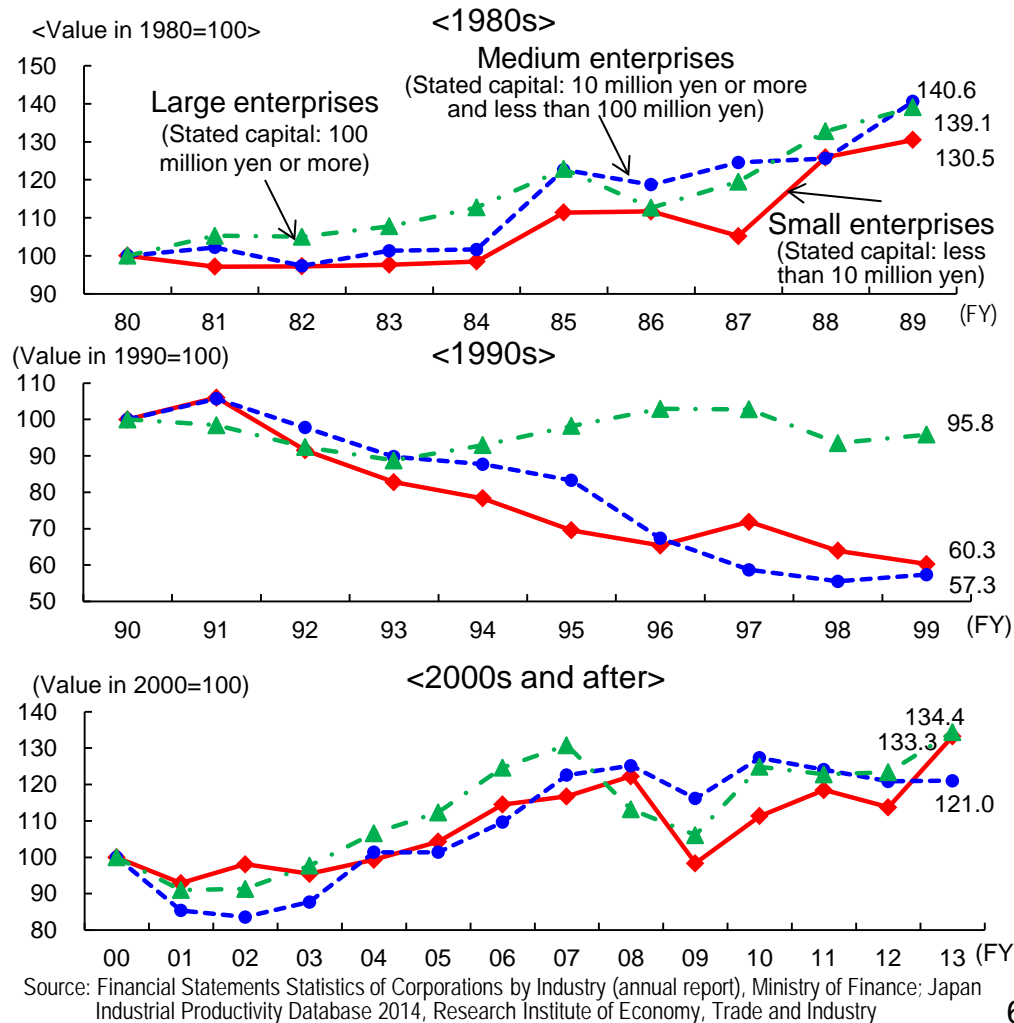
# I. Environment Surrounding SMEs and Small enterprises (1)

- Under the interdependence that has conventionally existed between large enterprises and both SMEs and Micro businesses, SMEs and Micro businesses, which have focused on contract processing as their business, have enjoyed the benefit of the demand that large enterprises have been able to garner from the market.
- However, the interdependence between large enterprises and both SMEs and Micro businesses has become shallow against the background of the advancement of globalization, which is forcing SMEs and Micro businesses to directly face the market and to gain demand by themselves.
- Looking at the long-term growth patterns of large enterprises and both SMEs and Micro businesses, both groups grew together in the 1980s. But their growth patterns came to vary in the 1990s, and both groups grew again in the 2000s. However, changes, including the fact that disparities in earning power between enterprises of the same scale, have been identified (more details will be given later).

## Changes in the Structure of Transactions of Large enterprises, SMEs, and Micro businesses (Manufacturing Industry)



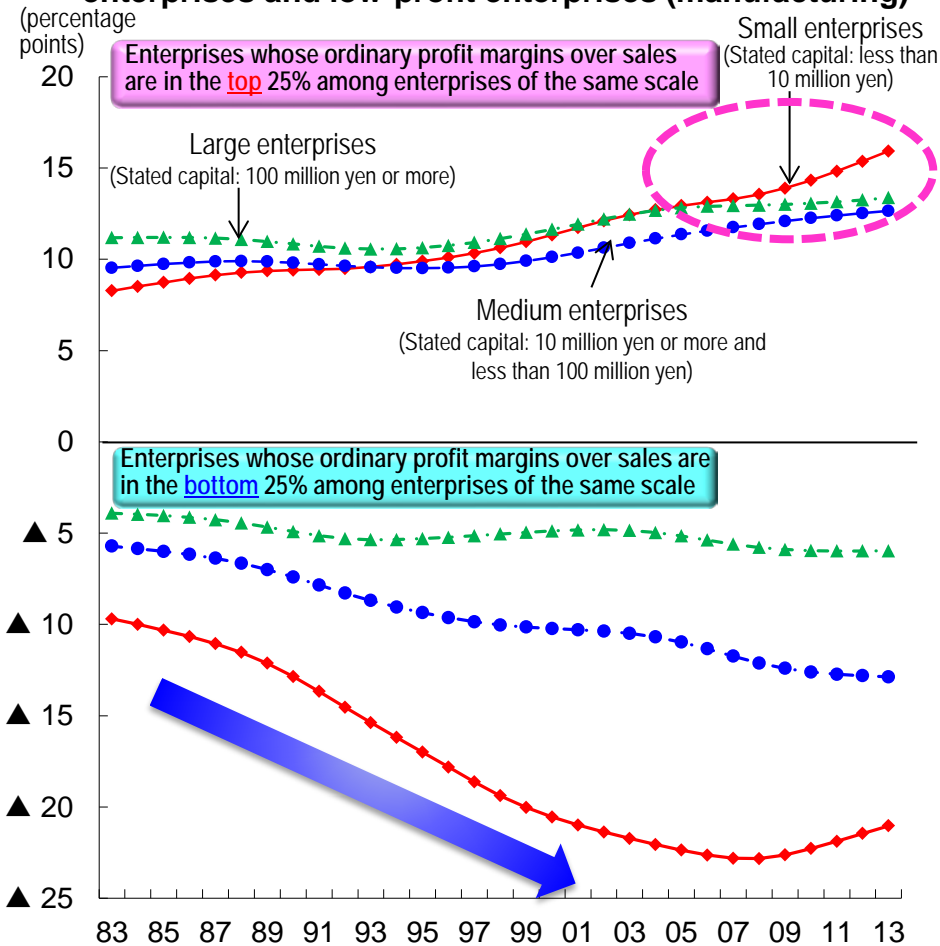
## Changes in Real Value Added per Enterprise (Manufacturing Industry)



# I. Environment surrounding SMEs and Small enterprises (2)

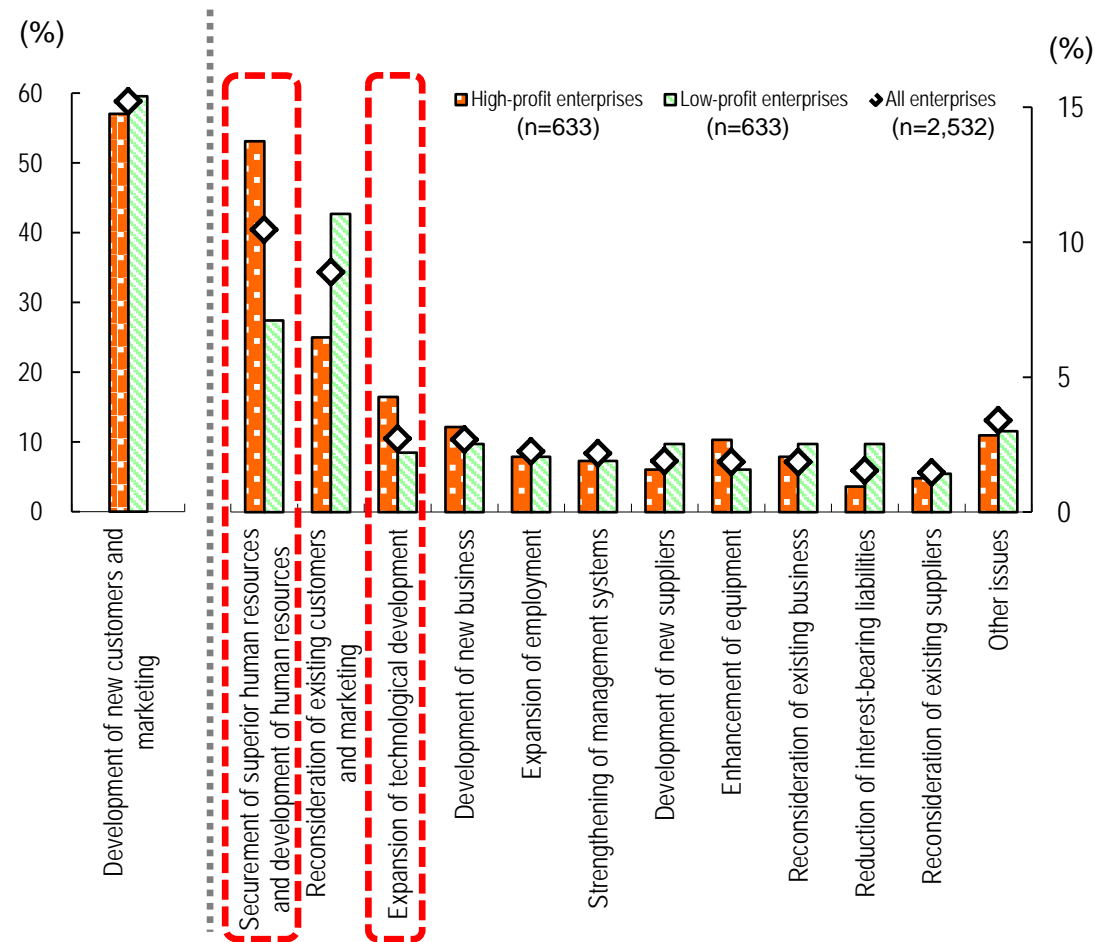
- As for the trend toward a disparity in earning power between enterprises of the same scale, the disparity is expanding. In particular, the disparity between Small enterprises is widening, and the earning power of low-profit Small enterprises continues to decline. Meanwhile, the earnings ratios of high-profit Small enterprises surpass even those of large enterprises.  
 (\*) Enterprises whose ordinary profit ratios are in the top 25% among enterprises of the same scale are defined as high-profit enterprises, and those whose ordinary profit margins over sales are in the bottom 25% are defined as low-profit enterprises.
- Concerning the issues in moving towards an improvement in earning power, both high-profit enterprises and low-profit enterprises are acutely focused on the development of new customers and marketing. Meanwhile, compared to low-profit enterprises, high-profit enterprises are acutely focused on the securement of superior human resources, development of human resources, and expansion of technological development.

## Ordinary profit margins over sales of high-profit enterprises and low-profit enterprises (manufacturing)



Source: Recompiled from Financial Statements Statistics of Corporations by Industry (annual report), Ministry of Finance (FY)

## Issues in moving towards the improvement of earning power



Source: Survey on the Structural Competitiveness of Large Enterprises and SMEs, Teikoku Databank, Ltd., under contract from SMEA, September 2014



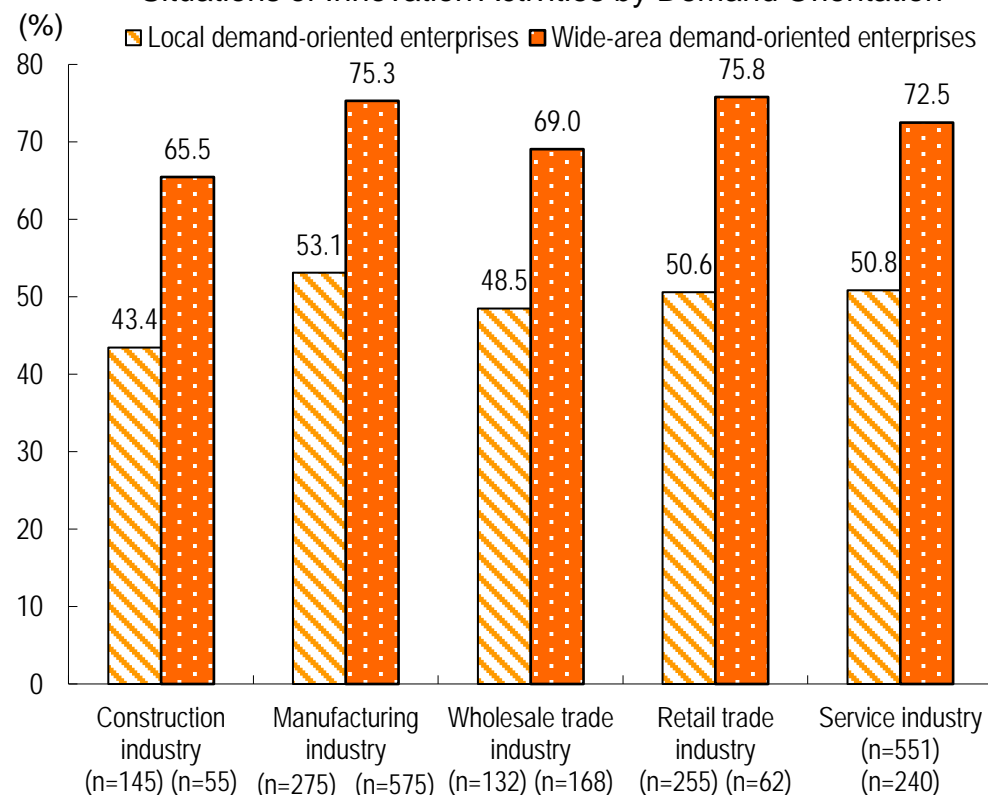
# Part II

## Further Dramatic Growth by SMEs and Micro businesses

## II. Further Dramatic Growth of SMEs and Micro businesses – Innovation (1) Actual State of Innovation Activities –

- Innovation activities in general give many people the strong impression that the scale of these activities is relatively large and that these activities are efforts taken by business operators who support large areas.
- When examining the situations of activities performed towards the realization of innovations, breaking down SMES into local demand-oriented enterprises and wide-area demand-oriented enterprises, it appears that **wide-area demand-oriented enterprises are conducting these activities more proactively**.  
\*As for the target markets, enterprises that prefer to focus on the same municipality or prefecture as the one in which they reside in the future are defined as local demand-oriented enterprises, and enterprises that focus on all prefectures or foreign countries are defined as wide-area demand-oriented enterprises.
- When examining the specific details of efforts by scale of enterprise, **medium enterprises** are making **efforts that revitalize their organization and human resources** including “cooperation across departments” and “enhancing human talent base through recruiting mid-career personnel” more proactively than Small enterprises.
- Also, when examining the specific details of efforts by demand orientation, **the larger the trade area an enterprise operates within**, the more proactive efforts considering factors outside of the enterprise including **research and development for differentiation in the market** and **efforts to expand external cooperation** seem to be made.

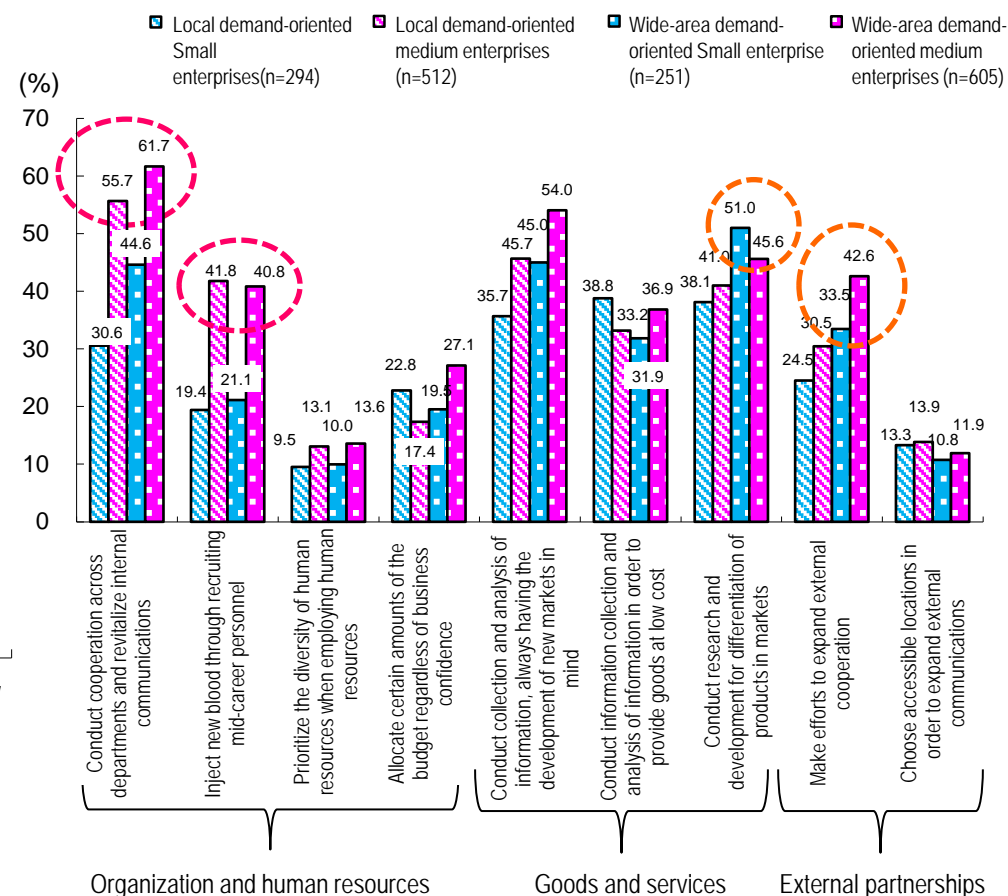
Situations of Innovation Activities by Demand Orientation



Source: *Surveys on Development of Markets and New Efforts*, Mitsubishi UFJ Research and Consulting Co., Ltd., under contract from SMEA, December 2014

Note: The percentages in the figure above are calculated based on the total number of enterprises that conducted innovation activities performed towards realizing either product innovations or process innovations during the past three years.

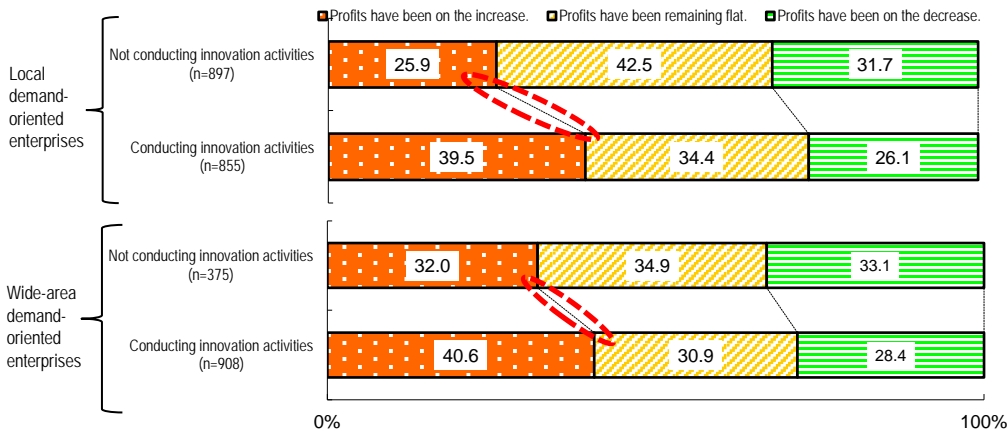
Efforts enterprises make for innovations



## II. Further Dramatic Growth of SMEs and Micro businesses – Innovation (2) Outcomes of and Issues from Innovation –

- Enterprises that are making efforts for activities towards the realization of innovations, even if they are local demand-oriented enterprises, tend to be **increasing their profits**. It is thought that local demand-oriented enterprises should thus make efforts for innovation activities to proactively continue to improve their productivity and enhance their earning power.
- When examining challenges in making efforts for innovations, there are many enterprises that consider the assessment of necessity and timing difficult; for example, some stated, “it is difficult to assess the necessity of efforts,” and, “it is difficult to assess the timing of commercialization.” When examining enterprise issues by scale of enterprise, **many medium enterprises list issues concerning human resources while many Micro businesses list issues concerning funding**.

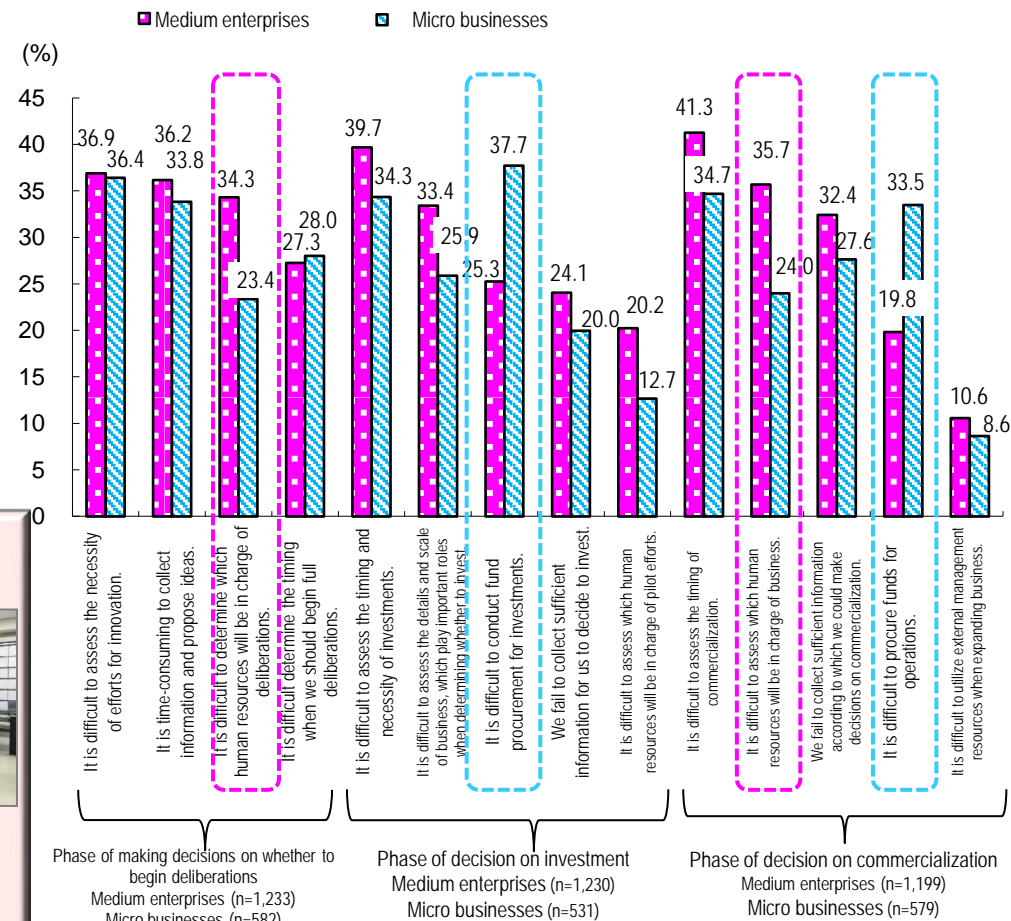
Trends in Ordinary Profits by Orientation of Demand and Status of Innovation Activities



Source: Surveys on Development of Markets and New Efforts, Mitsubishi UFJ Research and Consulting Co., Ltd., under contract from SMEA, December 2014

Note: Enterprises that answered, “our profits have been on a significant increase,” and, “our profits have been slightly on the increase” concerning the trends in their ordinary profits for the most recent three years are classified under “Profits have been on the increase,” and enterprises that answered, “our profits have been on a significant decrease,” and, “our profits have been slightly on the decrease,” are classified under “Profits have been on the decrease.”

Issues by process in innovation



Source: Surveys on Development of Markets and New Efforts, Mitsubishi UFJ Research and Consulting Co., Ltd., under contract from SMEA, December 2014

Note: The total may not be 100% due to multiple answers.

### [Example 1] Soak CO., LTD. (Ota Ward, Tokyo Prefecture)

A local demand-oriented enterprise that has realized improvement of customer service by introducing IT

- This enterprise has been engaged in the real estate and building industries in Ota Ward, Tokyo. It was established in 2000 and **has provided its customers with finely tuned support by collecting and incorporating regional real estate information, as an enterprise rooted in the local community.**
- Local real estate enterprises generally showed customers real estate information on paper and used faxes for communication in the past, but in recent years, portal sites for real estate run by large enterprises have been increasing, enormous amounts of real estate information is available, and anyone can search and access the information. **In the past, there were some advantageous aspects to agents having their own real estate information, but now, the balance of demand and supply has reversed, and the environment surrounding the market has largely changed.**
- Early on amidst this changing environment, this enterprise **introduced a cloud service** provided by a major IT enterprise in 2009. Using functions such as data management and a calendar through the cloud service **allowed the enterprise to succeed in sharing information within the enterprise and making progress in operational efficiency.** Response time for customer requests dramatically improved by speeding up information sharing within the enterprise in addition to improvements in productivity because of this improved operational efficiency. **Responses to customer needs are becoming more finely tuned, and consequently profit is increasing.**



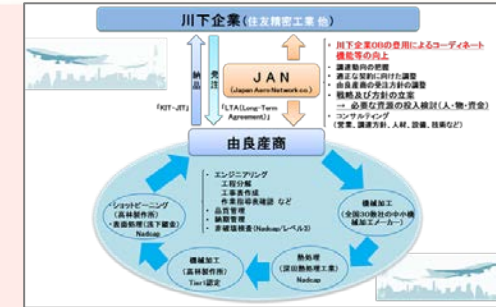
## II. Further Dramatic Growth of SMEs and Micro businesses – Innovation (3) Specific Cases –

- Partnerships between enterprises are important in making efforts for innovation activities
- In order to achieve business success in partnerships between enterprises, the presence of entities that serve as cores of such partnerships is important. The existence of enterprises or offices that are the cores of such partnerships, which serve to coordinate between all these enterprises, is thought to facilitate the winning of orders from downstream enterprises.

### Example 2] Japan Aero Network Co., Ltd. (Osaka City, Osaka Prefecture)

A group of enterprises that formed a network between small and medium enterprises (SMEs) and succeeded in meeting demand

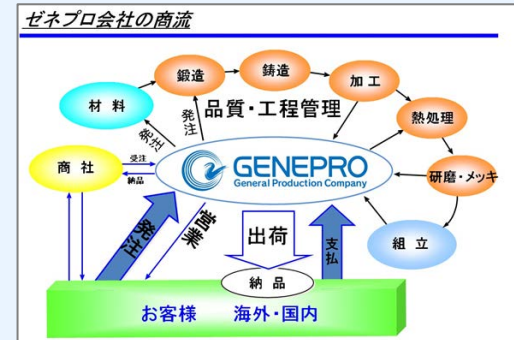
- This group of enterprises was formed by four SMEs in Japan, with one of them, YURA Sansho Co., Ltd. (Osaka City), a wholesaler of screws, as a core member.
- By understanding the needs of downstream manufacturers, the group makes capabilities such as special processes and non-destructive inspection available within the network, which allows them to implement the “integrated production of parts,” having responsibility for the entire process from orders received through the final quality assurance of products and shipping, and to deliver the necessary amount of complete parts just in time to meet demand from downstream factories.



### Example 3] General Production Company (Seikacho, Kyoto Prefecture)

An example of winning orders by pulling single-process enterprises together

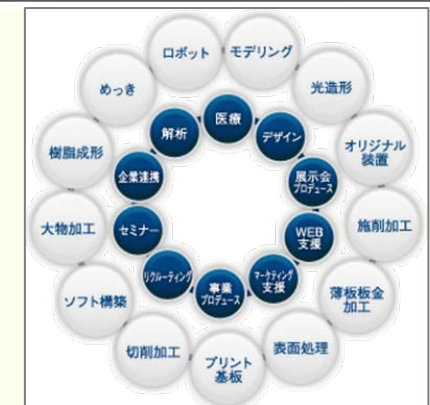
- A Kyoto-based enterprise engaging in the manufacture and sale of precision machine parts. This enterprise pulls together mid-ranking and small and medium enterprises which have advanced processing technologies and are the best in Japan or at the top level in the world especially in the fields of single processes (such as casting, forging, processing, heat treatment, surface treatment, pressing, forming, and die-casting), manufactures the best quality parts and units by managing what happens between processes, and sells them all over the world.
- This enterprise believes that Japan's unique technologies from unprecedentedly specialized single-process enterprises have supported industries in Japan, and it has done business in cooperation with industry, government, and academia to sustain "Monodzukuri (manufacturing) Japan" as globalization progresses.



### Example 4] A network for prototyping in Kyoto (Kyoto Prefecture)

A group of enterprises that formed a network of SMEs and succeeded in meeting demand

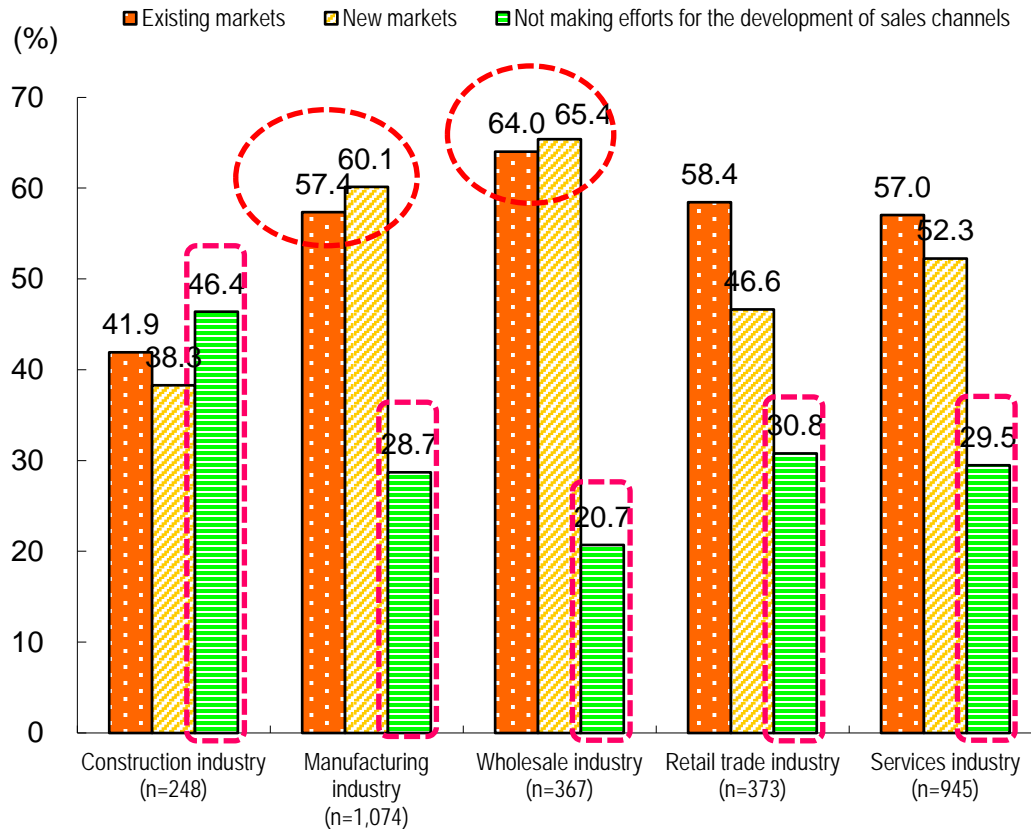
- This network comprises SMEs related to machinery and metals in southern Kyoto and “provides solutions specialized for prototyping” from the processing of parts through the development of devices.
- By forming a network of enterprises having advanced technologies such as cutting and surface treatment, it realizes multiple processes, which cannot be done by single enterprises, and this enables the network to take commissions for challenging prototypes. At the present, the network receives inquiries from around the nation because it has developed an integrated system from the processing of parts through the development of devices.
- It gives first priority not to “cost” but to “speed,” which is the most important factor at the development stage. So, it built a mechanism by which customers can order through its website and can expect to receive a quote within two hours, which streamlines the development of products.



## II. Further Dramatic Growth of SMEs and Micro businesses – Development of Sales Channels (1) – Efforts for Developing Sales Channels and Amounts of Sales by SMEs and Micro businesses –

- When examining the efforts for developing sales channels conducted by SMEs and Micro businesses by breaking down these efforts into those in existing markets and those in new markets, the percentages of enterprises that are making efforts to develop sales channels in new markets are higher in the manufacturing industry and wholesale industry than those in other industries. Meanwhile, the percentage of enterprises that answered, "not making efforts for the development of sales channels," is anywhere from 20% to over 40%.
- When examining the percentage of enterprises that achieved their sales targets as a function of their understanding of the market, the percentages of enterprises that achieved their sales targets in new markets are lower in general compared to those in existing markets, which shows that it may be difficult for SMEs and Micro businesses to develop new markets.
- Meanwhile, the degree of progress toward the goals of enterprises that answered, "We understand the needs, trade area, and scale of markets," is higher compared to that of enterprises that answered, "We don't understand them."

Efforts for the Development of Sales Channels by Industry and Market

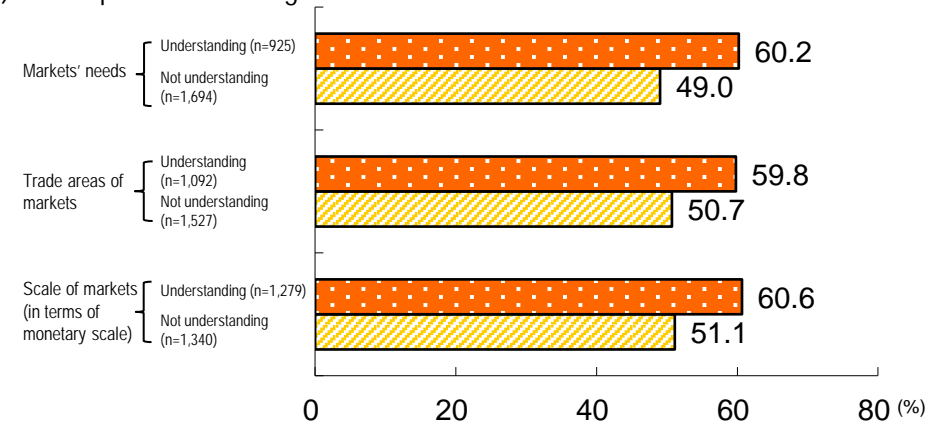


Source: Survey on Development of Markets and New Efforts, Mitsubishi UFJ Research and Consulting Co., Ltd., under contract from SMEA, December 2014

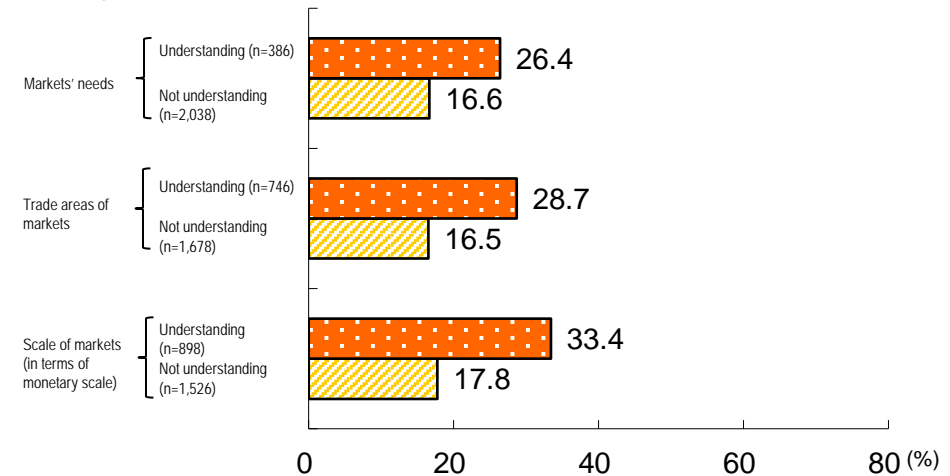
Note: The total may not be 100% due to multiple answers.

Progress towards sales targets by situation of the understanding of markets

(1) Development of existing markets



(2) Development of new markets

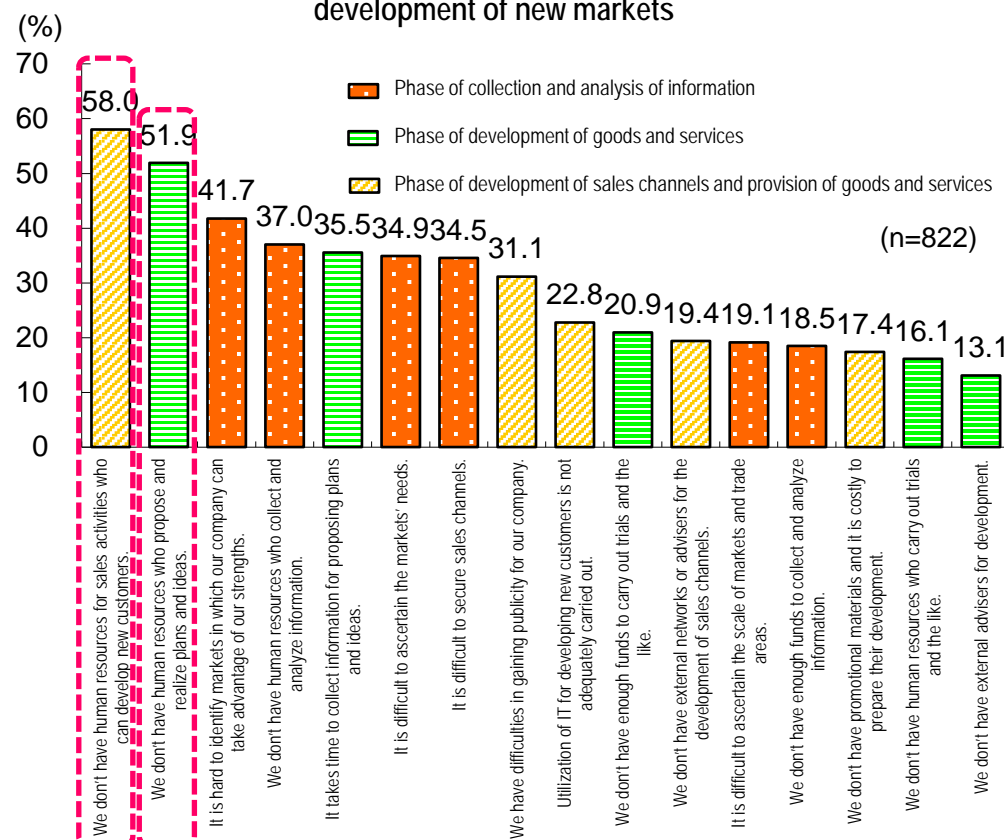




## II. Further Dramatic Growth of SMEs and Micro businesses – Development of Sales Channels (1) Issues in Development of Sales Channels –

- When examining the issues in developing new markets that enterprises that failed to achieve their sales targets are facing, it appears that the percentage of enterprises that are facing issues concerning human resources is the highest, and the percentage of enterprises that are facing issues concerning marketing including collection and analysis of information is the second highest.
- More than 50% of enterprises that are facing a shortage of human resources fail to acquire external human resources. Many enterprises and businesses list "cannot expect to earn profit that pays off the costs." as a reason for this failure.
- Also, when examining attitudes concerning marketing towards the future development of markets, it can be seen that more than 60% of enterprises have the intention to conduct market surveys. Furthermore, when breaking down markets to be developed into existing markets and new markets, it can be seen that the drive to conduct market surveys for developing new markets is stronger than that for developing existing markets.

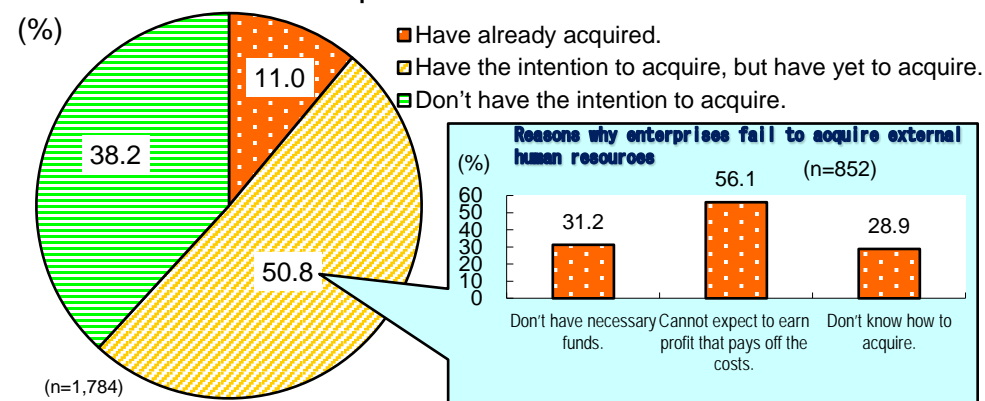
Issues facing enterprises that failed to achieve their sales targets in the development of new markets



Source: Survey on Development of Markets and New Efforts, Mitsubishi UFJ Research and Consulting Co., Ltd., under contract from SMEA, December 2014

Note: The total may not be 100% due to multiple answers.

Intentions of enterprises that are facing a shortage in human resources to acquire external human resources

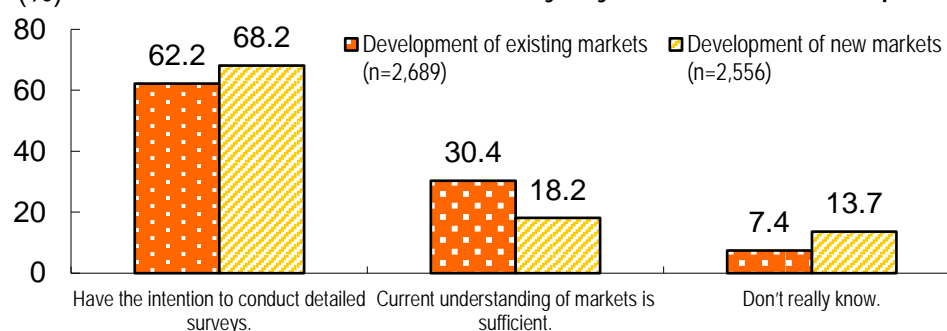


Source: Survey on Development of Markets and New Efforts, Mitsubishi UFJ Research and Consulting Co., Ltd., under contract from SMEA, December 2014

Note 1: The percentages in the figure above were calculated for enterprises that are facing issues concerning human resources among issues in the development of sales channels.

2: "Acquisition of external human resources" refers to the recruitment of human resources who have the ability to develop sales channels regardless of whether they are new graduates or mid-career personnel.

Attitudes towards future market surveys by markets to be developed



Source: Survey on Development of Markets and New Efforts, Mitsubishi UFJ Research and Consulting Co., Ltd., under contract from SMEA, December 2014

### III. Further Dramatic Growth of SMEs and Micro businesses – Development of Sales Channels (3) Specific Cases –

- It is necessary to change the idea of producing “goods with better quality” to an idea of producing “goods that sell well.” The possibilities of the development of new sales channels will be increased by establishing brands such as by meeting the market needs and leveraging the power of designs.
- It is also important for local SMEs to continue to expand their businesses not only in the domestic market but also in the growing overseas market. As methods for developing sales channels, enterprises can exhibit products at overseas exhibitions as well as directly sell products to overseas consumers on the Internet.

#### [Example 1] ONAO CO., LTD. (Ichikawamisatocho, Yamanashi Prefecture)

- A traditional manufacturer which engages in the manufacture and sale of shoji paper launched a new business and developed products such as bags and wallets made of Naoron, which is a paper that does not easily tear, developed by the enterprise in cooperation with industrial designers.
- The products are sold in 18 countries and are well accepted because of the distinctive paper's good texture, sophisticated design, and other characteristics.



#### [Example 3] The Ono City Hardware Wholesalers Cooperative Union (Ono City, Hyogo Prefecture)

- Although the city is famous for cutlery manufacturing, the value of shipments of cutlery has decreased to half of what it was over the last 50 years. Young members of the Cooperative Union who felt the crisis in this situation took the lead to establish a new brand, Banshu Hamono, in cooperation with local designers.
- The designers themselves prepare materials for PR, actively promote Banshu Hamono on their own, and are succeeding in the development of overseas markets.



#### [Example 2] Efforts of Higashiosaka City, Osaka Prefecture (The example of Ohshin Co., Ltd)

- This city integrated designs and technologies under the Higashiosaka Design Project. Ohshin Co., Ltd adopted designs fitting for modern dining tables, in cooperation with designers, with the idea of making an earthenware pot which can also be used all over the world.
- Taking the opportunity to exhibit at an international trade fair in France, it started sales in France, and succeeded in the development of overseas markets, mainly through overseas and domestic online shopping.



#### [Example 4] Navibird Co., Ltd. (Osaka City, Osaka Prefecture)

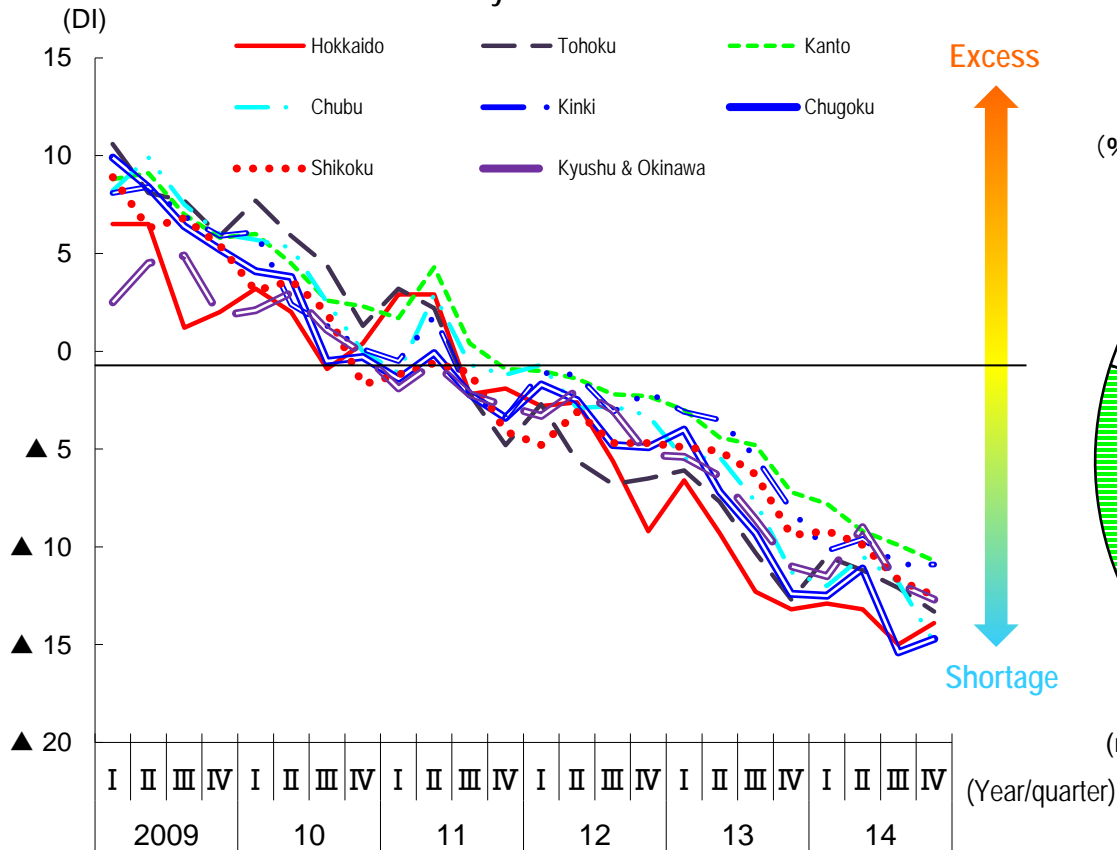
- This enterprise is developing a B to C internet mail order business for overseas markets. Through a multilingual website (Japanese, English, and Chinese), it sells products popular in Japan including fashion, sundry goods, foods, and traditional crafts for women to more than 700,000 consumers in 120 countries.
- This enterprise's strength is its ability to deliver a large amount of various products at once, significantly reducing shipping costs.



## II. Further Dramatic Growth of SMEs and Micro businesses – Human Resources (1) Securement of Human Resources –

- The number of SMEs and Micro businesses feeling that they lack necessary employees is increasing nationwide.
- In questionnaire surveys, the percentage of enterprises that answered that they had “adequately secured human resources” or “minimally, although not adequately, secured human resources” was less than 50%, which showed a situation in which SMEs and Micro businesses failed to adequately secure human resources. When examining the reasons why they failed to secure human resources, it can be seen that the reason “Because we do not receive applications from human resources,” accounted for a little less than 60% among all the reasons. Meanwhile, the reason “Although we receive applications, there are no superior human resources among the applicants,” accounted for 40%. This situation shows that SMEs and Micro businesses are facing a shortage of human resources in terms of both quality and quantity.

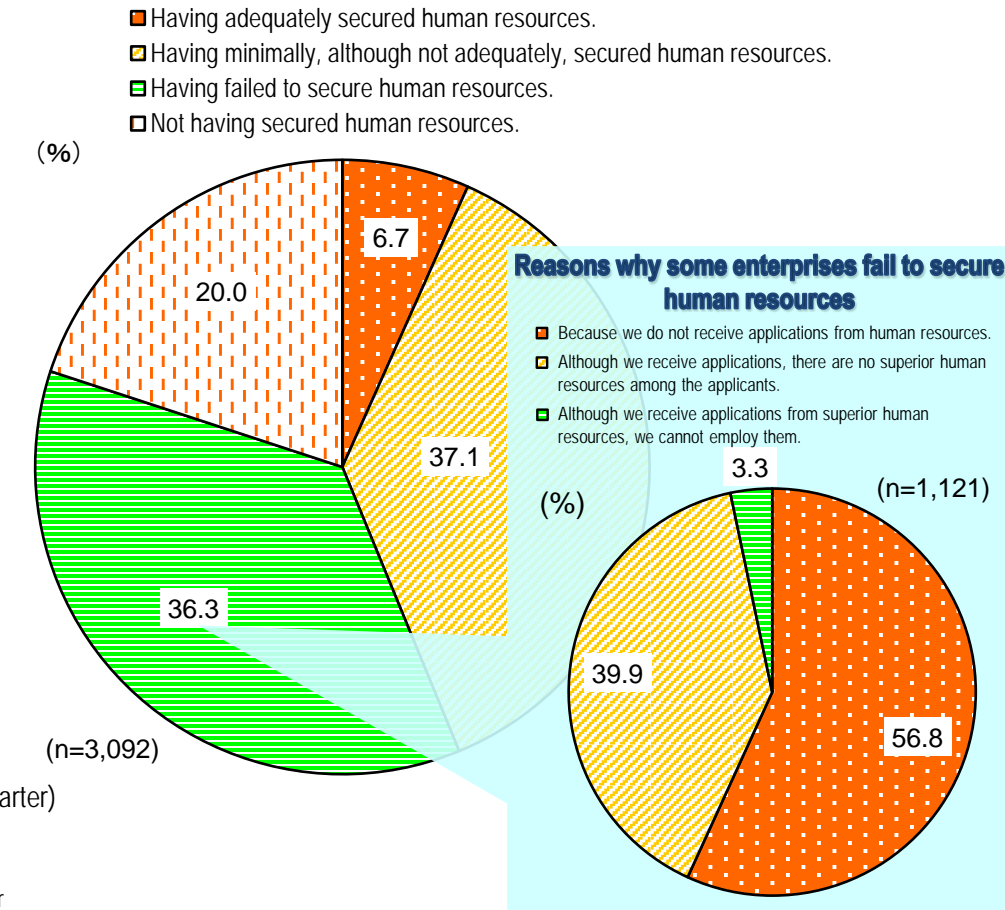
DI for Excess and Shortage of Employees for SMEs and Micro businesses by Area



Source: Survey on SME Business Conditions, Small and Medium Enterprise Agency (SMEA) and Organization for Small & Medium Enterprises and Regional Innovation, Japan (SMRJ)

Note: The DI for excess and shortage of employees is calculated by subtracting the share of enterprises that answered “shortage” from the share of enterprises that answered “excess” when questioned about the number of employees in the current quarter.

State of Securement of Human Resources by SMEs and Micro businesses



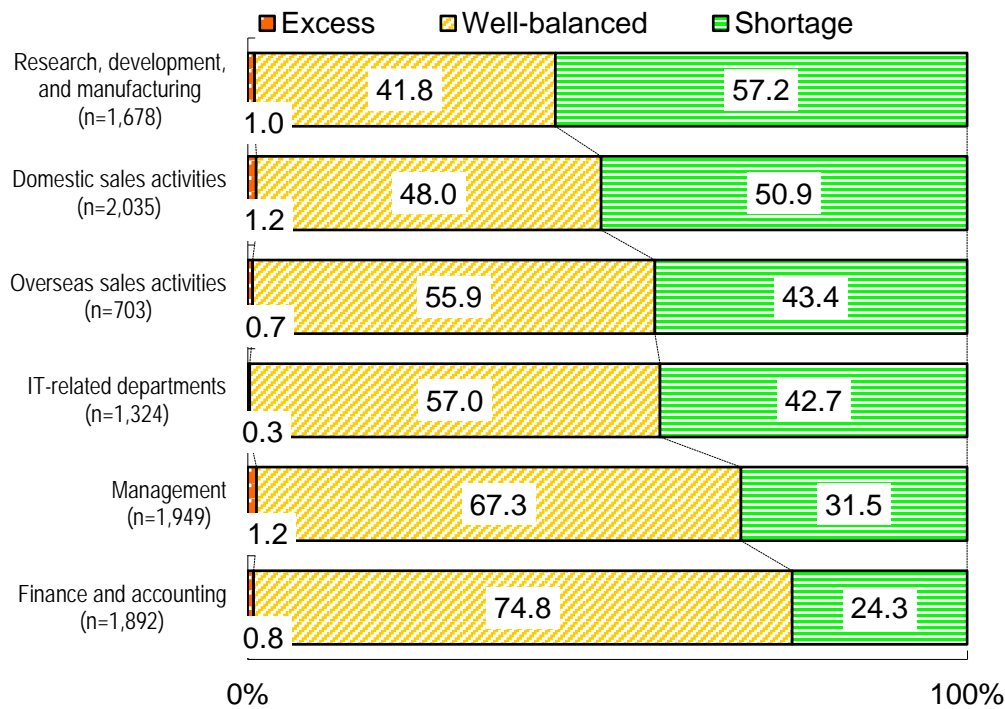
Source: Survey on the Securement and Fostering of Human Resources by SMEs and Micro businesses, Nomura Research Institute, Ltd., under contract from SMEA, December 2014



## II. Further Dramatic Growth of SMEs and Micro businesses – Human Resources (2) Recruitment of Human Resources –

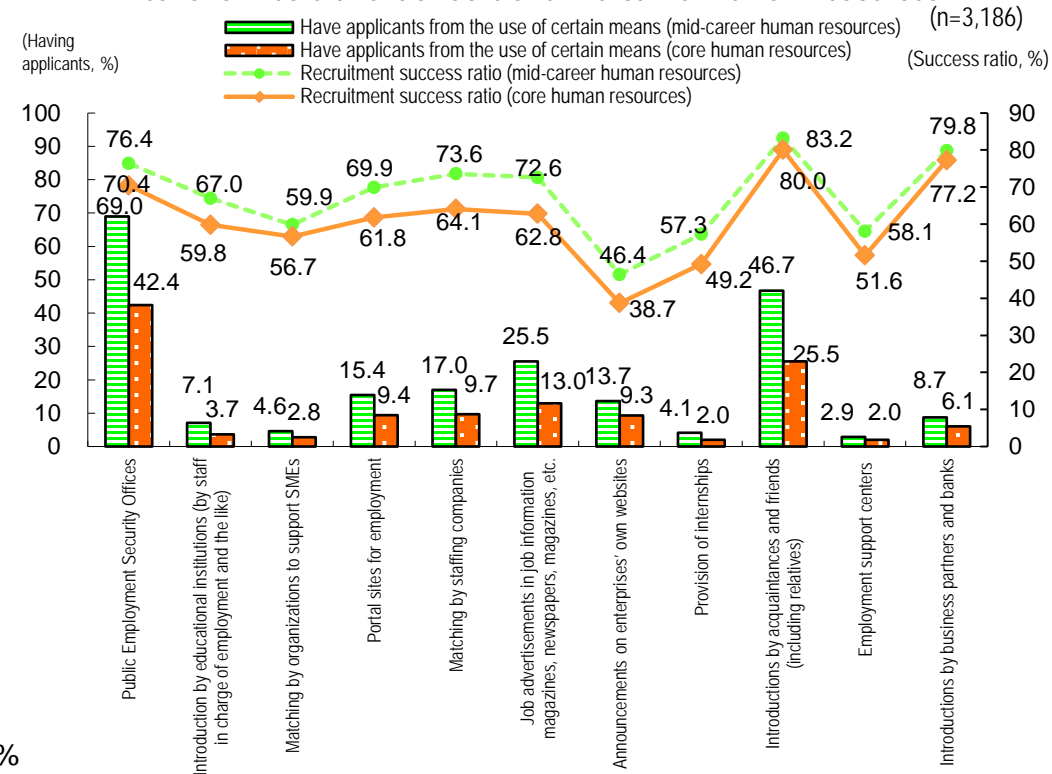
- SMEs and Micro businesses are acutely feeling a shortage of human resources that can play a core role in management. SMEs and Micro businesses are also feeling not only a shortage of human resources for the development of sales channels (sales activities) as described heretofore but also a shortage of human resources who can play a core role in a wide range of departments such as research and development, production, IT-related departments, and management.
- As SMEs' means for recruitment of mid-career human resources, many enterprises use "Public Employment Security Offices" and "introductions by acquaintances or friends." When examining the recruitment success ratio (number of cases of successful recruitment divided by the number of applicants who applied using a certain channel), it can be seen that the ratio is high in cases where the means for recruitment is "introductions by acquaintances or friends" or "introductions by business partners or banks," and on the contrary, the ratio is the lowest in cases where the means for recruitment is "through the enterprises' own websites," which shows the importance of means for recruitment by which enterprises can ascertain who applicants are at the time of the SME's recruitment of those human resources. Meanwhile, it may also be necessary to take diverse measures for SMEs' securement of human resources by increasing the recruitment success ratio through various recruitment means.
- Also, when examining the recruitment of core human resources, it can be seen that the results for both the number of applicants who applied using a certain means and the recruitment success ratio were similar to those for the recruitment of mid-career personnel, which shows that SMEs have extremely limited means for recruitment and sources of core human resources.

Sense of Excess or Shortage of Core Human Resources by Department



Note: The term "core human resources" in this survey refers to human resources that can play a core role in various duties in business or administration and who have special qualifications and highly specialized work experience and are ready to work immediately using their relevant skills.

Means for Recruitment of Core and Mid-career Human Resources

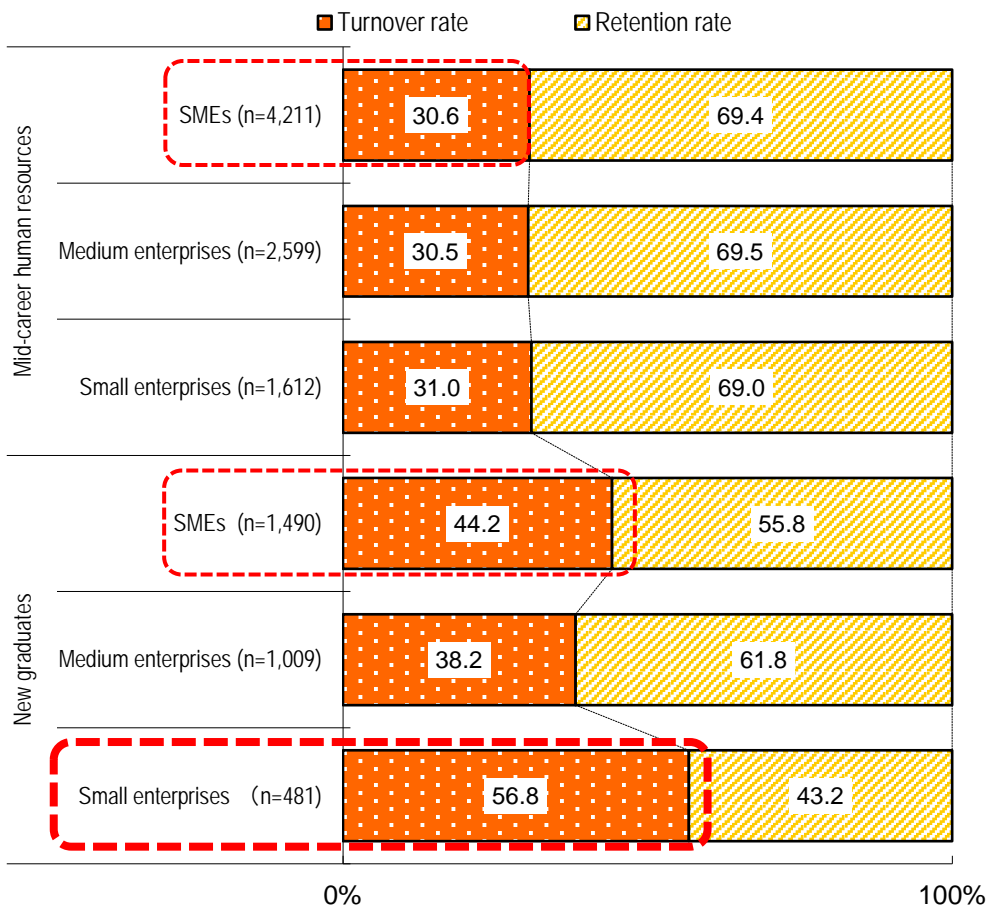


- Note 1: "Have applicants from the use of certain means" refers to the percentage of enterprises that utilized each method as means for recruitment.  
 2. The recruitment success ratio was calculated by dividing the number of enterprises with successful recruitment results by the number of enterprises with applicants from the use of certain methods as means for recruitment.

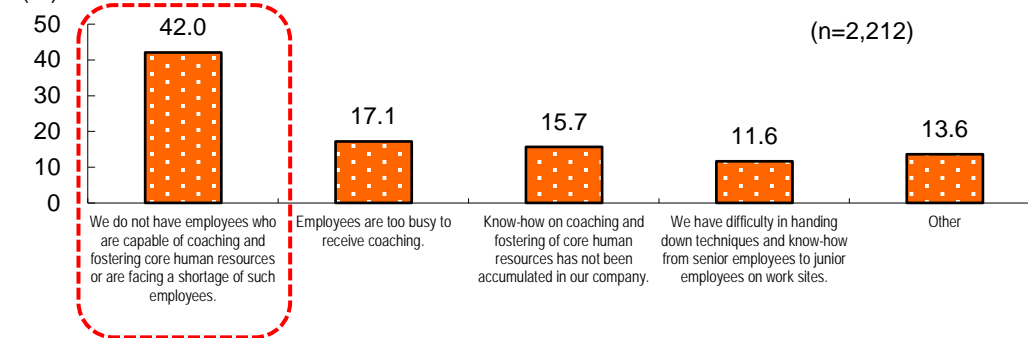
## II. Further Dramatic Growth of SMEs and Micro businesses – Human Resources (3) Retention and Fostering of Human Resources –

- The turnover rate for employees hired through mid-career recruitment (three years after employment) in SMEs and Micro businesses is about 30%, and that for new graduates in such enterprises is about 40%. In particular, more than 50% of new graduates in Micro businesses quit their jobs within three years from their recruitment, and it is necessary to increase the retention rate for hired employees as a prerequisite for the fostering of human resources that will be responsible for the enterprises' futures.
- SMEs and Micro businesses are also facing various issues in terms of fostering human resources that will play a core role in management. In particular, remarkably large numbers of SMEs and Micro businesses are facing a shortage of human resources who are capable of coaching and fostering others.
- However, concerning the extent to which SMEs and Micro businesses retain and foster human resources, it is not adequate for enterprises simply to make independent efforts working within their limited management resources. In such situations, there are cases of efforts in which the retention and fostering of human resources are conducted through overall cooperation within local communities.

Turnover Rate for Employees in SMEs and Micro businesses  
(Three Years after Recruitment)



Issues concerning Fostering of Core Human Resources



### [Example] Akitakata Conso (Akitakata City, Hiroshima Prefecture)

An example of retaining and developing local human resources in the region

- This consortium (organization) was formed in cooperation with local NPOs, governments, industrial support organizations, and business communities to retain and develop local human resources in the region.
- This consortium fosters camaraderie in the community and connects that to the retention and development of human resources by promoting connections between enterprises through meetings for the exchange of information and networking, joint workshops, and the provision of opportunities for workshops for young people. In addition, this consortium is working on an effort related to rotations between enterprises. This effort is a portion of a mechanism by which human resources are exchanged between enterprises over a period of time with the purpose of "compensating for surpluses and shortages" and "developing human resources who will be responsible for the future." Through a series of projects, Akitakata Conso is working on the retention and development of human resources and the amelioration of the sense of shortage in human resources among local enterprises as the personnel department for the community.

Part III

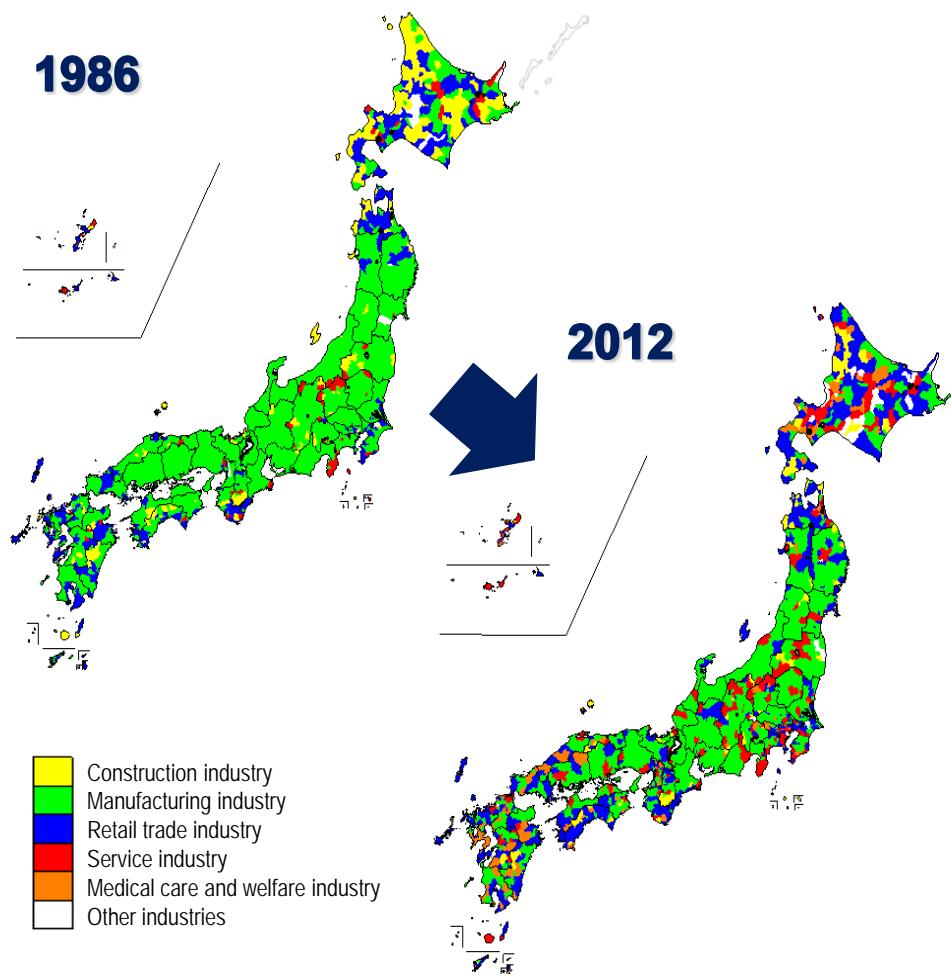
Considering “Regions”

–Confronting Their Own Changes and  
Characteristics–

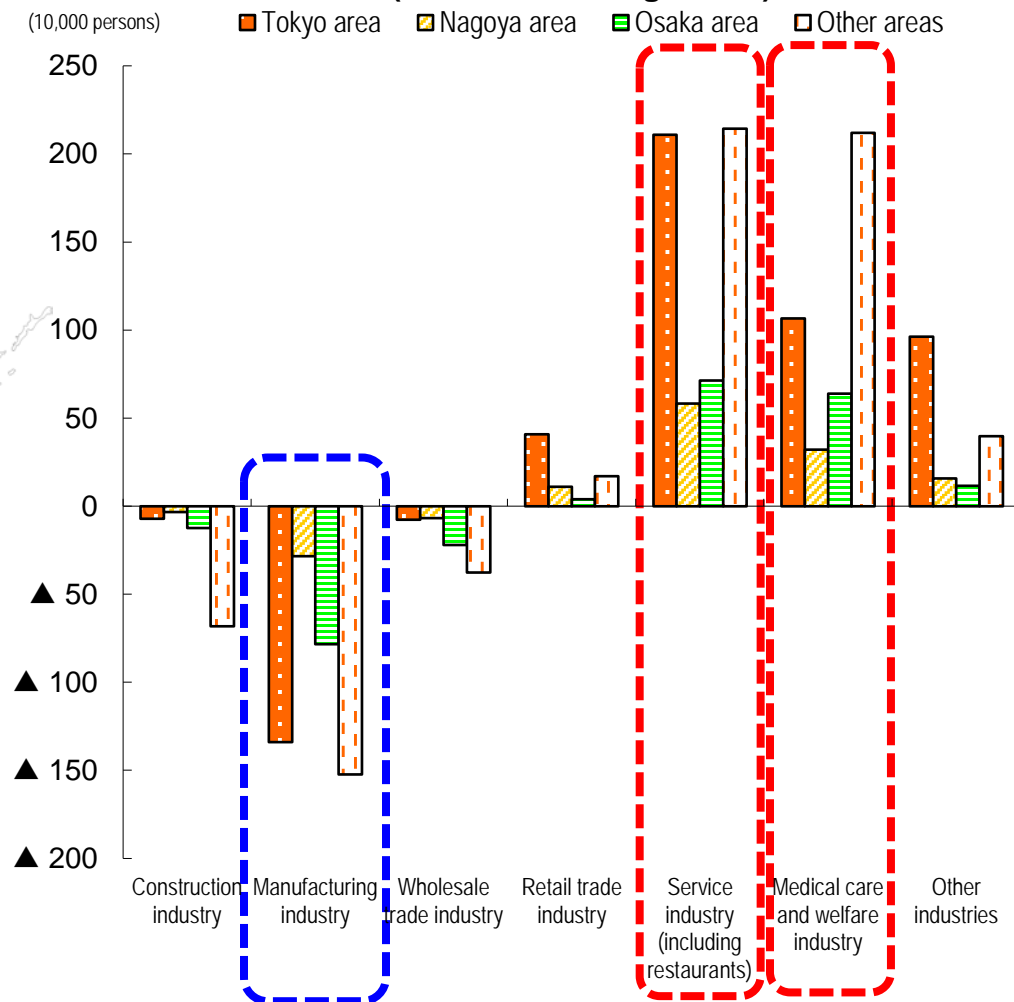
### III. Considering “Regions” –Changes in the Industrial Structure–

- In 1986, the manufacturing industry was the employment leader (the industry in which there were the largest number of employees within each municipality) in many municipalities nationwide, excluding Hokkaido.
- As of 2012, the industries that supported regional employment had become more diverse, due to changes in social structures that differed by region, including a decrease in the number of employees in the manufacturing industry and an increase in the services industry and the medical care and welfare industry.

Changes in regional employment by industry (by municipality)



Changes in the number of employees by region  
(from 1986 through 2012)



Source: Statistical Survey on Enterprises, Ministry of Internal Affairs and Communications and recompiled data from 2012 Economic Census, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

Note 1: The number of employees was calculated by industry (based on major classes of industries), and the map of Japan above was colored according to the industry in which there was the largest number of employees by municipality.

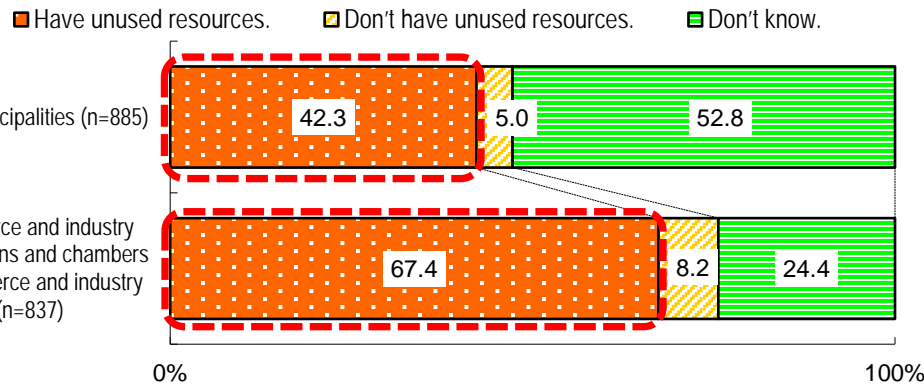
2: As for Tokyo Prefecture, the number of employees was separately calculated by ward (there are 23 wards in Tokyo).

Source: Statistical Survey on Enterprises, Ministry of Internal Affairs and Communications and recompiled data from 2012 Economic Census-Economic Census for Business Activity, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

### III. Considering “Regions” –Specific Efforts for Regional Revitalization (1) Utilization of Regional Resources–

- While the importance of specific industries for regional economies is declining, it is necessary to continue to pay attention to resources that are inherent in regions and have the potential to create relative advantages compared to other regions (regional resource).
- It is thought that regions have dormant resources that have not been utilized yet. However, many regions consider that there are challenges in utilizing such resources to refine into higher value-added goods and services and to promote sales activities (development of sales channels) for such goods and services. Meanwhile, some regions have overcome such challenges and have succeeded in regional revitalization through the utilization of their regional resources.

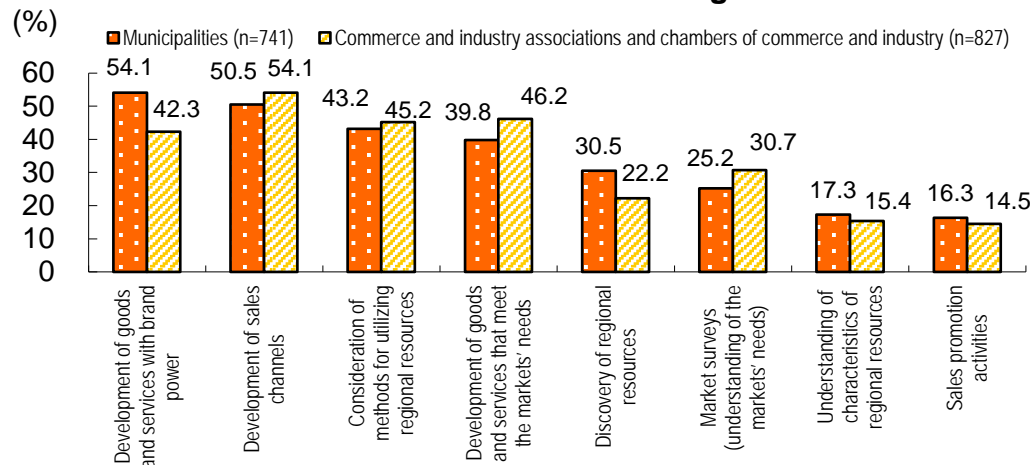
#### Existence of unused resources in local communities



Source: Survey on Support for Regional SMEs and Survey on Efforts for Regional Revitalization, Land Brains Co., LTD., under contract from SMEA, December 2014

Note: The term “unused resources” in the figure above refers to regional resources that have been left unused.

#### Issues at the Time of Utilization of Regional Resources



Source: Survey on Efforts for Regional Revitalization, Land Brains Co., LTD., under contract from SMEA, December 2014  
Survey on Support for Regional SMEs, Land Brains Co., LTD., December 2014

#### [Example (1)] Ochiishi Nature Cruise Council (Nemuro City, Hokkaido)

##### “An example of utilization of unused resources”

- Located in the easternmost tip of Hokkaido, this city has been a prosperous fishing area since ancient times.
- A passenger on an excursion cruise noticed the potential of the sea area, a breeding place for seabirds call tufted puffins, which can be commonly found in the region, but are a rare species globally, and advised the local community on the potential of the sea around the region to attract tourists. Subsequently, the locals launched a cruise business using fishing boats.
- Accepting suggestions from experts on the project's feasibility, local fishermen took pragmatic and strategic steps to boost its value.
- The number of passengers has reached just under 1,000 per year. More than 40% of them are from outside Hokkaido, and the number of foreign tourists has been increasing recently. As a result, jobs for young people are expected to be created.

<A scene of a cruise using a fishing boat>

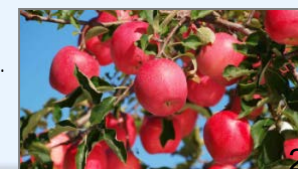


#### [Example (2)] First International Corporation (Hachinohe City, Aomori Prefecture)

##### An example of opening overseas sales channels for local specialties

- Hachinohe City is one of the leading fishing cities in Japan. Regular service by container vessels linking Singapore, Hong Kong, and Taiwan was launched at Hachinohe Port in 1994.
- Aiming to support the export of local specialties, members of the Young Entrepreneurs Group of Hachinohe Chamber of Commerce and Industry took the lead to establish this company in 1994 and started exporting apples to Taiwan in 2002. The company is not only connecting producers (farmers) with markets but also providing farmers with support including instructions on how to select fruits, design boxes for export, and pack the produce for overseas shipment.
- Exports of apples have been increasing year by year. Sales rose from 1.0 billion yen in 2005 to 1.4 billion yen in 2014.
- The company has been contributing to job creation within the area. Six out of seven employees of the company are young locals who are proficient in foreign languages.

<Apples, a local specialty in Aomori Prefecture.>

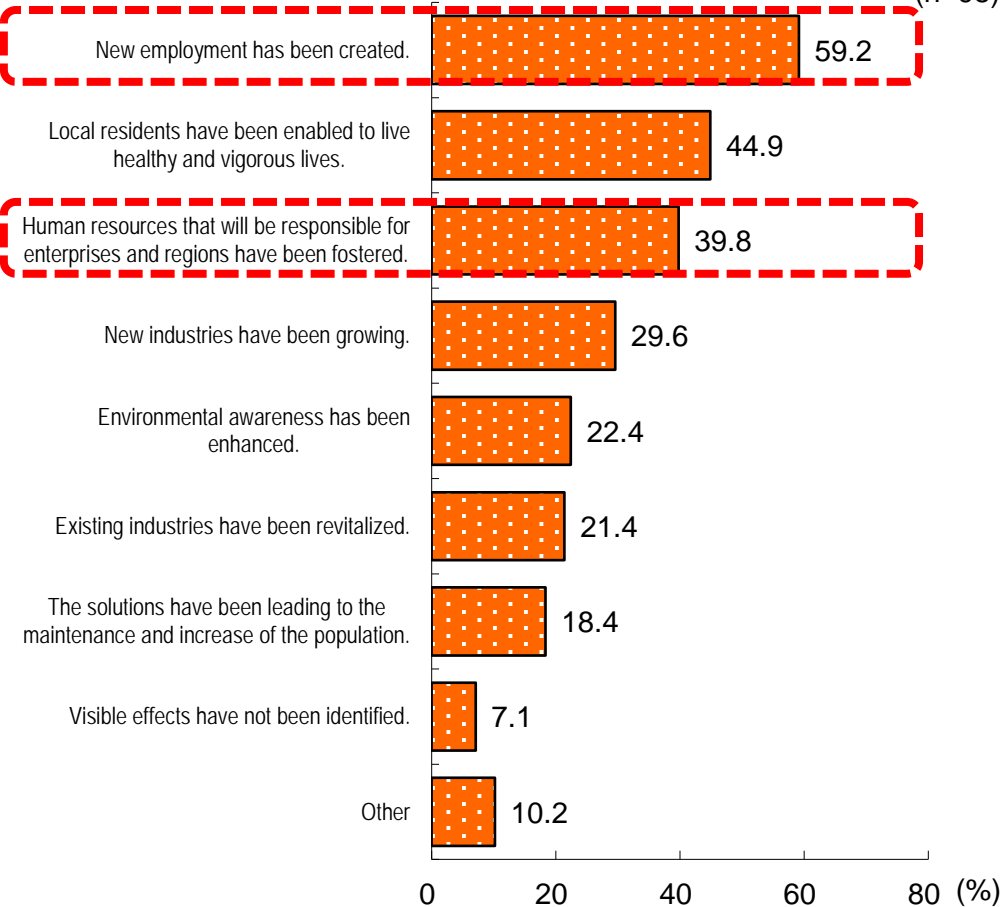


### III. Considering "Regions" –Specific Efforts for Regional Revitalization (2) Solution of Communities' Issues–

- In local communities, community issues such as depopulation and an aging society are becoming more diverse and severe. However, SME projects and micro businesses that conduct community-based business activities are exerting positive effects not only on the improvement of the living environment and other factors for local residents but also on the revitalization of local economies, including the creation of new employment and the fostering of human resources.
- There are cases in which not only enterprises but also various entities including NPOs and local residents have been expanding their activities in local communities as new entities that are responsible for solving such community issues and also have been exerting positive effects on local communities in terms of the economy (employment etc.).

Solution effects of local issues on local communities by businesses

(n=98)



Source: Questionnaire Survey on Advanced Efforts for Creating and Realizing Shared Value (CRSV), under contract from SMEA (July 2014, Mizuho Information & Research Institute Co., Ltd.)

Note: The values in the results of a survey for business operators that are making efforts for the solution of social issues in regions were calculated.

The total may not be 100% due to multiple answers.

#### [Example (3)] NPO Corporation, Association of Yamaguchi Senior Activists (Shunan City, Yamaguchi Prefecture)

An example of solving communities' issues

- Shunan City is located in the southeast of Yamaguchi Prefecture with a population of 145,000.
- This association has been conducting operations such as solving managerial challenges that local enterprises are facing, contracting operations, and developing workers' vocational abilities by utilizing retired senior members. Utilizing the abundant knowledge, skills, experiences, and connections that the seniors have accumulated in various fields as well as giving back what they have built to the local communities has resulted in the creation of satisfying lives for the senior members. (105 senior members in total)
- The association originally started as a voluntary organization engaged in a project for the afforestation of slopes and retaining structures built to prevent slope failure in the mountainous regions in the prefecture. As its range of operations diversified and the organization expanded, the organization founded the NPO Corporation, Association of Yamaguchi Senior Activists in 2004.
- This NPO has been developing a remarkably wide range of operations to respond to regional issues, including matching projects with senior human resources and local enterprises to solve management challenges, support for spouse-finding initiatives, projects for fostering children such as hospitals for toys and an invention club for boys and girls, and local community activities such as a service for showing films for seniors. Also, at present, this NPO is considering organizing a team around the topic of how to make and imbed support systems for the "sixth industry" (the combination of primary, secondary, and tertiary industries) in the region.
- Through the operation of the Shunan Matching Bank for Senior Human Resources, which aims to promote the employment of seniors as well as provide managerial support for SMEs in the region, a cumulative total of 300 jobs have been created.
- This NPO has contributed to the development of 266 human resources through a project for training senior management named "AYSA Corporate Management School."

**A gathering of the Forum for Considering the Sixth Industry.**



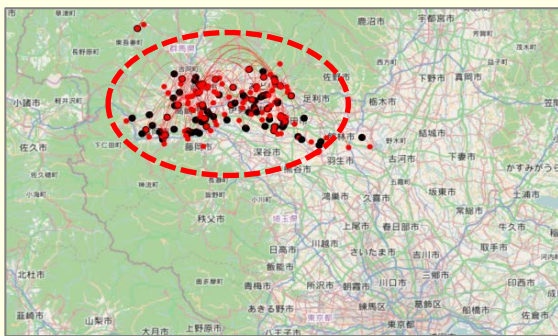


### III. Considering "Regions" –Efforts for the Understanding of Characteristics of Producing Regions (1)–

- The Ministry of Economy, Trade and Industry (METI) developed the FY 2015 Regional Economy (and) Society Analyzing System (RESAS) and began to use it for the purpose of analysis in April 2015. The goal of this system is to ascertain the industrial structures in local economies and the flows of persons and goods both in terms of area (spatially) and in time series by utilizing official statistics and various kinds of data held by private enterprises (such as data for transactions between enterprises and location information from mobile phones).
- What kind of insights for regions can be obtained by visualizing data in terms of area and in time series? This question is to be examined using actual output screens from the system.

#### [Example of analysis (1)] Data on Transactions between Enterprises

##### Transactions in the transportation equipment industry in Gunma Prefecture



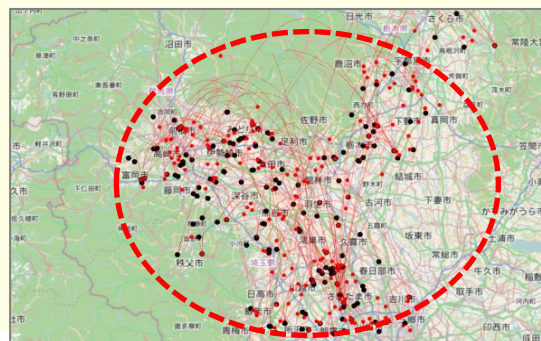
Utilizing data on transactions between enterprises, user connections by region and between enterprises are visually displayed by linking the enterprises with lines.

(\*) It is also possible not only to examine linkages between certain enterprises but also to examine those between all the enterprises in areas under local governments subject to analysis.

[Figures on the Left: Linkages in Transactions in the Transportation Equipment Industry in the Kanto Area]

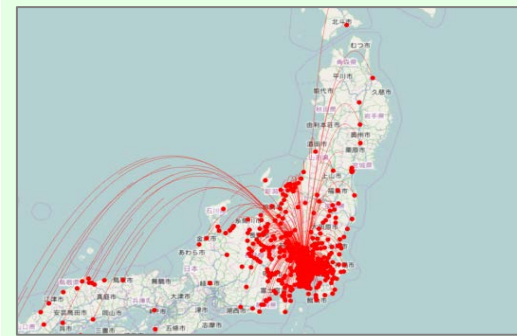
- In the RESAS, multiple prefectures can be chosen, and the transaction situation by industry within the chosen regions can be ascertained.
- When examining the relationships in transactions in the transportation equipment industry in the Kanto area, the number of lines for linkages for transactions in the three prefectures of Gunma, Saitama, and Tochigi are found to be significantly larger than that in Gunma Prefecture alone.

##### Transactions in the transportation equipment industry in Gunma, Saitama, and Tochigi Prefectures



#### [Example of Analysis (2)] Data on Location Information from Mobile Phones

##### Population flowing into Kawagoe City



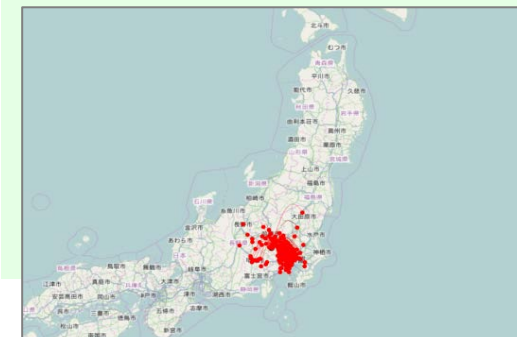
Movements of persons in places such as sight-seeing spots are grasped by utilizing location information from mobile phones.

[Figures on the Left: State of Inflow of Visiting Population (Saitama Prefecture)]

- In the RESAS, it is possible to ascertain the prefecture and municipality of origin of the visitors who are in the user's administrative area.
- For example, when comparing the flow of persons into Kawagoe City, which is a famous sight-seeing spot in Saitama Prefecture, and that into Chichibu City on holidays, a situation in which persons from wider areas are flowing into Kawagoe City, while persons from neighboring areas are flowing into Chichibu City can be seen.

Differences between inflow characteristics can be seen by examining origin of departure.

##### Population flowing into Chichibu City

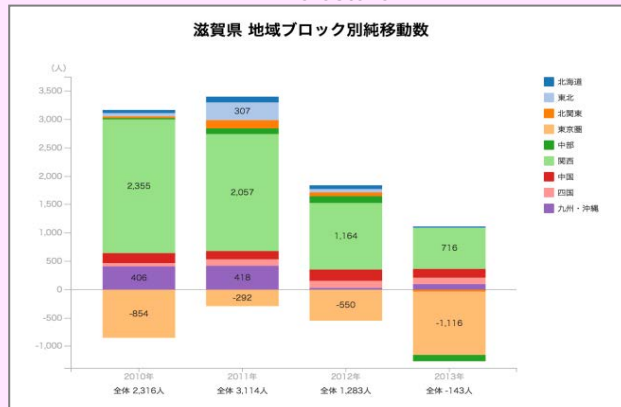


### III. Considering "Regions" –Efforts for the Understanding of Characteristics of Producing Regions (2)–

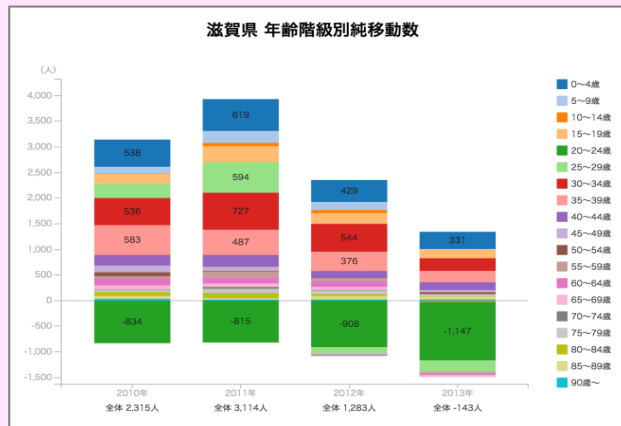
- RESAS comprises four maps, namely, (1) a map on industry, (2) a map on population, (3) a map on sight-seeing, and (4) a map on comparisons between local governments. RESAS is also expected to be utilized by prefectures and municipalities in the future by examining some or all of this data in an integrated manner when formulating not only industrial policies but also regional comprehensive strategies.

#### [Example of Analysis (3)] Data on Population

Number of net migrants by regional block in Shiga Prefecture



Number of net migrants by age group in Shiga Prefecture



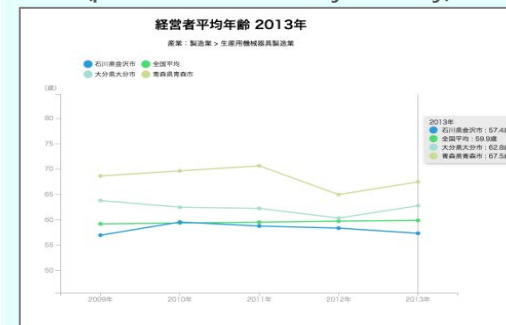
Figures such as changes in population, societal changes, natural increases in population, and estimated future populations are displayed graphically by utilizing data obtained from the Population Census and Report on Internal Migration in Japan Derived from the Basic Resident Registration.

[Figures on the Left: Trends in Social Migration in Shiga Prefecture]

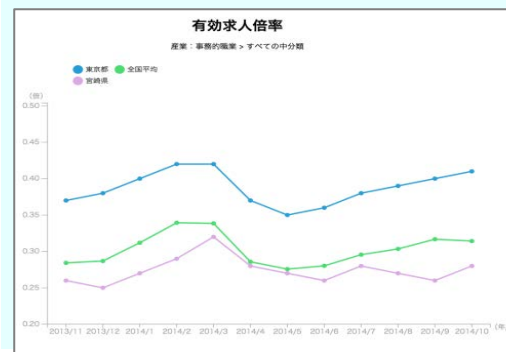
- In RESAS, trends in social migration by region and age group for any prefecture can be ascertained.
- When examining social migration in Shiga Prefecture, it can be found that population is flowing into Shiga Prefecture from many regions, mainly from the Kansai region. Also, when examining the migration by age group, it can be found that populations in the age groups typical of child rearing-households, such as those from age 30 to 34 and from age 35 to 39, are flowing into the prefecture.

#### [Example of Analysis (4)] Data That Enables Comparison between Local Governments

Comparison of the average ages of business owners in the cities of Kanazawa, Oita, and Morioka (production machinery industry)



Comparison between effective ratios of job offers to applicants for clerical work



Various kinds of data such as data on economic structures and business activities are utilized to compare municipalities to each other, and the results of the comparisons are displayed by means including graphs.

[Figure on the Upper Left: Situation of Average Age of Business Owners, Figure on the Lower Left: Trends in Effective Ratio of Job Offers to Applicants]

- In RESAS, it is possible to choose multiple prefectures and municipalities and to make comparisons of the average ages of business owners, effective ratios of job offers to applicants, and wages between them.
- The figure on the upper left shows that the average age of business owners in the cities of Oita and Aomori exceeds 60.
- The figure on the lower left shows that the effective ratio of job offers to applicants in Tokyo Prefecture is higher than the national average, while that in Miyazaki Prefecture is lower than the national average.



# 2015 White Paper on Small Enterprises in Japan (Summary)

July 2015  
Small and Medium Enterprise Agency

# Outline of the 2015 White Paper on Small Enterprises in Japan

## Part I. Structural Analysis of Micro Businesses (\*)

- Chapter I. Overview and Underpinnings of Micro Businesses  
(Definition, Diversity, and Business Foundations)
- Chapter II. Trends in Micro Businesses  
(Changes in the numbers of Micro Businesses and Establishments and Causes of Change)
- Chapter III. The Future of Micro Businesses  
(Effective Ways of Development of Sales Channels, New Ways of Working, and New Efforts Involved in Business Succession)
- Chapter IV. Micro Businesses in Regions  
(Current Situation of Retail Trade in Regions and Roles as Regional Leaders)

## Part II. Challenges of Running Micro Businesses – Opening up the Future –

Four goals for the promotion of small enterprises

- 1) Promotion of management with an eye on demand
- 2) Promotion of regeneration of institutions
- 3) Promotion of business activities that contribute to the revitalization of regional economies
- 4) Enhancement of support systems through region-wide collective efforts.

Introduction of case studies in line with the four goals above (42 cases in all)

(\*) A small enterprise is defined as a business operator whose number of regular employees is not more than approximately twenty (the number is five in the case of a business operator whose business is a retail business or service business) based on Article 2, Paragraph (5) of the Small and Medium-sized Enterprise Basic Act and Article 2, Paragraph (1) of the Basic Act for Promoting Small Enterprises.

Although the White Paper on Small Enterprises in Japan is for small enterprises as defined above, micro businesses shall be referred to as small enterprises in order to articulate that not only companies but also sole proprietorships are included within the scope of this White Paper.

# Part I

## Structural Analysis of Micro Businesses

### Chapter I

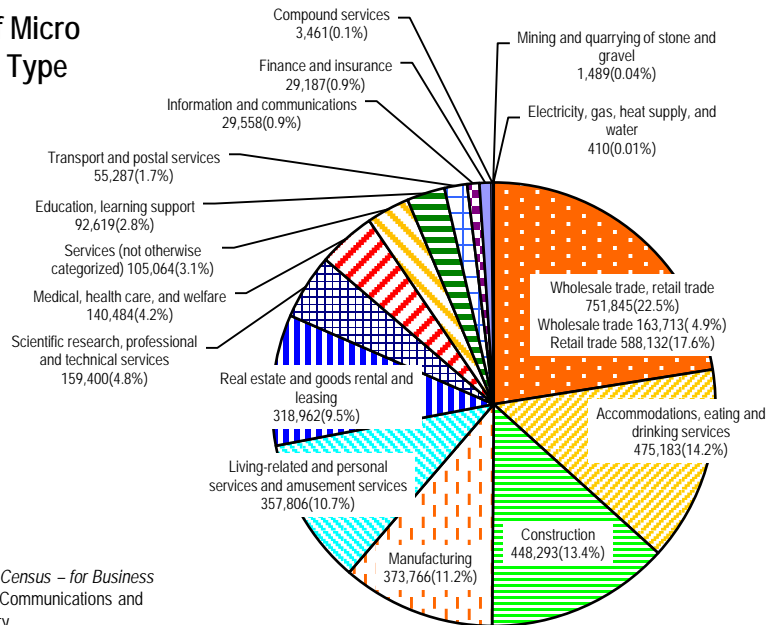
## Overview and Underpinnings of Micro Businesses

# Overview - Diversity of Micro Businesses (1) Breakdown of Business Types and Dynamics of Regular Employment

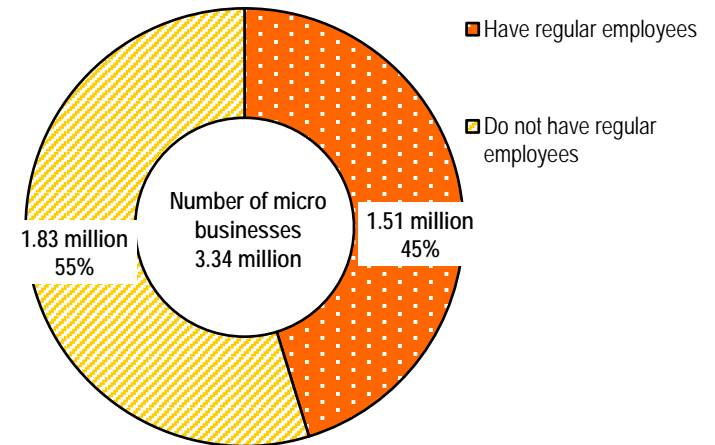
○ Regarding the breakdown of business types: wholesale trade and retail trade; accommodations, eating and drinking services; construction; manufacturing; living-related, personal, and amusement services; and real estate, goods rental and leasing exceed 80% of all micro businesses.

○ Also, a little less than 50% of micro businesses manage their businesses without regular employees.

## Breakdown of Number of Micro Businesses by Business Type



## Existence or Nonexistence of Regular Employees (\*) in Micro Businesses

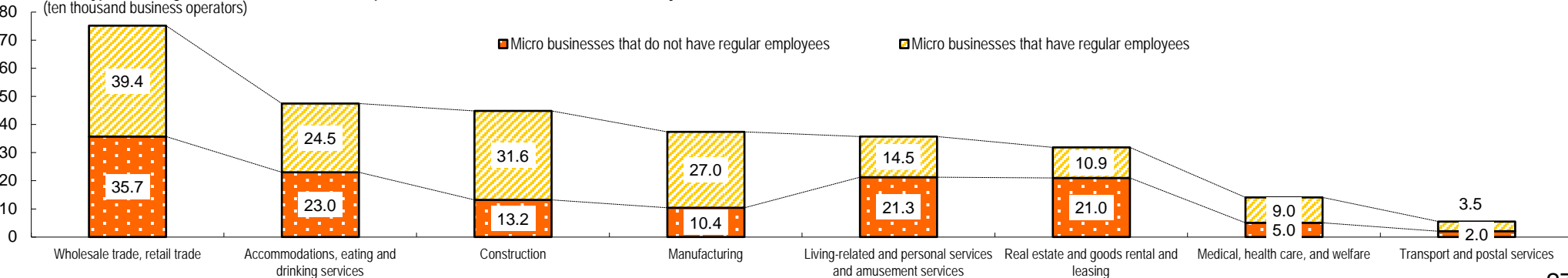


Source: Recompiled data from 2012 Economic Census – for Business Activity, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

(\*) Paid officers of corporations, sole proprietorships, and unpaid family employees are not included in the scope of regular employees.

## Reference: Number of Business Operators by Business Type among Micro Businesses (by Existence or Nonexistence of Regular Employment)

◆ Business types in the figure below are based on the Japan Standard Industrial Classification (industry divisions)  
(ten thousand business operators)



Source: Recompiled data from 2012 Economic Census – for Business Activity, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

## Overview - Diversity of Micro Businesses (2) Overview Based on Minor Industry Groups

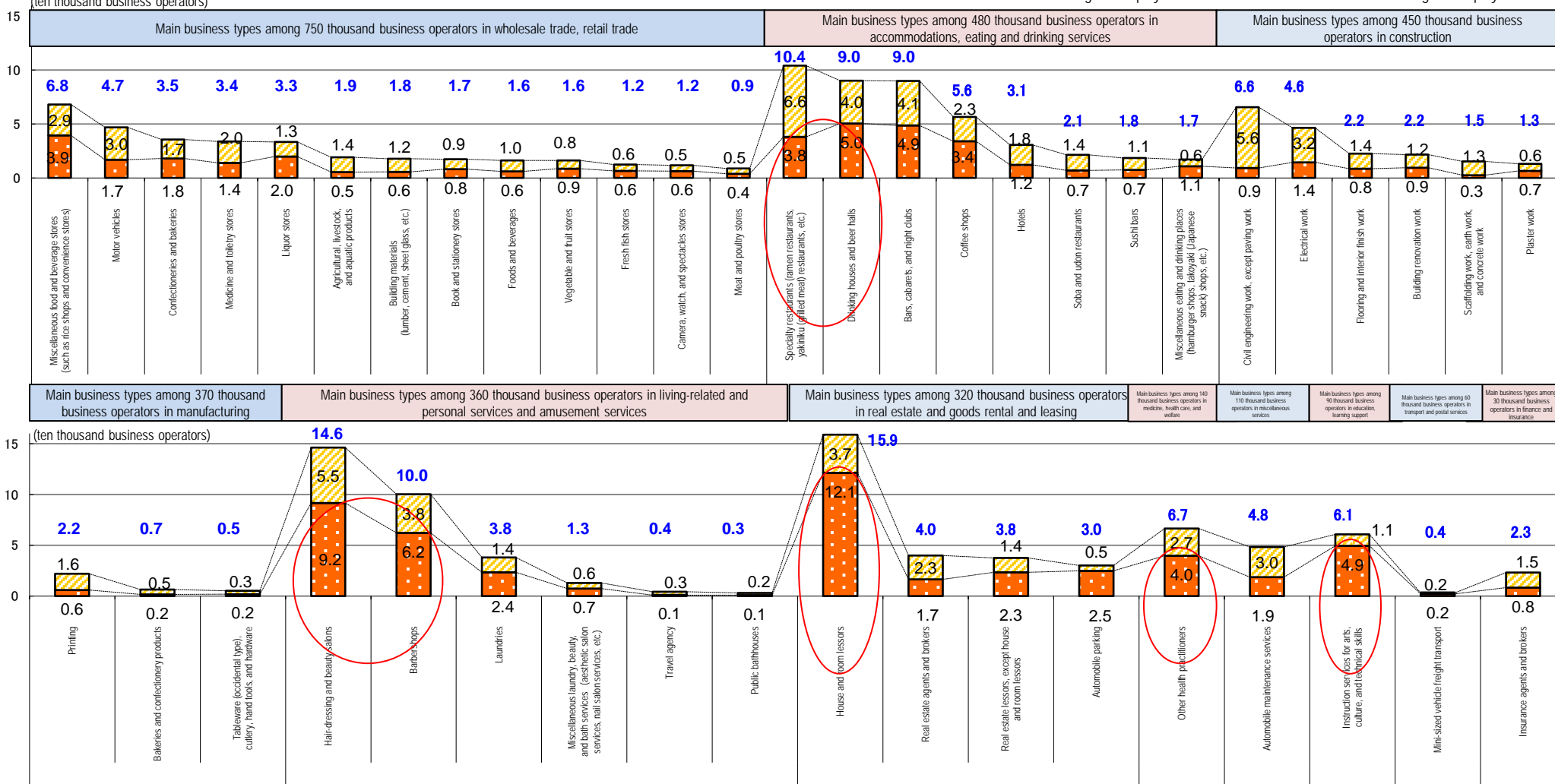
○ The current environment for micro businesses is overviewed by business type and existence or nonexistence of regular employment.

### Number of Business Operators by Business Type among Local Micro Businesses (by Existence or Nonexistence of Regular Employment)

◆ Business types in the figure below are based on the Japan Standard Industrial Classification (minor industry groups)  
(ten thousand business operators)

■ Micro businesses that do not have regular employees

■ Micro businesses that have regular employees



Source: Recompiled data from 2012 Economic Census – for Business Activity, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

Note 1: The business types in the figure above are based on the Japan Standard Industrial Classification (minor industry groups).

Note 2: The term "real estate agents and brokers" refers to establishments that mainly carry out agency work or brokerage activities for the sale, lease, or exchange of immovable properties. Establishments that carry out brokerage activities for parking lots are also included within the scope of this term.

The term "real estate lessors, except house and room lessors" comprises office lessors, land lessors, and lessors of other types of real estate (such as meeting rooms).

The term "house lessors" refers to establishments that mainly lease housing (including housing that is also used for shops) (such as housing lessors and apartment lessors).

The term "room lessors" refers to businesses for leasing residential rooms that do not have exclusive or common drainage equipment for cooking and in which persons cannot lead family lives without using other rooms.

The term "instruction services for arts, culture, and technical skills" includes musical instruction, calligraphy instruction, flower arrangement and tea ceremony instruction, abacus instruction, and foreign language instruction.

The term "insurance agents and brokers" includes life insurance agents and brokers (life insurance agencies) and non-life insurance agents and brokers (non-life insurance agencies).

Note 3: The figures in blue font indicate the total numbers of businesses.

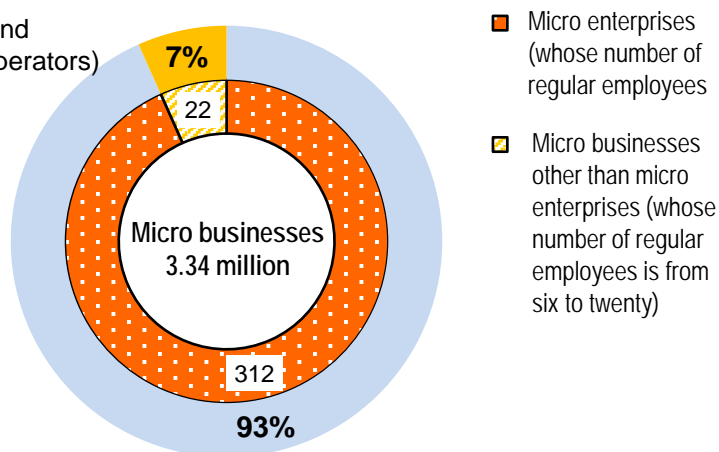
# Micro Enterprises (1) Percentages of Micro Enterprises among Micro Businesses

- Among 3.34 million micro businesses, 3.12 million (93%) are micro enterprises. Among 2.06 million sole proprietorships, 2.05 million (99%) are micro enterprises. (\*) Among 1.28 million corporations, 1.07 million (84%) are micro enterprises. When examining the percentage of micro enterprises by business type, it can be seen that almost all micro businesses are micro enterprises regardless of business type except in some industry types such as the electricity, gas, heat supply, and water industries.

(\*) The term "micro enterprises" is defined as business operators whose number of regular employees is not more than about five based on Article 2, Paragraph (2) of the Basic Act for Promoting Small Enterprises.

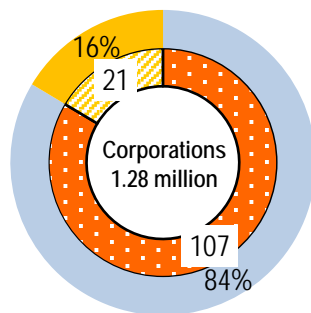
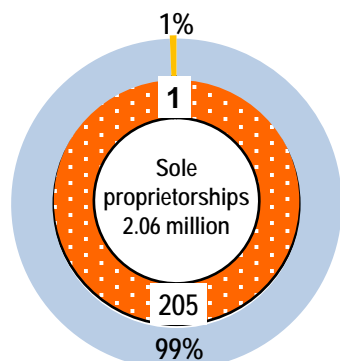
## 1. Percentages That Micro Enterprises Account for among 3.34 Million Micro Businesses

(ten thousand business operators)

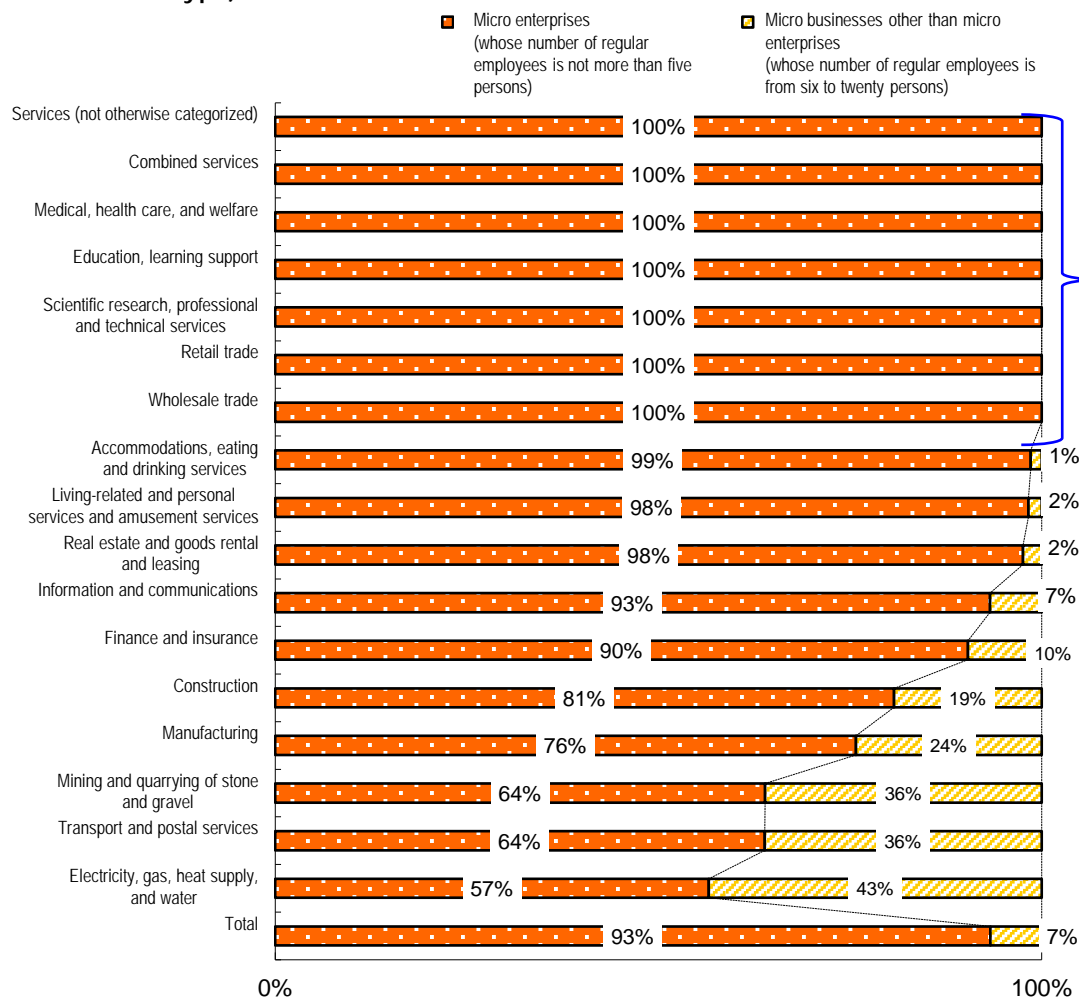


Sole proprietorships

Corporations



## 2. Percentages that Micro Enterprises Account for among Micro Businesses (by Business Type)

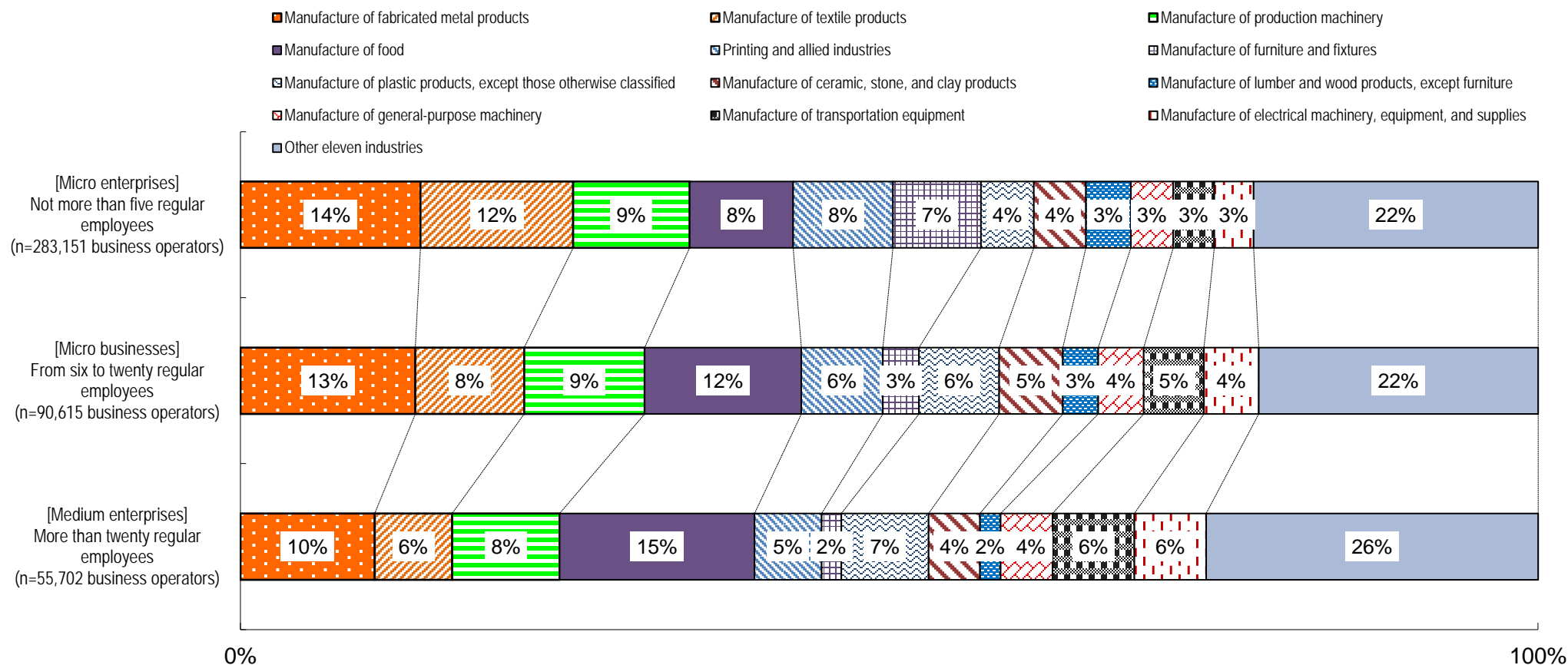


The definition of micro enterprises for these business types is the same as that of micro businesses for these business types.

## Micro Enterprises (2) Characteristics by Business Type

- When examining the shares of the number of business operators in the manufacturing industry by enterprise size and business type (major industry group), the main business types in which micro enterprises show higher shares than micro businesses (excluding micro enterprises) and medium enterprises are the fabricated metals industry, textile industry, printing and allied industries, and furniture and fixture industry.
- Meanwhile, the main business types in which micro enterprises show lower shares than micro businesses (excluding micro enterprises) and medium enterprises are the manufacture of food, manufacture of plastic products, manufacture of transportation equipment, and manufacture of electrical machinery, equipment, and supplies.

### Breakdown of Business Types in the Manufacturing Industry by Enterprise Size (Major Industry Groups)

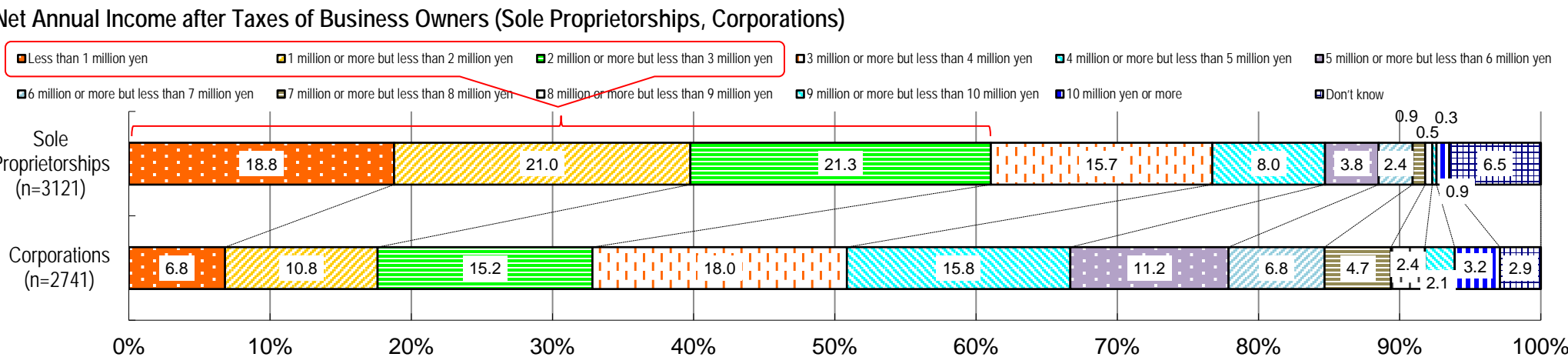
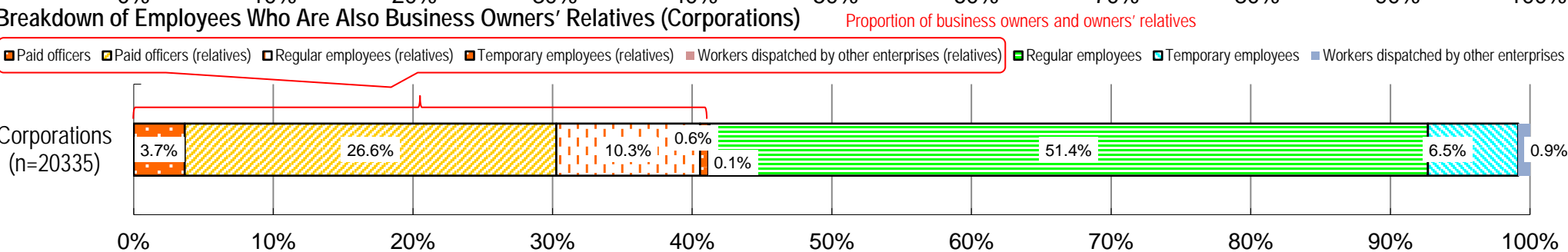
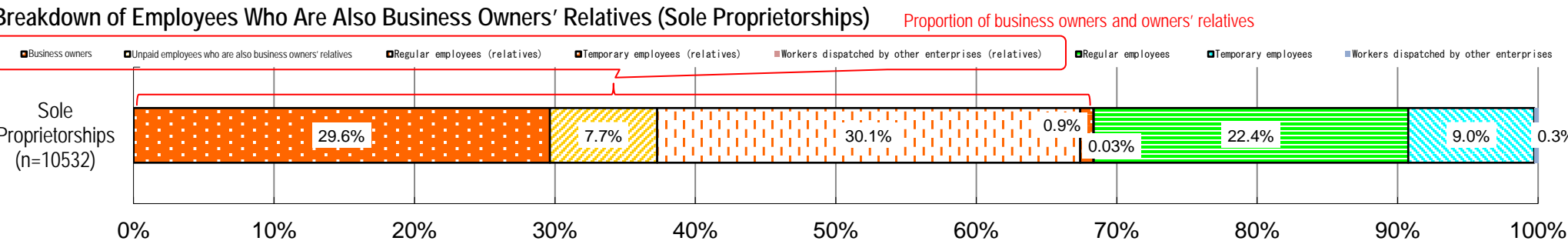


Source: Recompiled data from 2012 Economic Census – for Business Activity, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

Note: The breakdown of the "other eleven industries" mentioned above is as follows: manufacture of pulp, paper, and paper products, manufacture of business-oriented machinery, manufacture of iron and steel, manufacture of tanned leather, leather products, and fur skins, manufacture of beverages, tobacco, and feed, manufacture of electronic parts and devices and electronic circuits, manufacture of non-ferrous metals and products, manufacture of rubber products, manufacture of chemical and allied products, manufacture of information and communications electronics equipment, manufacture of petroleum and coal products, and miscellaneous manufacturing industries.

# Underpinnings - Business Foundations (1) Breakdown of Employees and Annual Net Income after Taxes

- Micro businesses depend heavily on the owners' relatives as employees; a little less than 70% of employees of sole proprietorships are relatives.
- The net annual income after taxes of a little more than 60% of sole proprietorships is not more than three million yen. The total income earned by their families or relatives is supporting their family budgets.

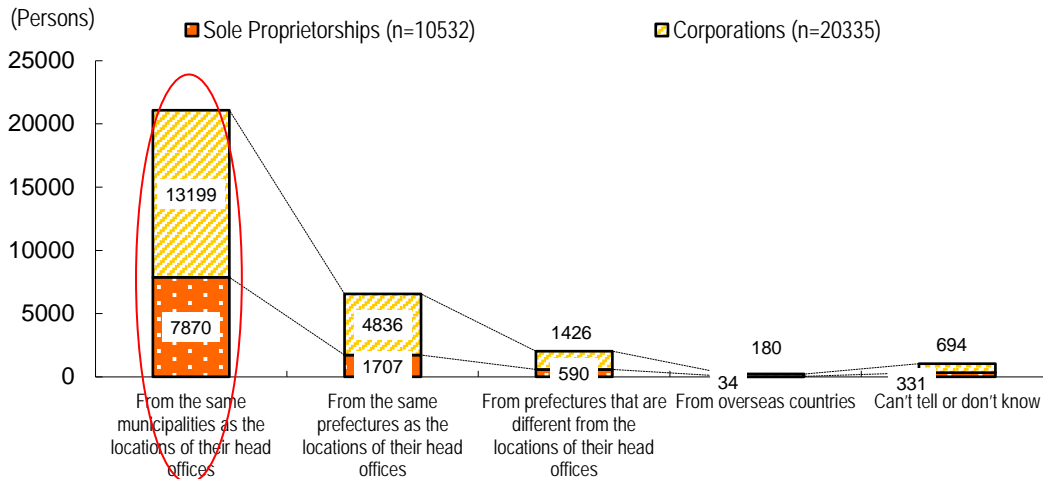




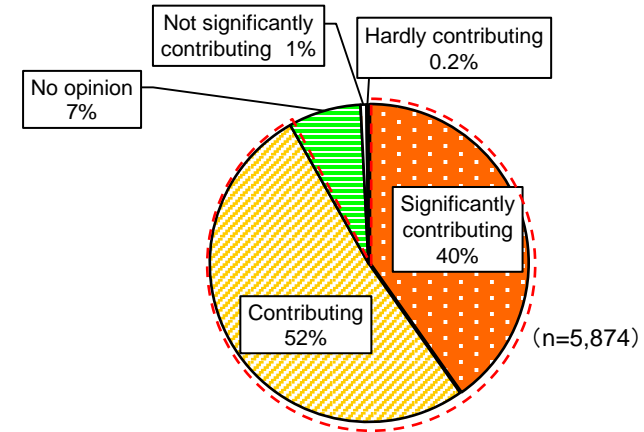
## Underpinnings - Business Foundations (2) Birthplace and Latest Degree Attained, etc.

- The birthplaces of many employees (including business owners) are the same municipalities as the location of their head offices, and the latest degrees attained by many employees are upper secondary school degrees.
- As for the assessment of employees by business owners, more than 90% of business owners answered that their employees are contributing to their companies and businesses.
- More than 30% of business owners answered that their means for recruitment was introductions by acquaintances or personal solicitations.

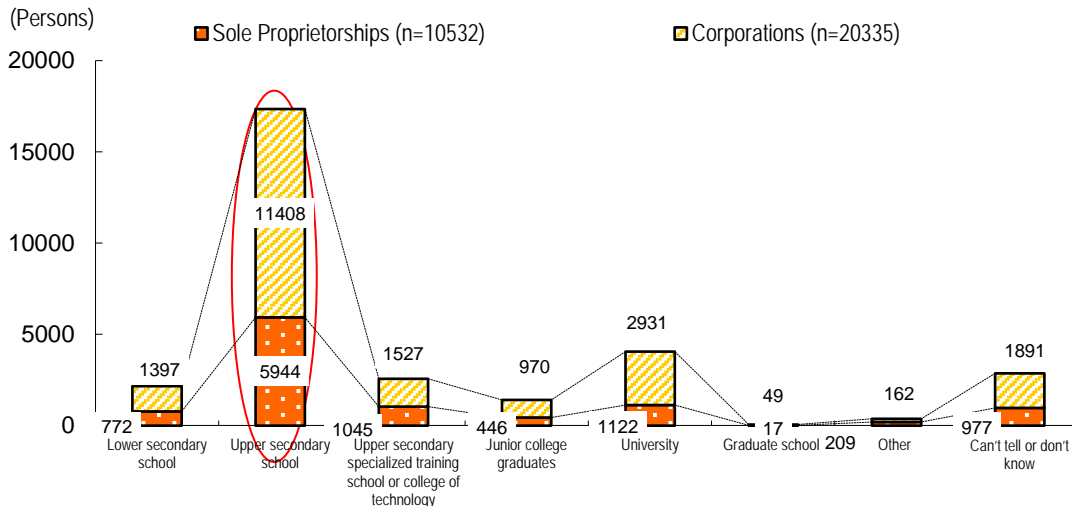
### Birthplaces of Employees



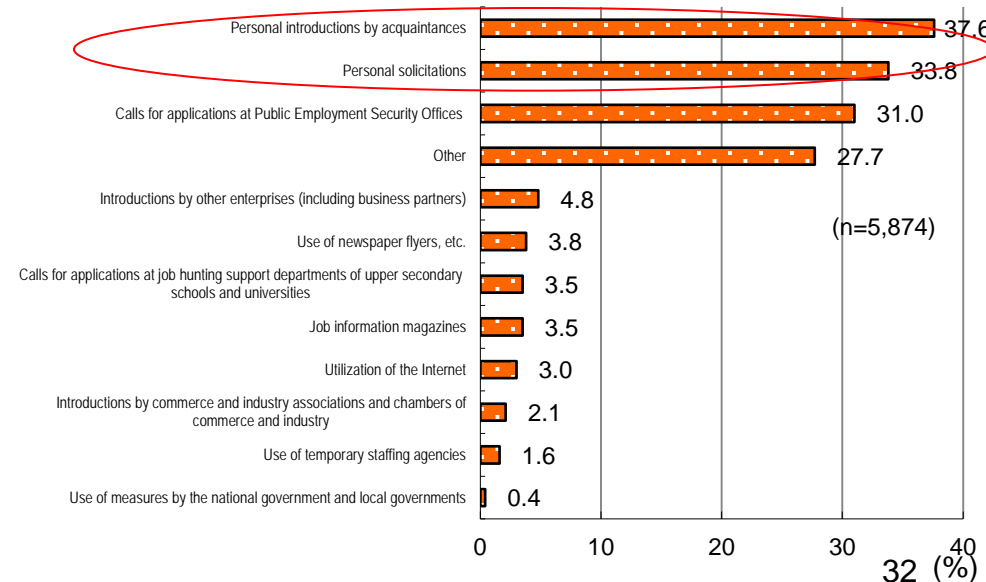
### Whether or Not Employees Are Contributing to Companies and Businesses from The Viewpoints of Business Owners.



### Employees' Latest Degree Attained



### Means for Recruitment of Human Resources (Multiple Answers)



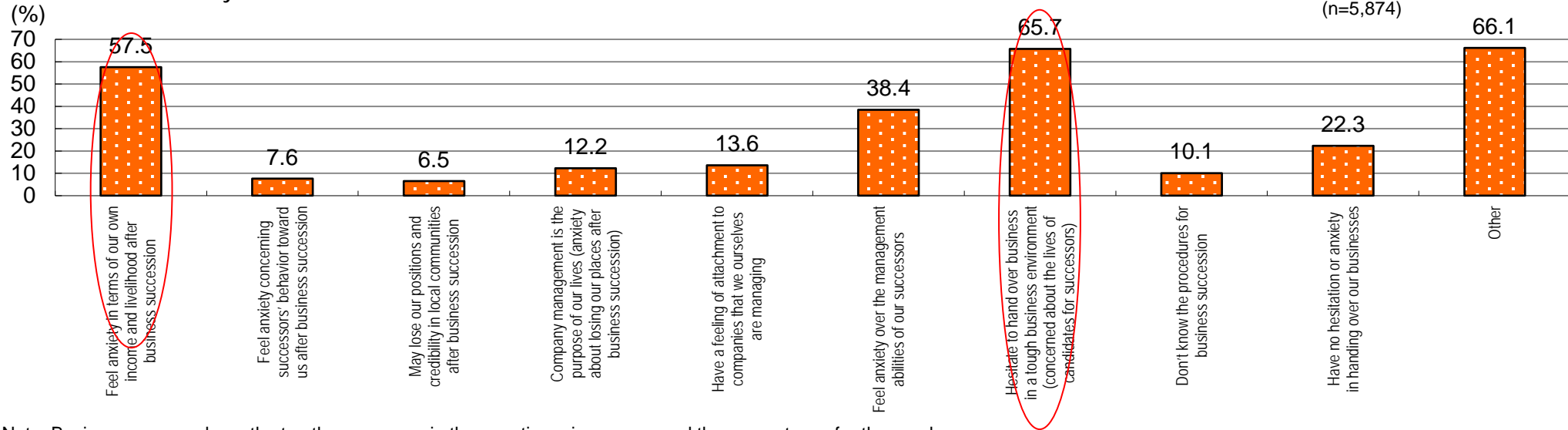
Source: Survey for Ascertaining Current Status of Business Activities of Small Enterprises, Applied Research Institute, Inc., under contract from SMEA, January 2015

Note: The figures above were calculated by totaling the numbers of employees of the enterprises that answered this Survey.

## Underpinnings - Business Foundations (3) Attitudes toward Business Succession, etc.

- As for the reasons why current business owners hesitate to hand over their businesses, in addition to the fact that they are concerned about their successors' lives (they hesitate to hand over their businesses in a tough management environment), a remarkably large number of business owners listed as a reason the fact that they feel anxiety in terms of their own income and livelihood after business succession.
- Meanwhile, more than half of current business owners do not support previous business owners. Conversely, 20% of current business owners receive financial assistance from previous business owners.

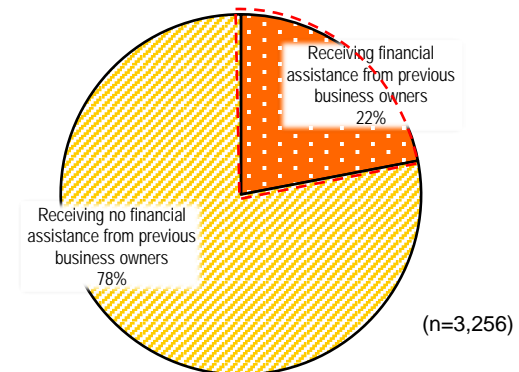
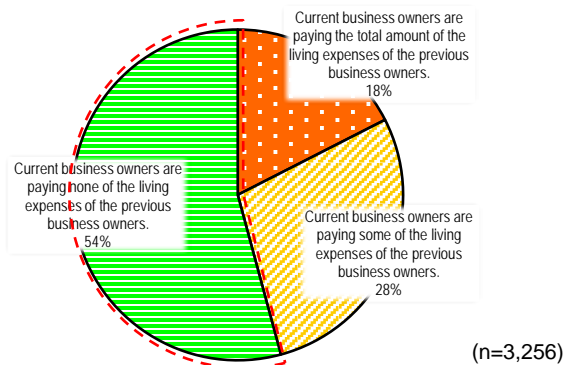
### Personal Reasons Why Current Business Owners Hesitate to Hand Over Their Businesses



Note: Business owners chose the top three reasons in the questionnaire survey, and the percentages for the graph above were calculated based on the total number of business owners.

### Financial Assistance from Previous Business Owners to Current Business Owners after Business Succession

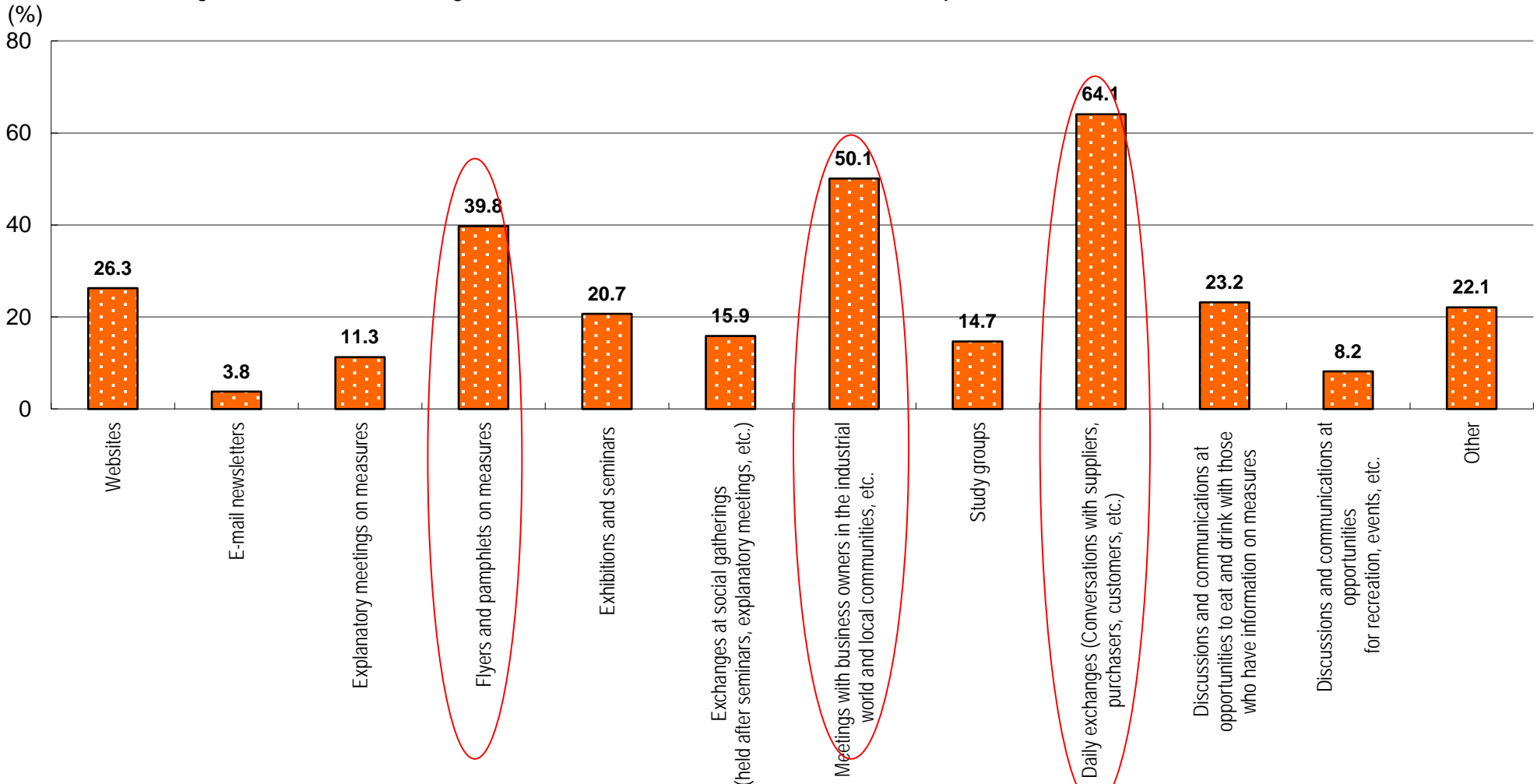
#### Support for Previous Business Owners after Business Succession



## Underpinnings – Business Foundations (4) Means for Obtaining Information on Measures

- Micro businesses obtain information on the management of business and support measures through daily and diverse communications such as conversations with clients and meetings with the industrial world and local communities.
- It is important for supporting institutions such as the national government, local governments, commerce and industry associations, and chambers of commerce and industry to disseminate information on measures and the like during such daily and diverse communications.

Means for Obtaining Information on the Management of Business and Measures for SMEs (Multiple Answers)



Part I

# Structural Analysis of Micro Businesses

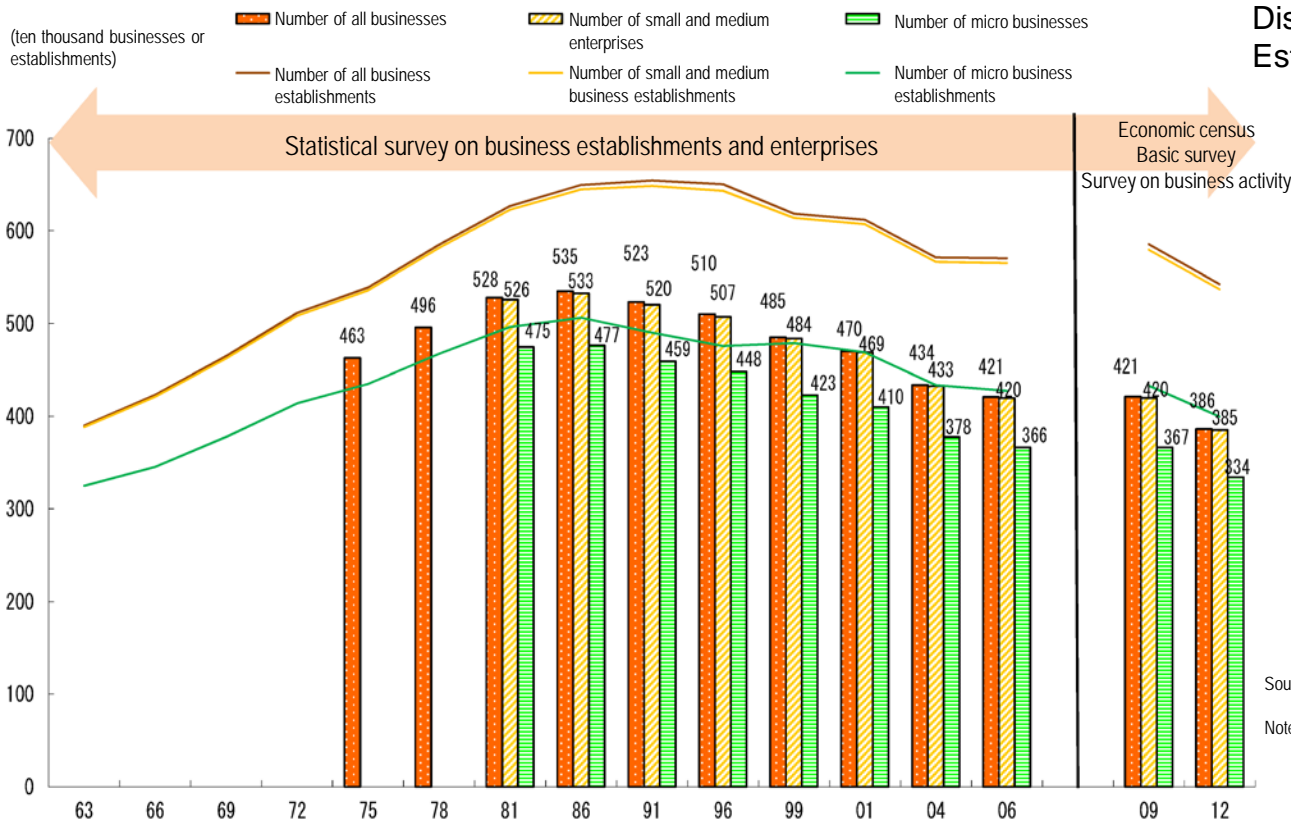
Chapter II

## Trends in Micro Businesses

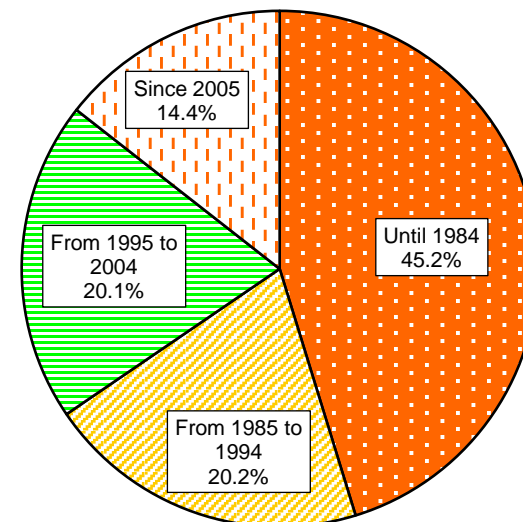
# Trends in Micro Businesses (1) Changes in the Number of Businesses and Establishments, etc.

- The number of businesses and establishments in Japan **had been on the rise until 1986** but began to decrease in 1987. Meanwhile, among the micro businesses that are currently in operation, **a little less than 50% of them were established before 1984**.

Changes in Number of Businesses and Establishments in Japan



Distribution of Number of Micro Businesses by Year of Establishment



Source: 2012 Economic Census – for Business Activity, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

Note 1: The pie graph above was prepared based on data for year and location of business launch, out of the data on business establishments. Therefore, in cases where business establishments were relocated, the year of the was counted rather than the year when the business were started.

2. The pie graph above shows the breakdown of the approximately 3.26 million micro businesses whose data is available out of the 3.34 million micro businesses.

Source: Recompiled data from *Establishment and Enterprise Census* and *2009 Economic Census – for Business Foundations*, Ministry of Internal Affairs and Communications; *2012 Economic Census – for Business Activity*, Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

Note 1. Number of enterprises = Number of companies + Business establishments of sole proprietors (independent establishments and head offices)

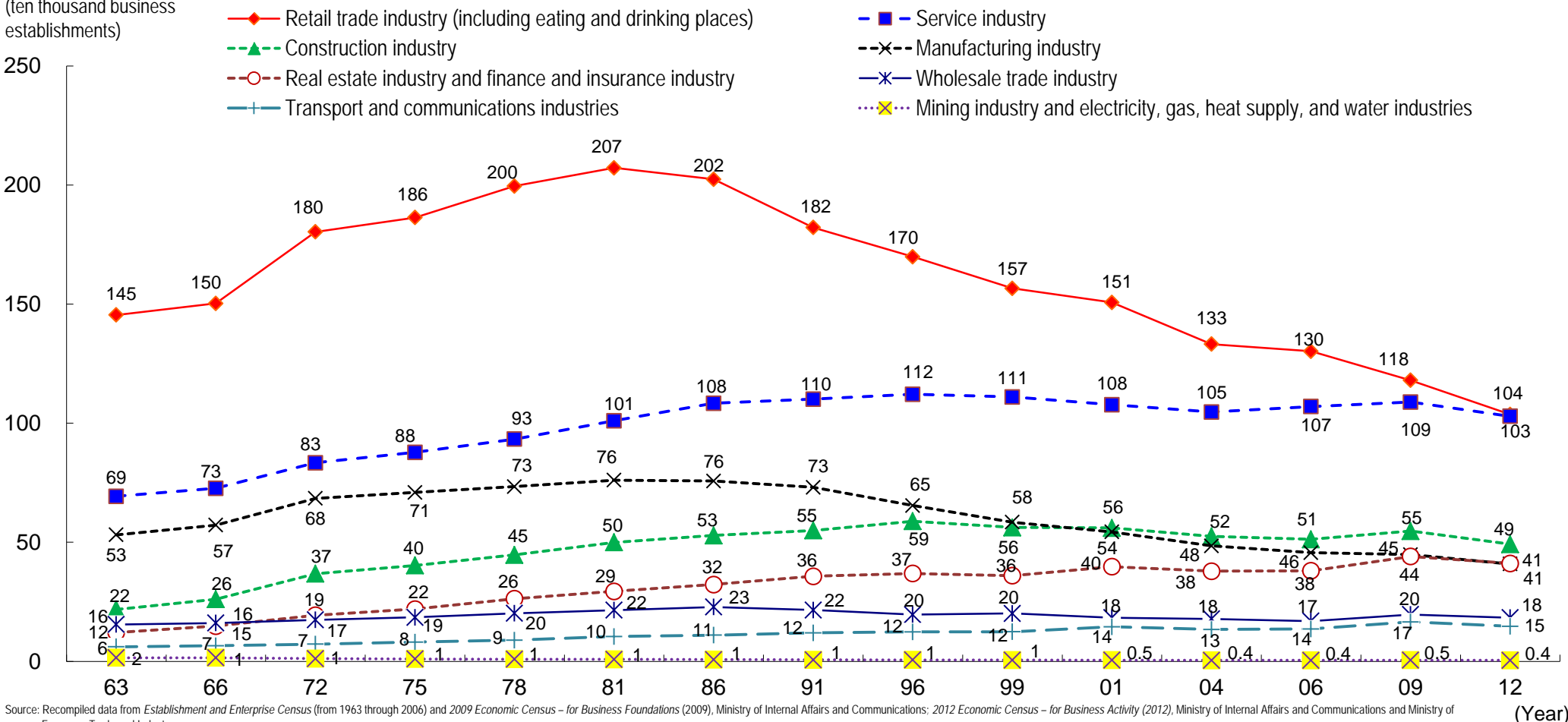
2. The numbers of enterprises for the business types designated by special provisions of a Cabinet Order are reflected in the values for the numbers of SMEs and small enterprises after 2012.

## Trends in Micro Businesses (2) Changes in the Number of Establishments by Business Type

- When examining the long-term changes in the number of micro business establishments, it can be seen that **the number in the retail trade industry decreased by 50% from its peak, and by 46% in the manufacturing industry.**
- The numbers of business establishments in the service industry and real estate industry have been slightly on the increase. Those in other business types have remained more or less flat.
- Although the number of business establishments in the service industry itself has remained flat for the past twenty years, **the share of such establishments among all business types has been increasing.**

### Changes in Number of Business Establishments of Micro Businesses (by Business Type)

(ten thousand business establishments)



Source: Recompiled data from *Establishment and Enterprise Census* (from 1963 through 2006) and *2009 Economic Census – for Business Foundations* (2009), Ministry of Internal Affairs and Communications; *2012 Economic Census – for Business Activity* (2012), Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

Note 1: Survey conducted as the Establishment Census up until 1991 (as the Establishment Directory Maintenance Survey in 1989) and as the Establishment Directory Maintenance Survey in 1994

Note 2: Survey conducted based on business establishments, not based on enterprises whose multinominal establishments were integrated

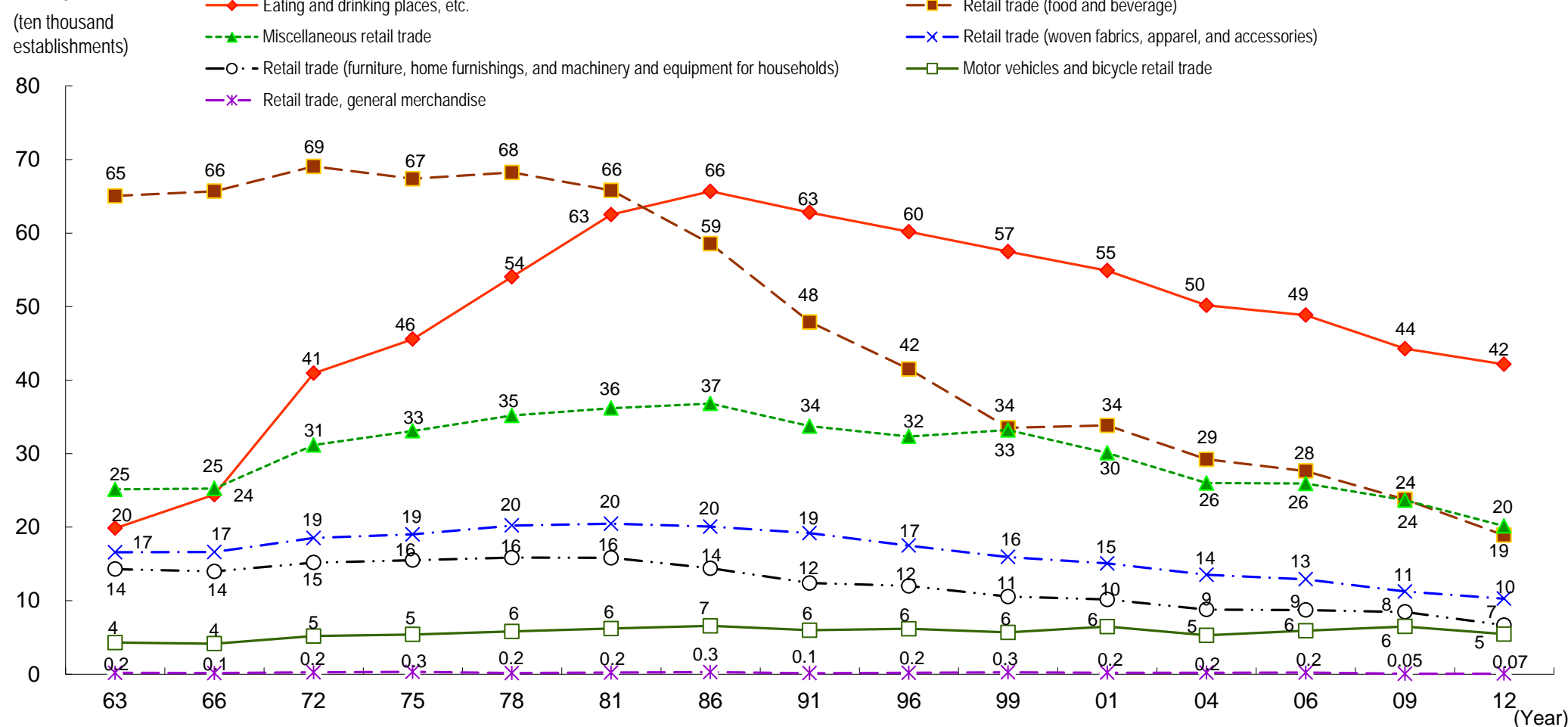
Note 3: In the figure above, the published values from surveys on establishments, which are based on the criteria "the total number of employees of a business establishment is no more than nineteen persons or four persons," rather than the criteria for specifying an enterprise as a small enterprise prescribed by the Small and Medium-sized Enterprise Act (number of regular employees is not more than twenty, or five or less for some business types), are employed.

Note 4: Eating and drinking places had been classified as part of the retail trade industry until 2001. In order to enable comparisons, the number of eating and drinking places, which was included in the service industry from 2004 through 2012, is counted as being included in the retail trade industry.

# Trends in Micro Businesses (3) Changes in the Number of Establishments (Breakdown of Retail Trade Industry)

○ When examining the breakdown of the retail trade industry (including eating and drinking places), which has the largest number of business establishments among all industries, according to major industry groups, it can be seen that **the number of business establishments of all business types such as shops including restaurants and the food and beverage retail trade industry has decreased since 1986.**

## Changes in Number of Micro Business Establishments in the Retail Trade Industry (Including Eating and Drinking Places) (Major Industry Groups)



Source: Recompiled data from *Establishment and Enterprise Census* (from 1963 through 2006) and *2009 Economic Census – for Business Foundations* (2009), Ministry of Internal Affairs and Communications; *2012 Economic Census – for Business Activity* (2012), Ministry of Internal Affairs and Communications and Ministry of Economy, Trade and Industry

Note 1: Survey conducted as the Establishment Census up until 1991 (as the Establishment Directory Maintenance Survey in 1989) and as the Establishment Directory Maintenance Survey in 1994

2: Survey conducted based on business establishments, not based on enterprises whose multinomial establishments were integrated

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Medium-sized Enterprise Act (number of regular employees is not more than twenty, or five or less for some business types), are employed.

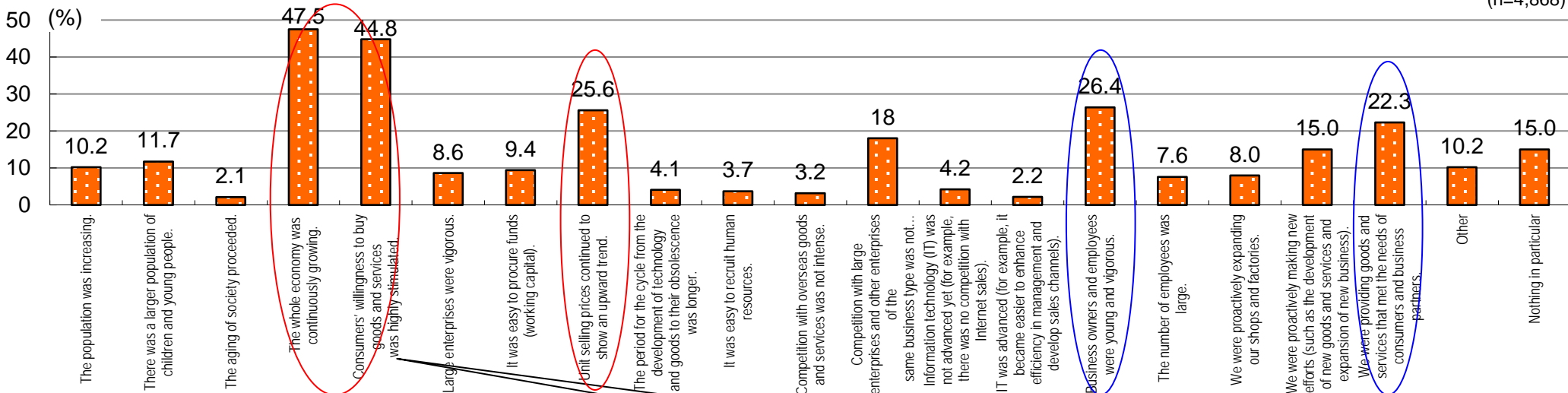
4: Eating and drinking places had been classified as part of the retail trade industry until 2001. In order to enable comparisons, the number of eating and drinking places, which was included in the service industry from 2004 through 2012, is counted as being included in the retail trade industry.

## Trends in Micro Businesses (4) Main Causes for Ups and Downs for Businesses

- As for macroeconomic reasons for ups and downs for businesses, many business owners believe that businesses performance depends on the state of growth or sluggishness of the economy, consumer willingness to buy goods and services, and unit selling prices.
- As for other reasons, whether or not goods and services are able to be provided that meet needs is also believed to play an important role.

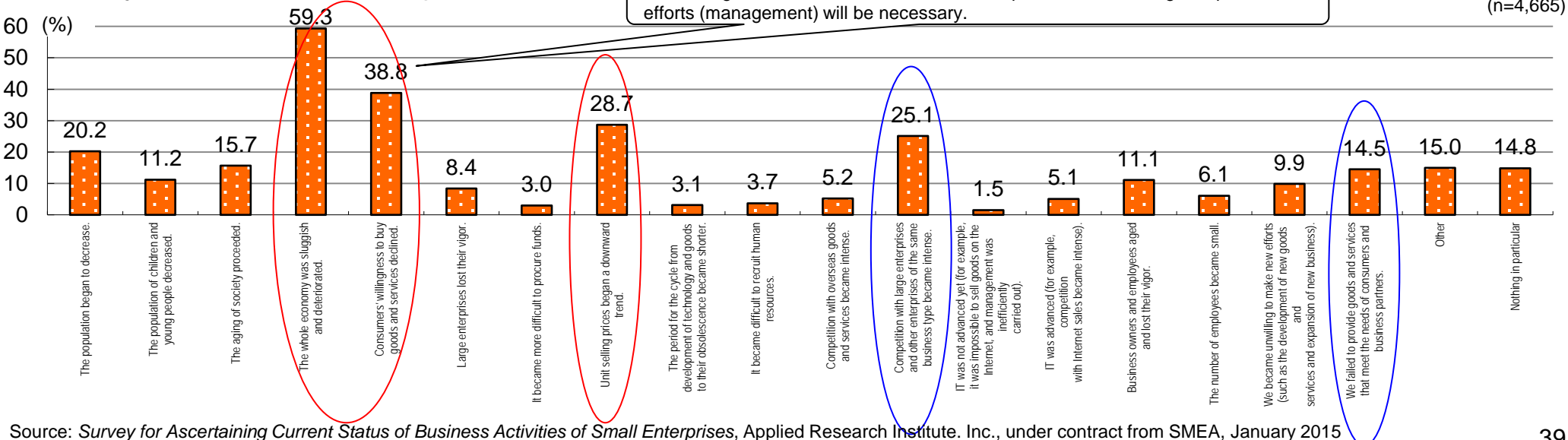
### Reasons Why Businesses Have Been Strong (Multiple Answers)

(n=4,868)



### Reasons Why Businesses Were Weak (Multiple Answers)

(n=4,665)



Source: Survey for Ascertaining Current Status of Business Activities of Small Enterprises, Applied Research Institute, Inc., under contract from SMEA, January 2015

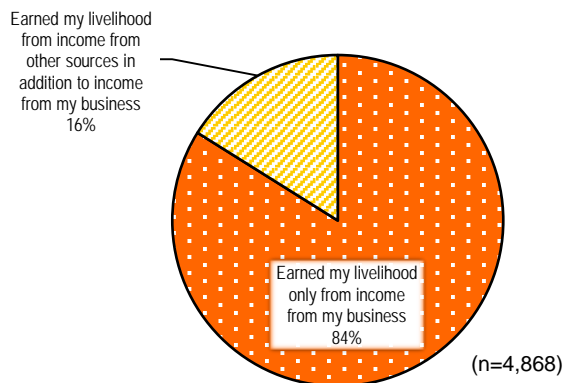
Note: Business owners chose the top three reasons in the questionnaire survey, and the percentages for the graph above were calculated based on the total number of business owners.



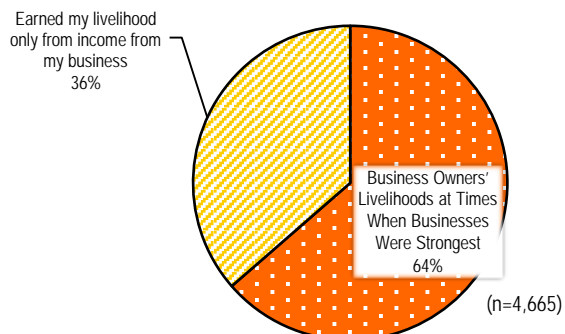
## Trends in Micro Businesses (5) Changes in Means of Livelihood during Business Ups and Downs

- When comparing business owners' means of livelihood during up periods for their businesses with those during down periods for their businesses, it can be seen that the percentage of business owners who earn their living from income from their businesses in addition to income from other sources during up periods is about 20% higher than that during down periods.
- When examining the breakdown of income from sources other than their businesses, it can be seen that during down periods when trends in the whole economy also become severe, salaries that business owners' families earn through working at other companies and rent from immovable properties owned by them also decrease. Instead, pensions and the disposition of savings come to account for a larger part of their means of livelihood.
- Therefore, a safety net, including pensions and the disposition of savings, is important.

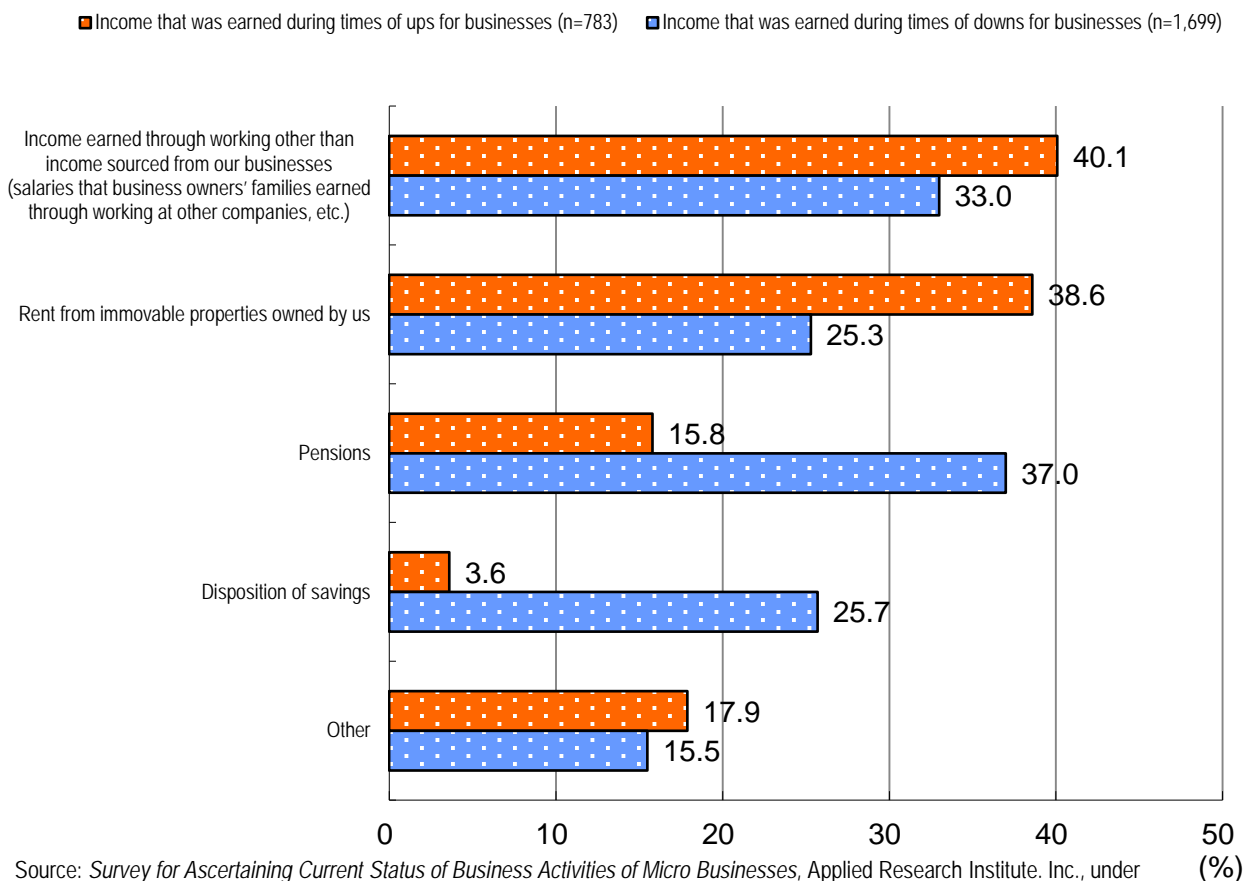
Business Owners' Livelihoods at Times When Businesses Were Strongest



Business Owners' Livelihoods at Times When Businesses Were Weakest



Income That Was Earned from Sources Other Than Businesses at Times When Businesses Were Strongest or Weakest (Multiple Answers)



Source: Survey for Ascertaining Current Status of Business Activities of Micro Businesses, Applied Research Institute. Inc., under contract from SMEA, January 2015

# Part I

## Structural Analysis of Micro Businesses

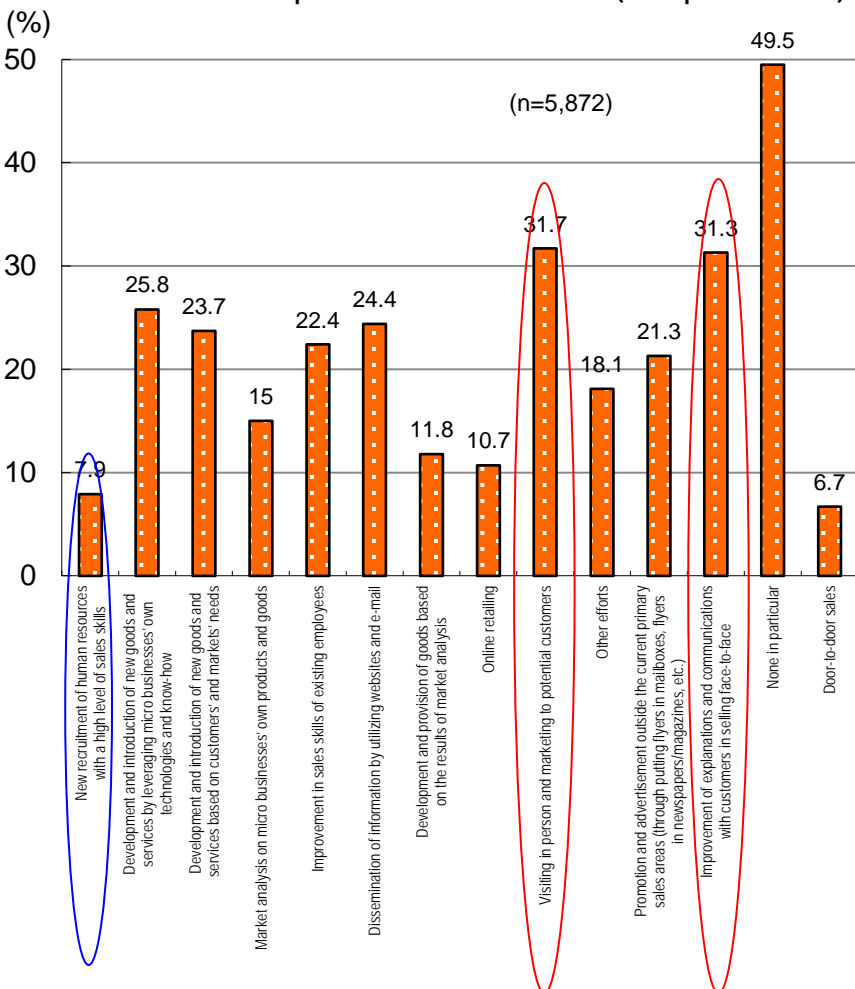
### Chapter III

#### The Future of Micro Businesses

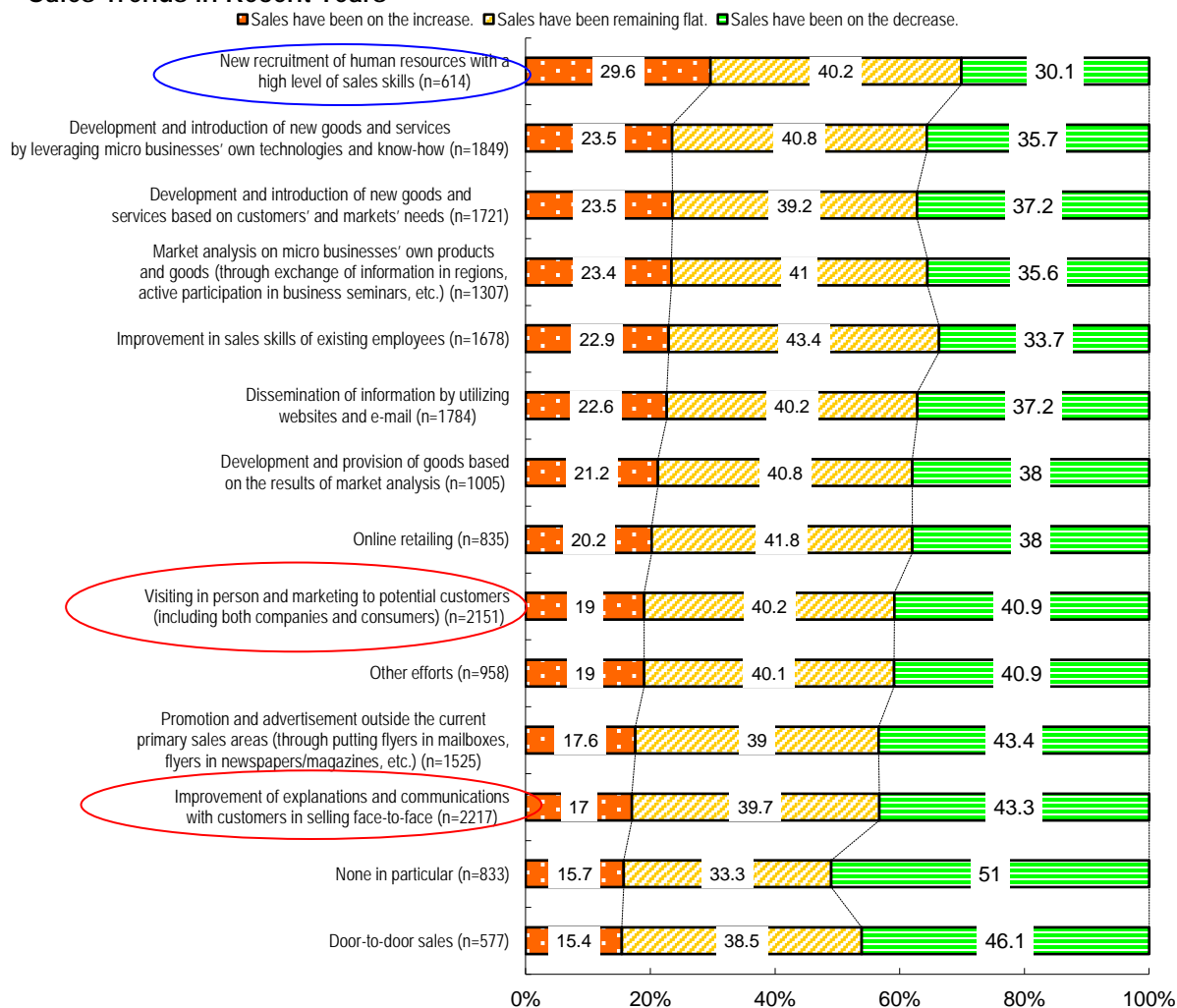
# Toward the Future of Micro Businesses (Effective Development of Sales Channels)

- Micro businesses that have been making efforts to recruit human resources with a high level of sales skills for the sake of the development of sales channels currently tend to be increasing their sales, but the number of such micro businesses is comparatively small.
- Meanwhile, many micro businesses have been making efforts to market to customers, but the percentage of the efforts that are leading to sales increases is not high.

Efforts for Development of Sales Channels (Multiple Answers)



Relation between Efforts toward Development of Sales Channels (Multiple Answers) and Sales Trends in Recent Years



Source: Survey on the Conditions of Business Activities of Micro Businesses, Applied Research Institute, Inc., under contract from SMEA, January 2015

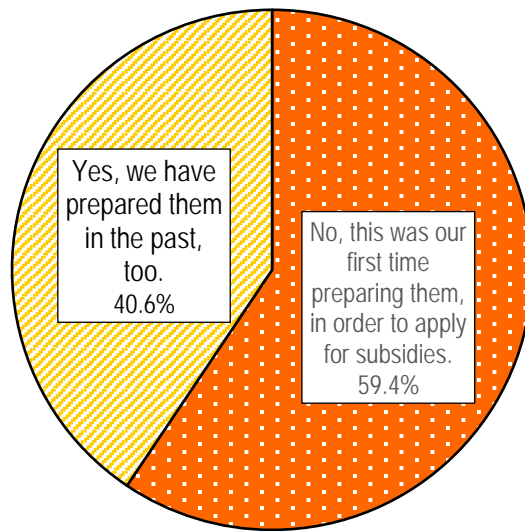
Note: Figures are calculated from the top three responses that micro businesses selected in the questionnaire.

## For the Future of Micro Businesses (Formulation of Business Plans and Changes in Their Awareness (1))

- According to the questionnaire results from the micro businesses that received “Subsidies for Sustainable Micro Businesses,”(\*) which was adopted as a measure in the FY 2013 supplementary budget, approximately 60% of all micro businesses answered that they prepared their business plans for the first time due to the use of the subsidies.
- As for the micro businesses’ awareness after formulating their business plans, they raised their awareness to try to address management challenges, as indicated by the results, such that over 50% of micro businesses answered, “Our company’s strengths and weaknesses have become clear,” or “We were able to create plans for new business,” and approximately 40% answered, “It was a good opportunity to review our business.”
- The business plans, which the subsidies require, are typically not unduly burdensome, often only being 1 page in length. Thus, it is thought that a sufficiently positive effect will be obtained from even a modest effort to formulate a business plan.

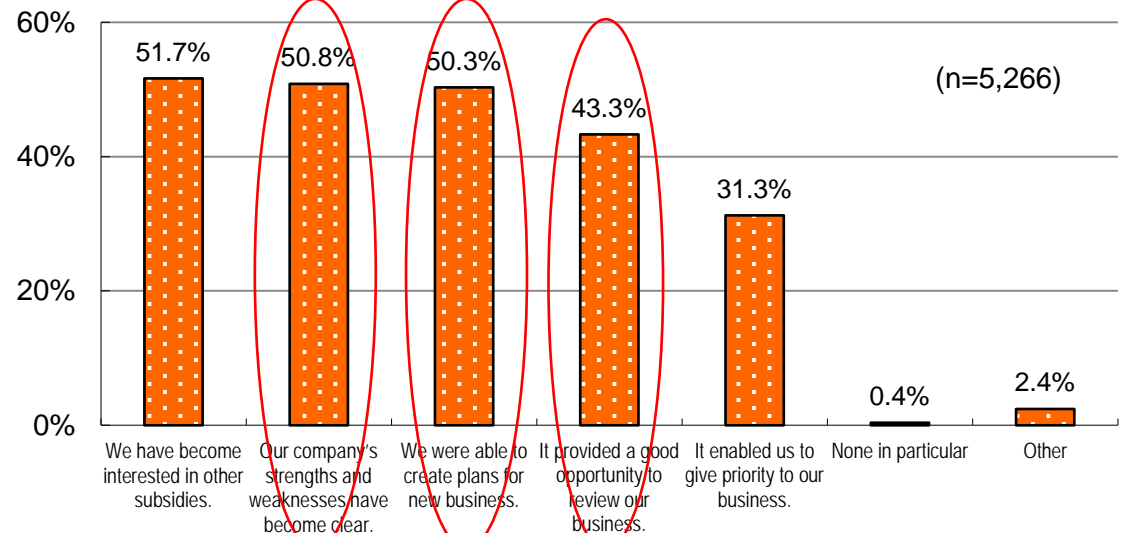
\* Subsidies for Sustainable Micro Businesses support micro businesses with expenses related to the development of sales channels with commerce and industry associations, chambers of commerce, and industry (preparation costs for flyers, travel expenses for attending business fairs, etc.). (Upper limit of subsidy: 500,000 yen, subsidy rate: two-thirds, results in supplementary budget for FY 2013: 27,409 applications → 13,327 acceptances)

### Experience in the Preparation of Business Plans?



(n=5,266)

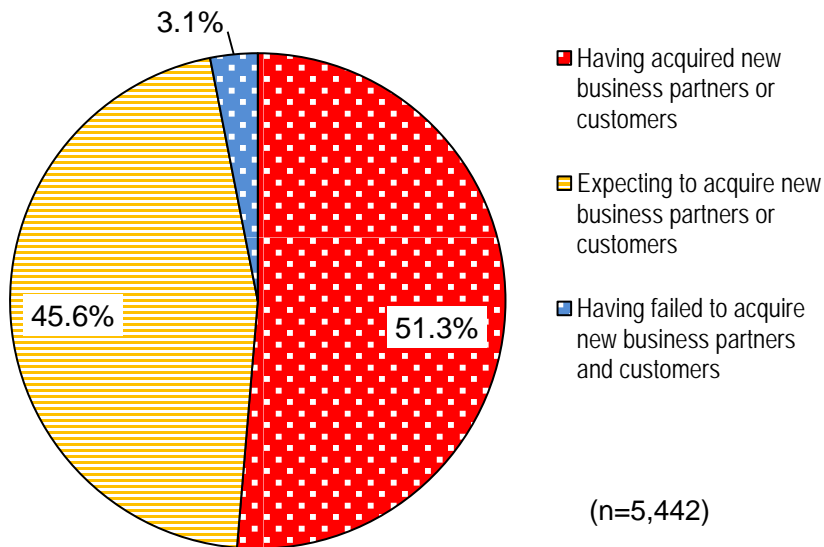
### Changes in the Awareness of Micro Businesses after Preparing their Business Plans (Multiple Answers)



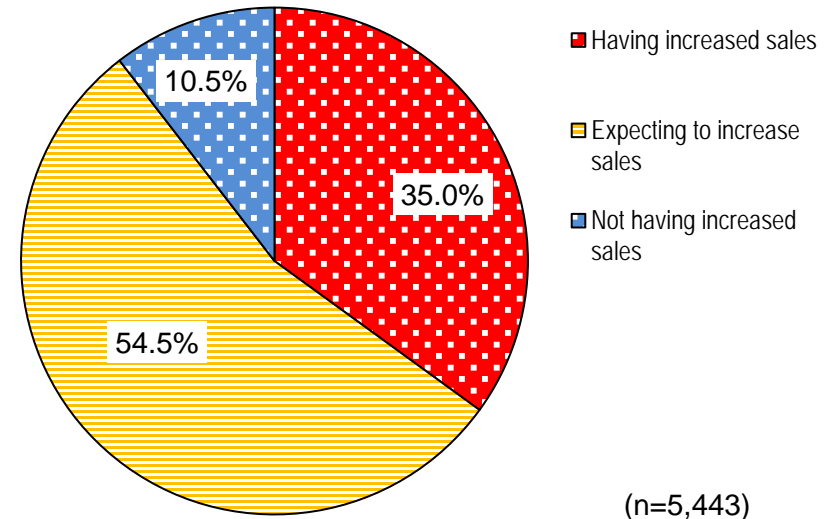
## For the Future of Micro Businesses (Formulation of Business Plans and Changes in their Awareness (2))

- When asked about the status of acquisition of new business partners or customers, 51% of business operators that had already prepared their new business plans and received the subsidies for sustainable micro businesses answered, “having acquired.” Including the answer “expecting to acquire,” 97% of business operators that had received subsidies answered, “acquiring new business partners or customers.”
- Meanwhile, as for increases in sales, 35% of micro businesses answered, “having increased.” Including “expecting to increase,” approximately 90% of business operators that had received subsidies answered, “increasing sales.”

**Status of Acquisition of New Business Partners or Customers by Utilizing the Subsidies for Sustainable Businesses**



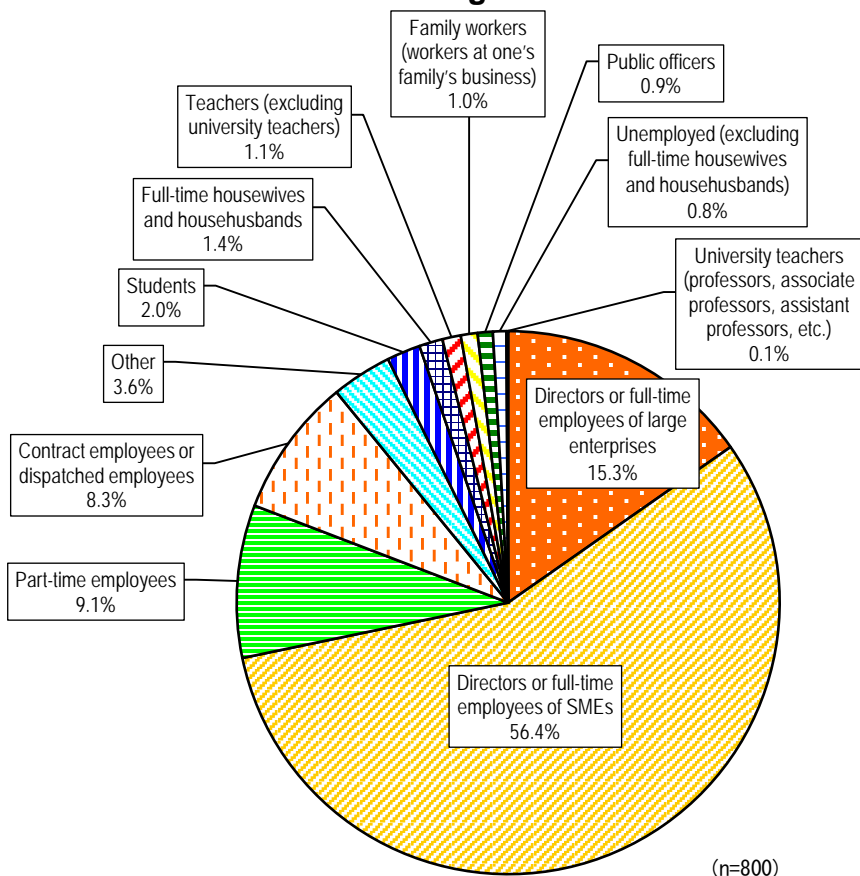
**Status of Increase in Sales by Utilizing the Subsidies for Sustainable Businesses**



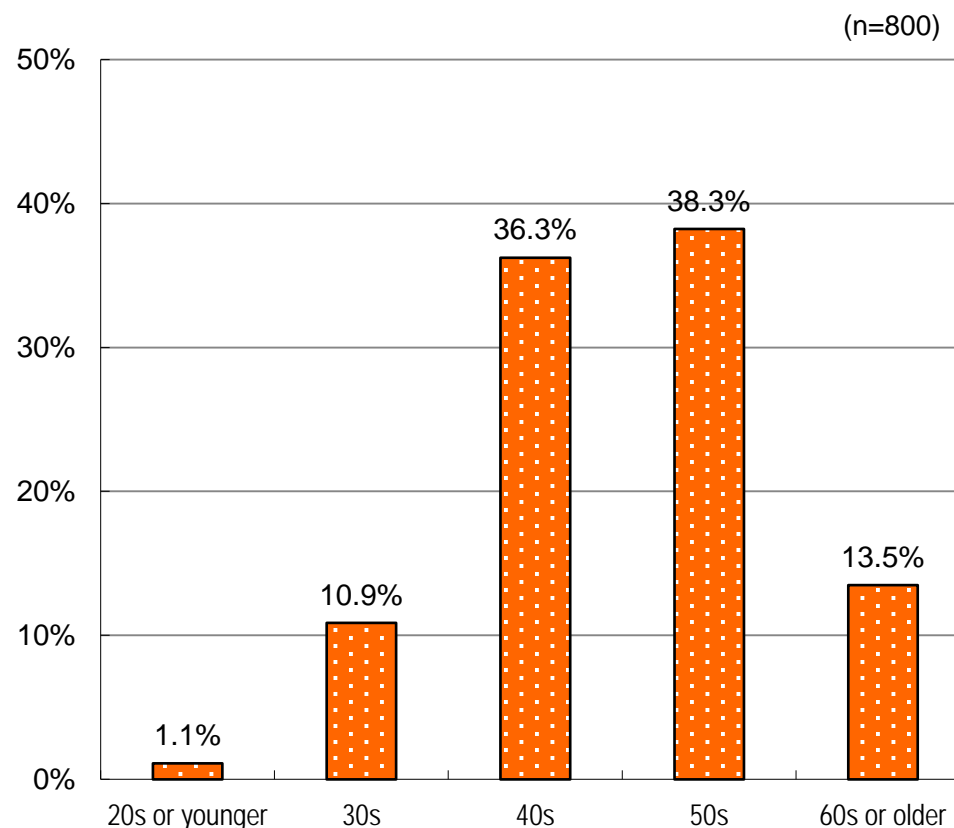
## For the Future of Micro Businesses (New Working Style: Freelancers (1))

- Those who do not belong to any organization and act as individuals based on their own experience and expertise, for example, designing and developing software (or, system engineering), performing web design, writing, translating, or interpreting, are so-called “freelancers.” This is also one of new working styles, and they are micro businesses.
- Freelancers are also expected to act as external human resources for micro businesses.
- In terms of the previous jobs of freelancers, directors and full-time employees of SMEs account for the majority. They are mainly in their 40s and 50s with experience, expertise, and connections.

### Previous Jobs before Becoming Freelancers



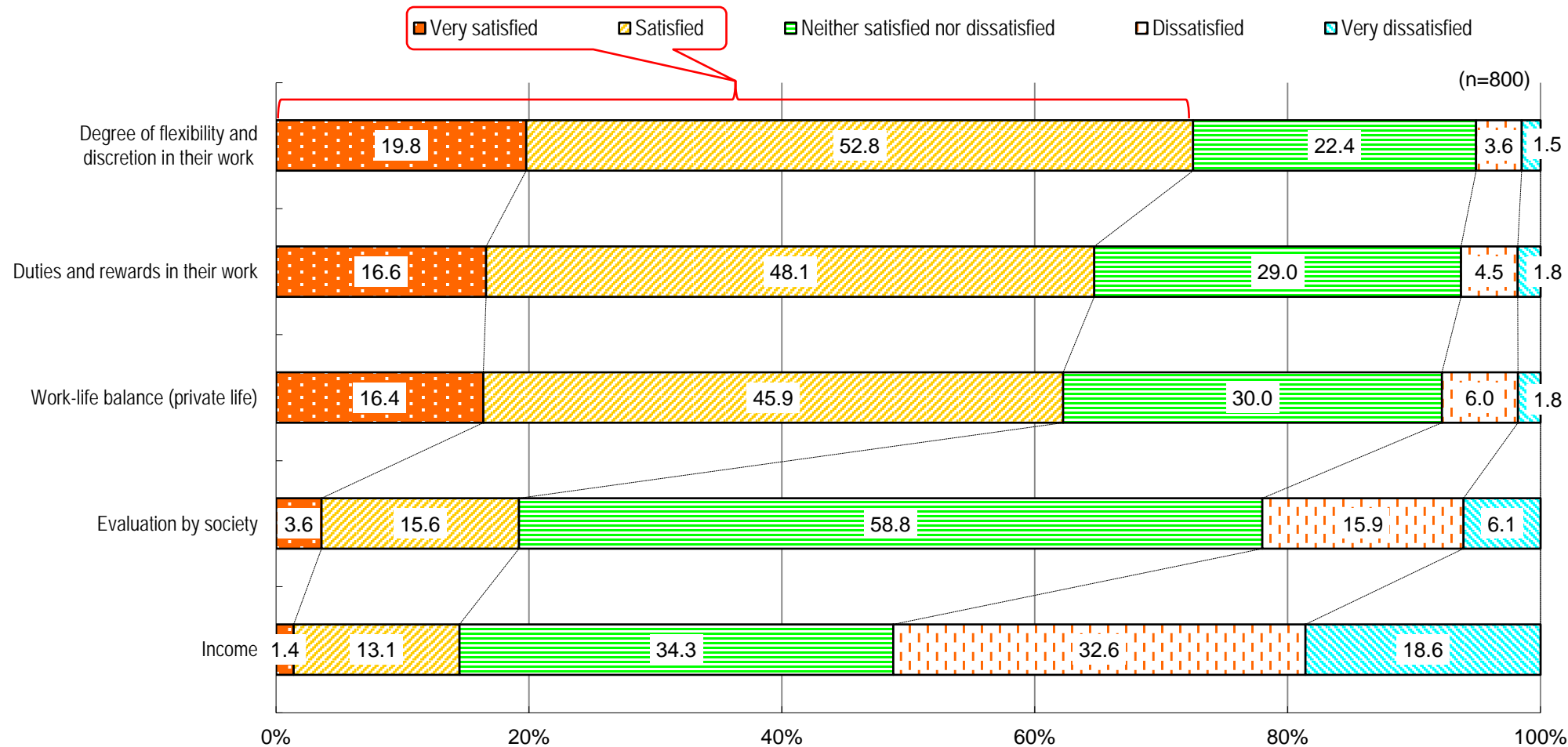
### Breakdown of Freelancers by Age



## For the Future of Micro Businesses (New Working Style: Freelancers (2))

- Freelancers tend to be satisfied with their working styles in terms of “flexibility and discretion,” “duties and rewards,” and “work-life balance.” These responses exceed 60 %.
- On the other hand, fewer tend to be satisfied with the “evaluation by society” and “income.”

### Satisfaction of Freelancers concerning Their Working Styles

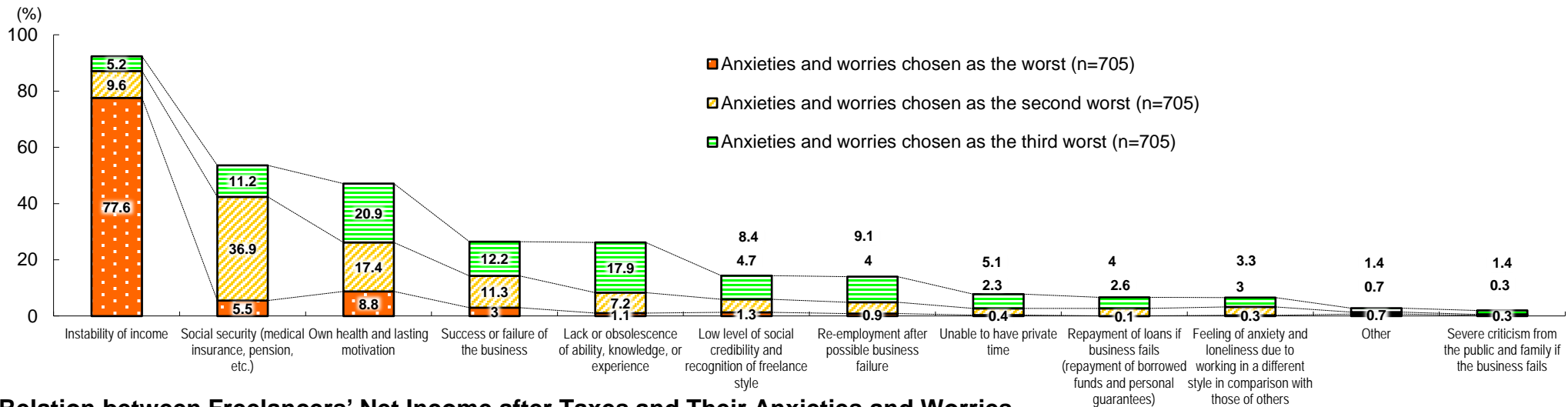




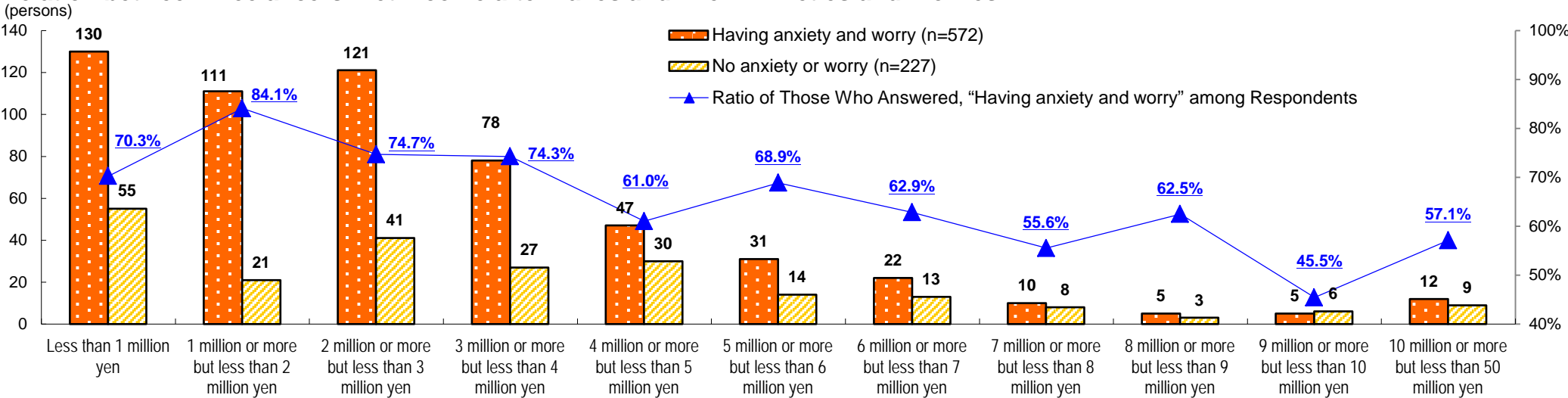
## For the Future of Micro Businesses (New Working Style: Freelancers (3))

- As for the disadvantages of freelancing, most freelancers have anxieties and worries about the instability of their income when operating their businesses.
- As for the net income after taxes of freelancers, the ratio of those who answered "having anxiety and worry" shows an upward trend mainly among respondents whose income is less than four million yen.

### Breakdown of Freelancers' Anxieties and Worries When Operating Their Businesses



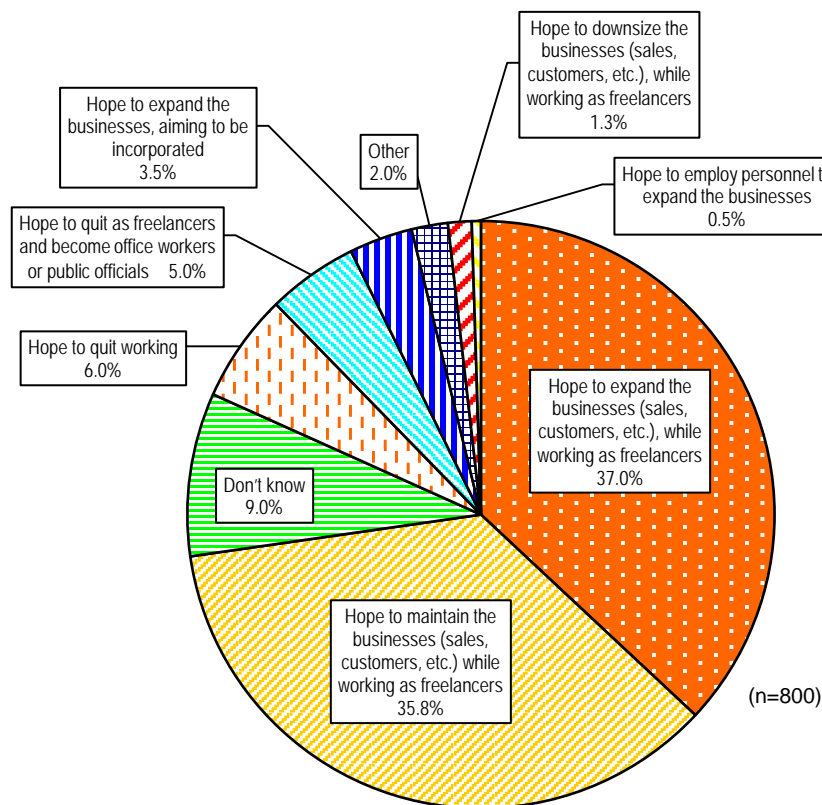
### Relation between Freelancers' Net Income after Taxes and Their Anxieties and Worries



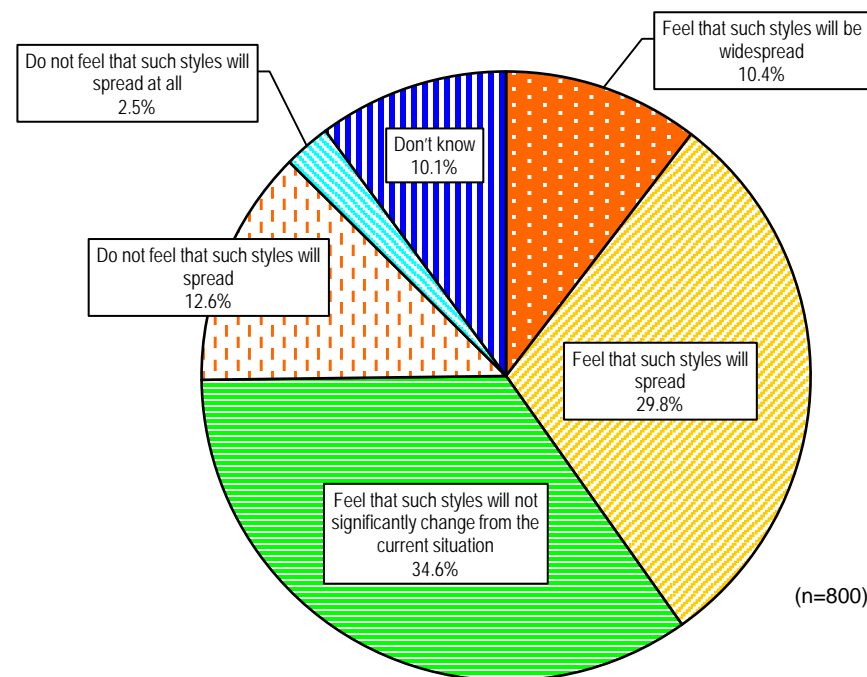
## For the Future of Micro Businesses (New Working Style: Freelancers (4))

- Regarding freelancers' future prospects, answers that indicate that they hope to expand or maintain their businesses account for approximately 70% of responses.
- Meanwhile, regarding the lifestyles and working styles of freelancers, the answers that indicate that they “feel that such styles will be widespread” or “will spread” in the future account for approximately 40% altogether.

Freelancers' Own Perspectives on the Future of Their Businesses and Working Style



Future Prospects of Lifestyles And Working Styles as Freelancers

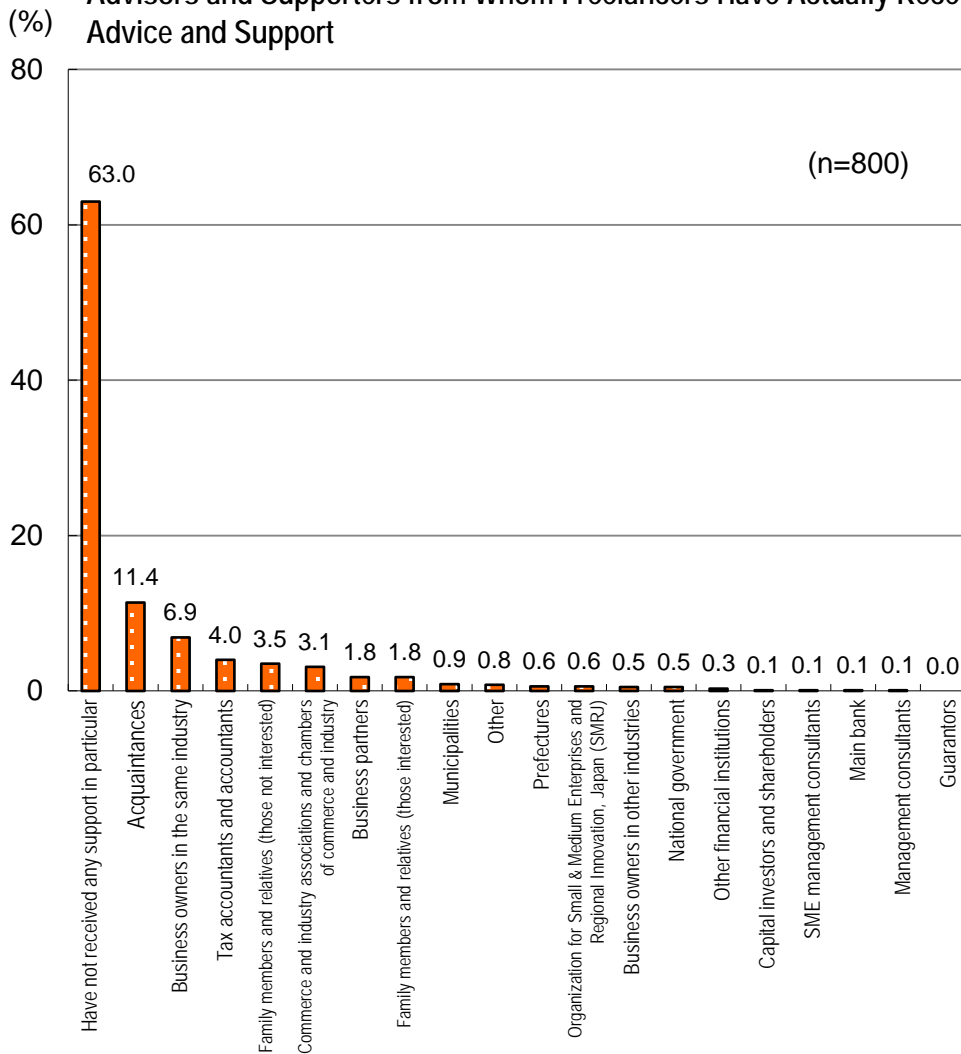


Source: Survey on the Conditions of Business Activities of Micro Businesses –Freelancers–, Applied Research Institute, Inc., under contract from SMEA, February 2015

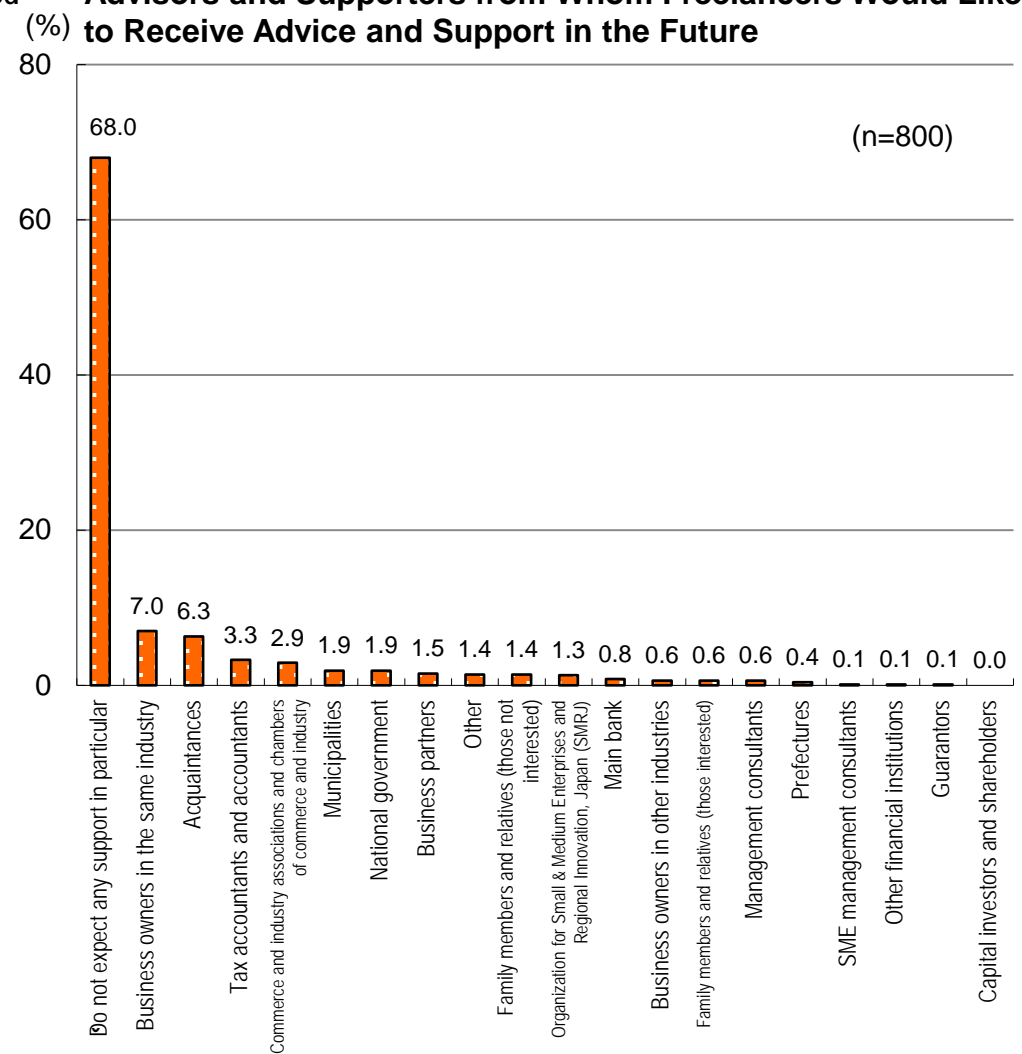
## For the Future of Micro Businesses (New Working Style: Freelancers (5))

- Freelancers have tended not to expect any support from outside parties and not to have thought about relying on such support in the future either.
- They can be regarded as business operators who are filled with can-do spirit and operate their businesses based on their own experience and expertise.

Advisors and Supporters from Whom Freelancers Have Actually Received Advice and Support



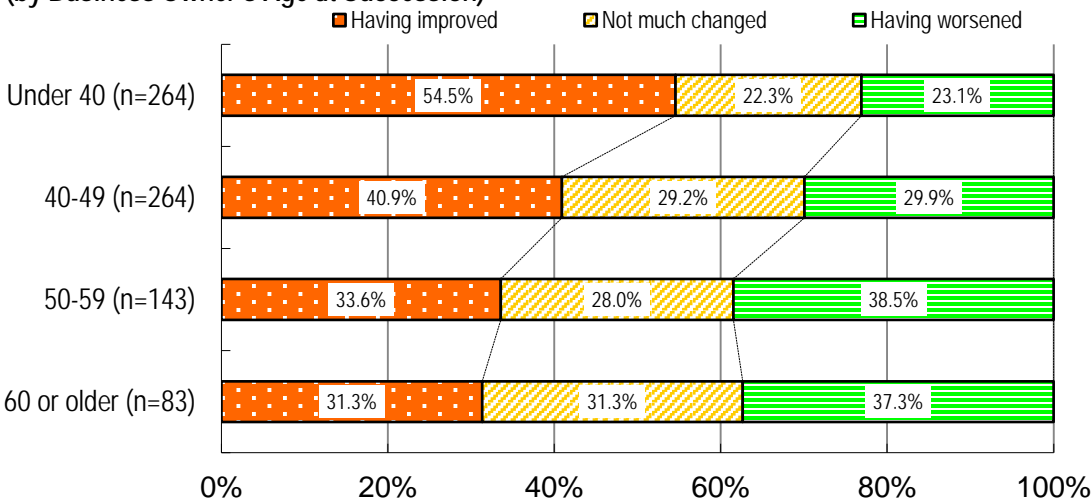
Advisors and Supporters from Whom Freelancers Would Like to Receive Advice and Support in the Future



## For the Future of Micro Businesses (New Efforts Involved in Business Succession)

- When examining trends in business performance after succession of business owners by age, it can be seen that the younger the successor is, the better the business performance after succession tends to be.
- After business succession, a little less than 50% of micro businesses that made efforts for business renovation have improved their business performance.

Trends in Business Performance of Micro Businesses after Business Succession  
(by Business Owner's Age at Succession)

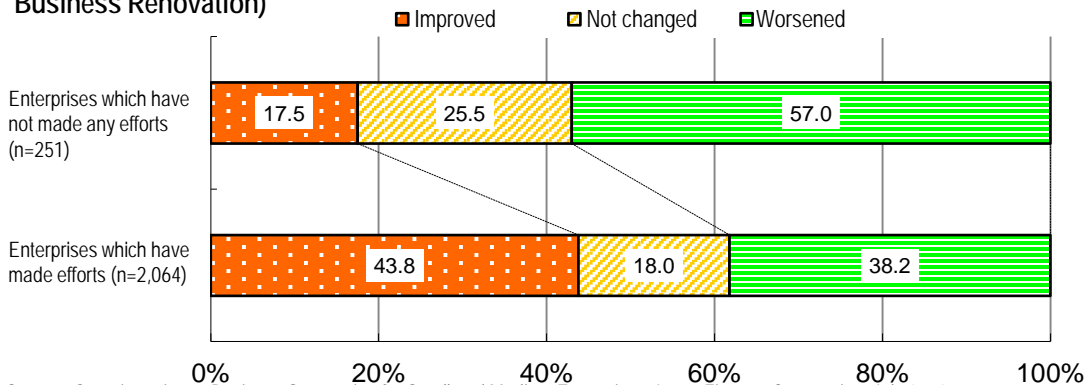


Source: Questionnaire Survey on Business Succession for Small and Medium Enterprises, Nomura Research Institute, Ltd., under contract from SMEA, November 2012

Note 1: The figures in Trends in Business Performance after Business Succession are based on survey responses on actual business results for around five years after succession (or for the period until the survey in cases where five years had not yet passed since business succession).

2. "Having improved" includes "having slightly improved," and "having worsened" includes "having slightly worsened."

Changes in Business Performance after Business Succession (by State of Efforts for Business Renovation)



Source: Questionnaire on Business Succession for Small and Medium Enterprises, Japan Finance Corporation, July 2009

Note: Figures are based on the responses from small enterprises. The term "small enterprise" is defined in the questionnaire as an enterprise which employs less than 19 employees.

### (Example) An example of making new efforts after business succession

Sato Shoji Co., Ltd. President: Keita Sato (employees: 11 persons; capital: 6 million yen)  
(Yuzawa City, Akita Prefecture)

[Main business] Manufacture and marketing of traditional handicrafts – Kawatsura lacquerware  
[Motive for business succession]

- Originally having no intention of taking over the family business, Mr. Sato took a job as a salesperson at an IT company in Tokyo. While working in IT, he happened to have the opportunity to create a website for his family's company. In making the website, he became increasingly interested in the company, and as such, along with his grandmother's urging, decided to take over the business in 2012 when the then-president was 59 years old and he was 35 years old.

[Details of new efforts]

- He adheres to keeping the traditions of making lacquerware using craftsmen's hand-coating techniques.
- Thinking that it is important not only to emphasize how many layers of coating are applied to the products, but also to generate selling points that strongly appeal to the customers, he has developed products for children such as plates and spoons with grooves for a better grip as well as products through collaboration using the characters of major toy makers.
- His efforts include offering the company's lacquerware to a famous local Inaniwa udon restaurant so that customers can feel the good quality of the company's products.
- Due to changing demographics, with an aging craftsmen population and declining number of younger craftsmen to succeed them, he is promoting training for younger generations in collaboration with universities and vocational colleges that specialize in arts and crafts.

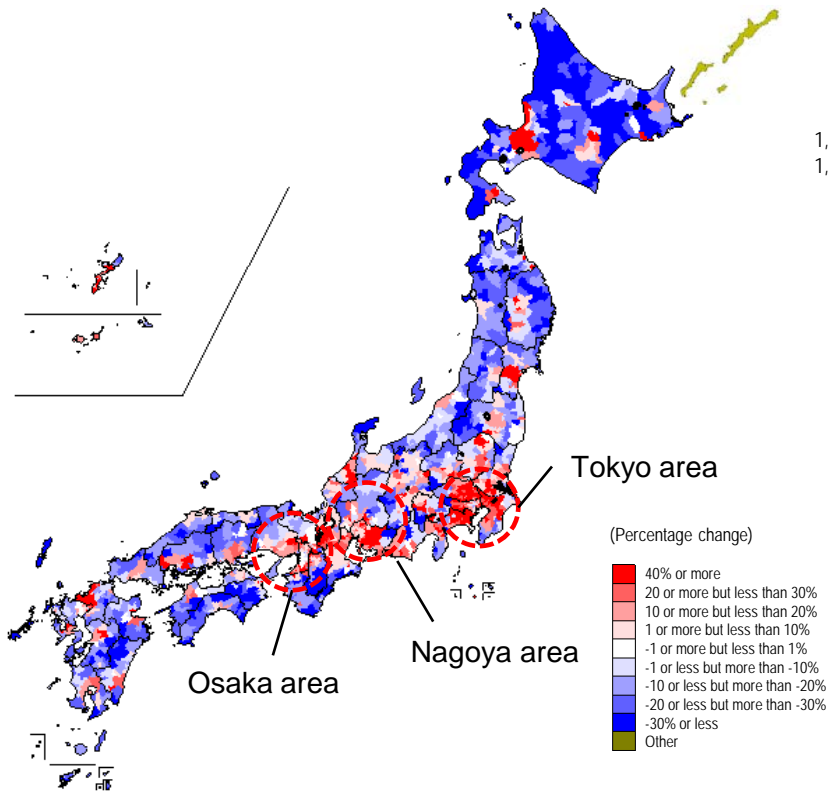
[Outcomes of the efforts]

- The number of clients and the sales figures for the company have been on a steady increase. There are also increasing inquiries from other industries with which the company had no previous connection, saying that they want to put the company's products on display.
- Regarding human resources, there have been many inquiries from people including young students who want to work for the company as well as wanting to learn the techniques.
- As opportunities have arisen where the people in the traditional crafts-producing regions in Akita Prefecture and the younger generation of proprietors gather to work on initiatives such as promoting branding and disseminating regional products, they are now engaged in proactive discussions.

## Micro Businesses in Regions (Current Situation of Retail Trade in Regions)

- While the population has been concentrated in three major metropolitan areas, particularly in the Tokyo Metropolitan area, the population has significantly declined in other regions (Japan has entered into a serious population decline (2014 White Paper on Small and Medium Enterprises in Japan)).
- The population decline is a factor leading to a fall in demand in certain regions. For example, the number of small-sized shops (on shopping streets, etc.) has significantly decreased in the retail trade industry. On the other hand, cases where a small company continues to expand its sustainable business, while responding to local issues and demand, can be seen.

### Change of Population by Municipality (1980-2010)

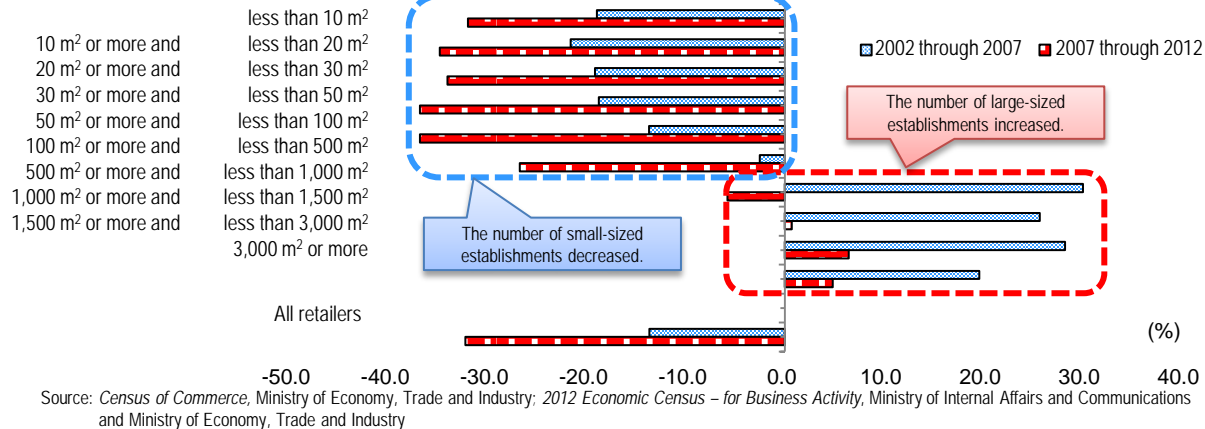


	1980	2010	Rate of change (as a whole)	Number of municipalities in which population declined
Population (across Japan)	117,058,537	128,057,352	9.4%	1,038 municipalities

Source: Prepared based on *Regional Statistics Database*, Ministry of Internal Affairs and Communications

Note: The map of Japan above was colored according to the changes in population by municipality.

### Changes in Number of Establishments by Sales Floor Space in Retail Trade Industry



Example: Regional efforts for solving regional issues  
(Omiya Sangyo Co., Ltd. / Omiya District, Shimanto City, Kochi Prefecture)  
[Outline of the region]

There is a population of 286 (130 households). The proportion of elderly people has risen to 49.7% in this district, where residents find it difficult to purchase daily necessities and other items.

[Details of the efforts made in the district]

- The sole store in the district that sold daily necessities, gasoline, and other commodities was closed. Feeling a sense of crisis, 108 households, which accounted for about 80% of all the residents, invested a total of 7 million yen and founded Omiya Sangyo Co., Ltd (a micro business) in May 2006.
- With the aim of protecting the daily lives of the residents, the store sells goods ranging from foods (excluding fresh foods) to daily sundry goods and agricultural goods, staying in touch with the community's needs.
- In addition, by strengthening the system of "local production for outside consumption," which is to sell locally grown rice to consumers outside the region, the company is developing sustainable operations as well as exercising its responsibility to meet regional demand.

(A scene in the store run by Omiya Sangyo)



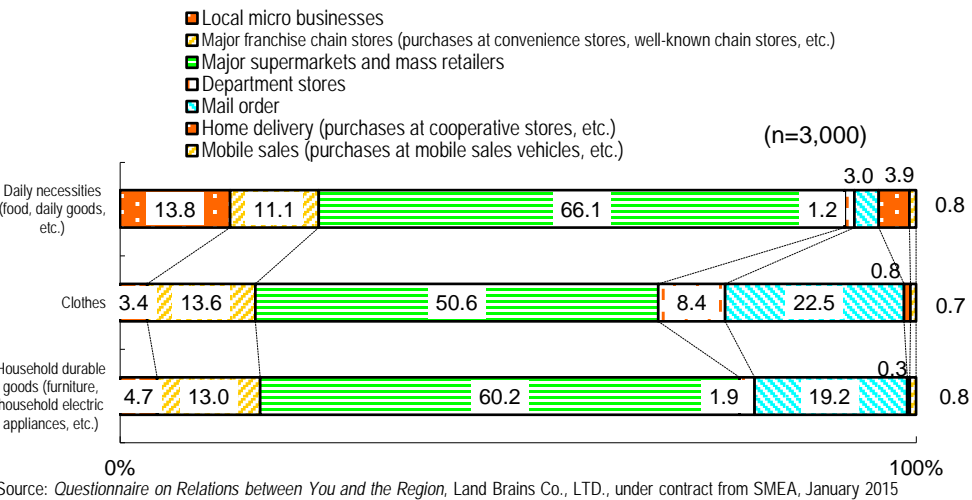
[Outcomes from the efforts]

- Sales: 35 million yen in FY 2006, 62 million yen in FY 2011  
The company has operated in the black for six consecutive quarters.

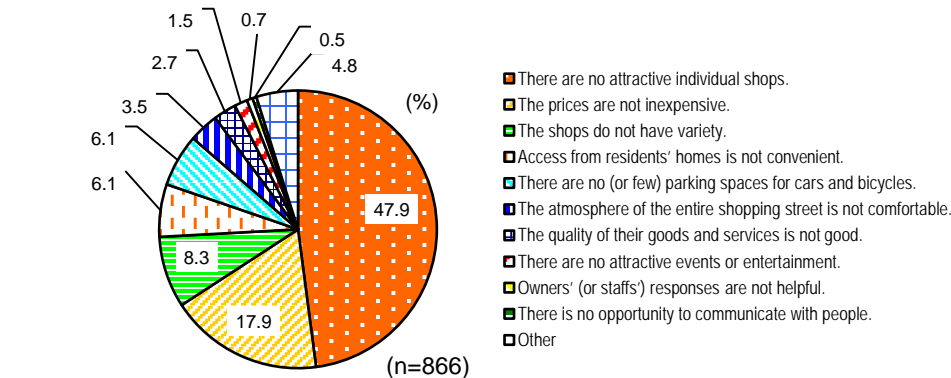
# Micro Businesses in Regions (Places of Purchase for Local Residents by Goods / Level of Satisfaction with Goods and Services Provided by Micro Businesses)

- As for the kinds of goods local residents often purchase from micro businesses, daily necessities (food, daily goods, etc.) account for approximately 14%, clothes for 3.4%, and household durable goods (furniture, household electric appliances, etc.) for 4.7%. Thus, more frequently purchased everyday goods such as daily necessities tend to be more frequently purchased from micro businesses than less frequently purchased goods such as household durable goods.
- Some reasons why local residents seldom go to shopping streets are that "there are no attractive individual shops," accounting for 48%, "the prices are not inexpensive," for 18%, "the shops do not have variety," for 8%, "access from residents' homes is not convenient," or "there are no (or few) parking spaces for cars and bicycles," for 12%, and "the atmosphere of the entire shopping street is not comfortable," for 4%.
- In terms of the level of satisfaction with the goods and services provided by micro businesses, there tends to be more satisfaction with the "owners' and staffs' responses," "relationships," and "convenience (e.g. taking care of everything with one call)," than the "prices" and "assortment of goods."

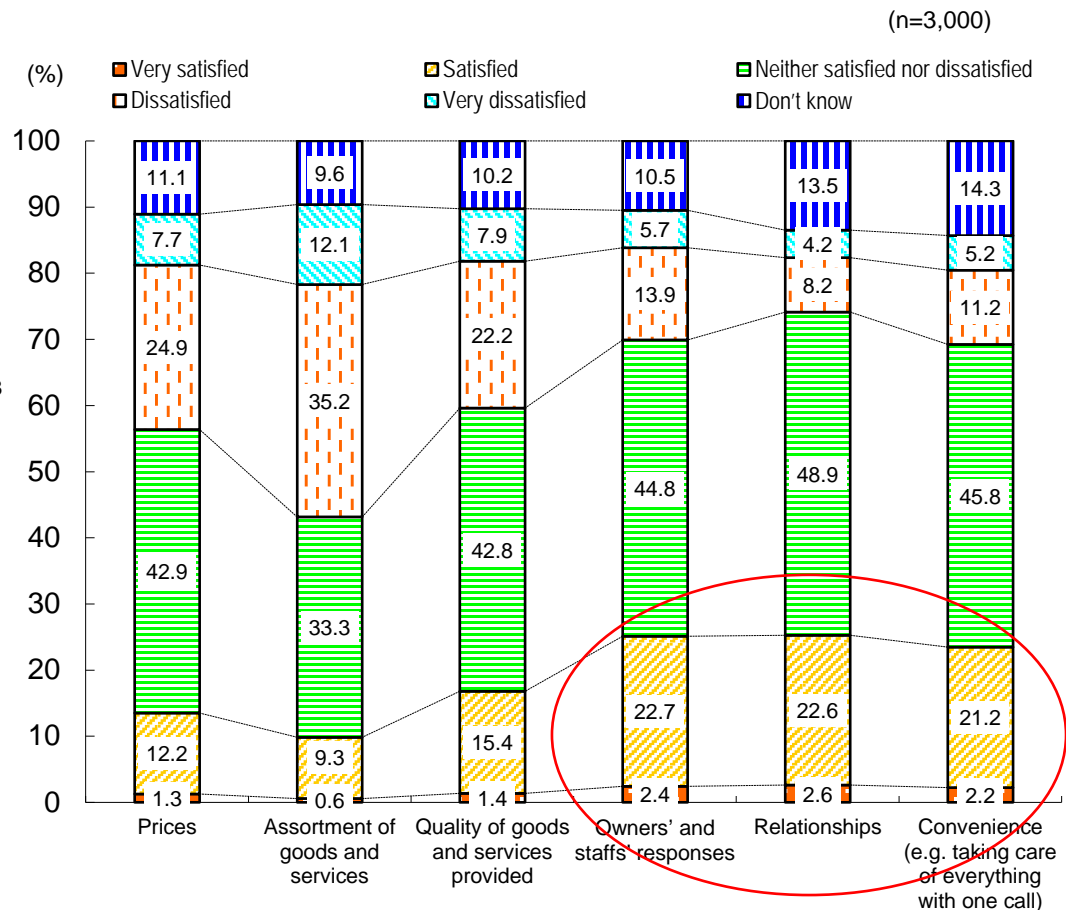
## Places of Purchase for Local Residents by Goods



## Reasons Why Local Residents Seldom Go to Shopping Streets



## Level of Satisfaction with Goods and Services Provided by Micro Businesses

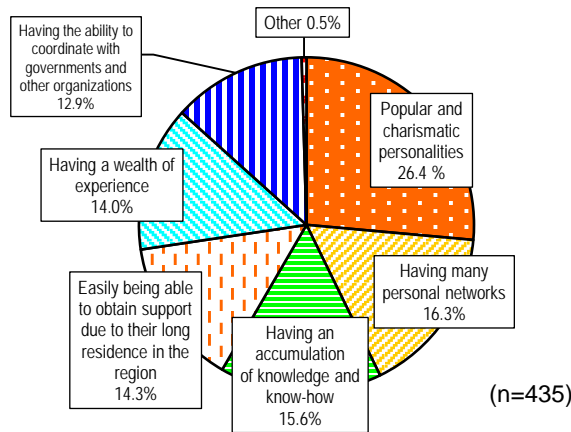




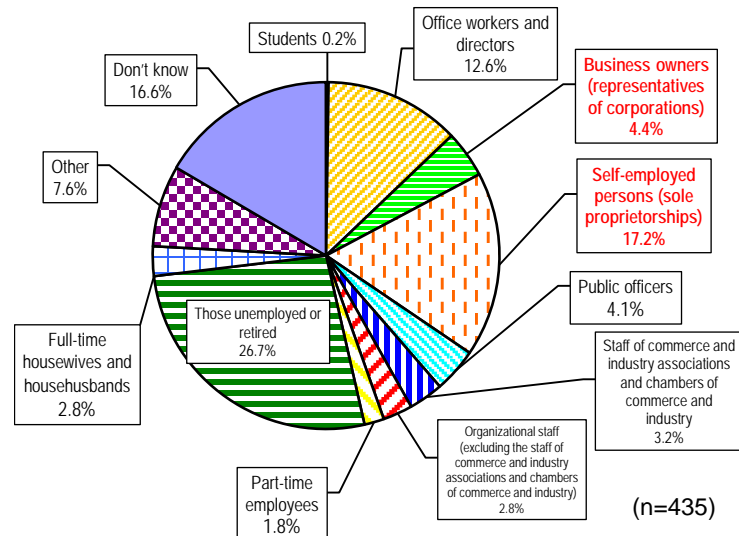
## Micro Businesses in Regions (Roles as Regional Leaders)

- As regional leaders, the elements of having “popular and charismatic personalities” (26.4%) and “personal networks” (16.3%) are expected, and the percentage of micro businesses that take responsibility for fulfilling these roles is high.
- Also, micro businesses (business owners and self-employed persons) contribute to their local communities through activities other than in the business arena, including such initiatives as local festivals and other events. Therefore, local residents also appreciated their local community activities to a certain extent.

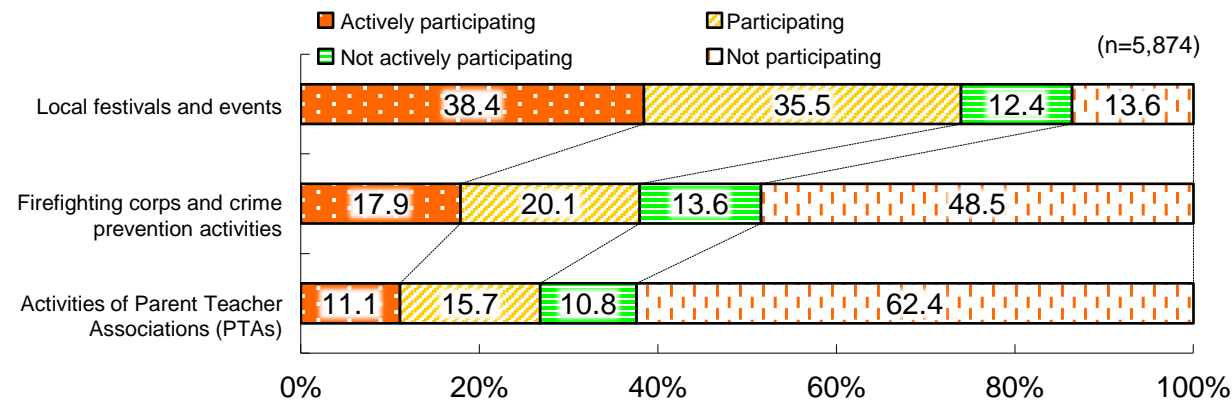
### Elements Necessary for Regional Leaders



### Occupation of Regional Leaders

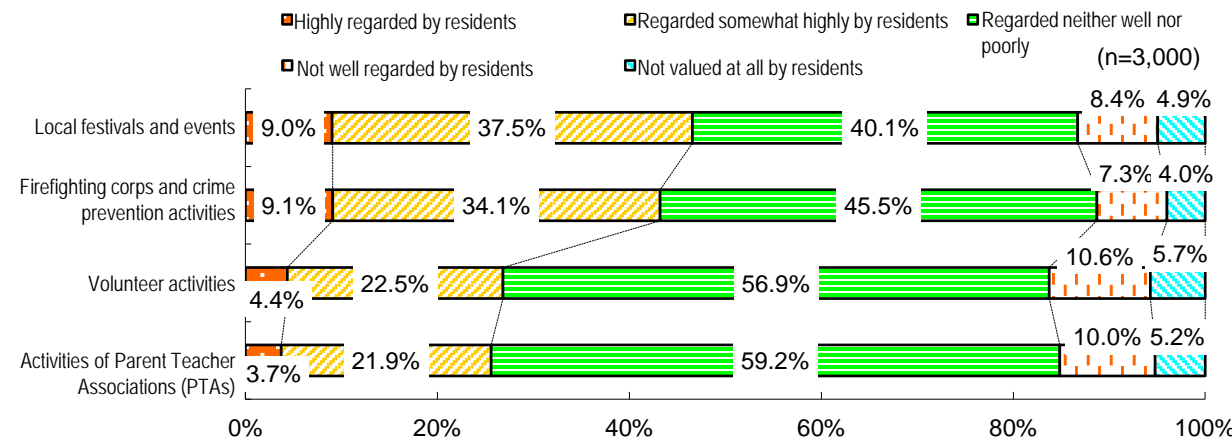


### Status of Participation in Local Community Activities of Business Owners (Micro Businesses)



Source: Survey on the Conditions of Business Activities of Micro Businesses, Applied Research Institute, Inc., under contract from SMEA, January 2015

### Evaluation of Status of Participation in Local Community Activities of Business Owners (Micro Businesses) by Residents



# Part II

## Challenges of Running Micro Businesses

### –Opening up the Future–

- The Basic Act for Promoting Small Enterprises, enacted on June 20, 2014, stipulates four basic policies for taking measures regarding the promotion of small enterprises based on basic principles for the sustainable development of micro businesses, and four goals are set in the Basic Plan for the Promotion of Small Enterprises in order to realize these policies (approved by the Cabinet on October 3, 2014).
- Micro businesses and supporting organizations operating businesses closely tied to the demands of local communities have been making efforts to demonstrate their originality and ingenuity in response to the changing times. With a view to the four goals, Part II introduces 42 examples of various efforts, including human stories regarding the actual situations of micro businesses and supporting organizations, that are vigorously working with local communities while being buffeted by the changing of the times.

### Basic Act for Promoting Small Enterprises

#### Basic Plan for the Promotion of Small Enterprises (Article 13)

Formulation of the Basic Plan to facilitate the promotion of measures in a comprehensive and systematic manner

#### Basic policies (Article 6)

- (i) Selling products corresponding to demand, promoting the development of new businesses
- (ii) Effectively utilizing management resources, developing and securing human resources
- (iii) Promoting business activities contributing to the revitalization of regional economies
- (iv) Developing appropriate support systems

### Four goals of the Basic Plan

#### 1. Promoting business management that should be implemented for future demand:

Creating and discovering demand for micro businesses by more proactively taking advantage of their conventional face-to-face relationships with customers

#### 2. Promoting business renovation: Developing and creating business by providing

diverse and new human resources with opportunities for success in the workplace

#### 3. Facilitating business activities contributing to regional economies:

Increasing the public awareness of certain regions to create brands so as to invigorate regional economies

#### 4. Developing a system for supporting micro businesses through community-wide collective efforts:

Providing meticulous measures to address challenges that business operators are facing

## Introduction of 42 examples (1)

- With a view to promoting management which has an eye toward future demand, a number of examples are introduced, including “cases in which demand is created or discovered by recognizing businesses’ own strengths,” “cases in which specific effects are produced by formulating business plans,” and “cases in which the discovery of regional demand is being carried out by leveraging relationships of mutual trust.” (11 examples in total)

(Example) Green Mouse Inc. (Kamagaya City, Chiba Prefecture) / Manufacturer and seller of hairdressing scissors for barbers and beauty salons



Atsushi Hiwasa, president of the company



A pair of scissors and its written record, on completion

- Repair and maintenance of barber and beauty salon hairdressing scissors
- Providing clients with written records of detailed information on the scissors such as the condition of the scissors before the repair, the problems, characteristic tendencies of the scissors, and daily maintenance procedures
- In response to the increasingly competitive market environment, the company has expanded into the market for repair and maintenance of grooming scissors for pets.

- With a view to promoting regeneration, a number of examples are introduced, including “cases of success in starting up businesses or founding companies,” “cases of working on product development through agriculture-commerce-industry collaboration and/or industry-academia-government collaboration,” and “cases of making efforts to open up new markets by switching to different industries or developing new businesses.” (10 examples in total)

(Example) Wealthylifelab Inc. (Utsunomiya City, Tochigi Prefecture) / Manufacturer of additive-free cosmetics



Kanae Sato, president of the company



“Foaming facial cleanser” made from “Kanumatsuchi”

- Starting up a company that develops, manufactures, and sells additive-free cosmetics without preservatives
- Developing cosmetics made from a local specialty (Kanumatsuchi, or Kanuma clay: clay minerals) as well as products in cooperation with local enterprises and hospitals

(Reference) A winner of the Encouragement Prize in the “Start-up Division,” for the 13<sup>th</sup> Grand Awards for Female Entrepreneurs granted by the Japan Chamber of Commerce and Industry

- With a view to promoting business activities which contribute to the vitalization of local economies, a number of examples are introduced, including “cases in which contributions to local communities are regarded as significant and valuable,” “cases in which branding strategies for regions are worked on,” and “cases in which the creation of bustle is focused on.” (11 examples in total)

(Example) An example of the revitalization of shopping streets in Ichinomiya-machi in Aso City / Revitalization of ailing shopping streets



A scene at an “Ozashiki, or tatami-matted, shopping street” organized by the shopping street community



A scene at a “Friday night market” organized by the shopping street community

- Having a sense of crisis coming from ailing shopping streets, young successors gathered and struggled for the revitalization of the shopping streets.
- Attracting 350,000 tourists a year to shopping streets for which there only used to be local demand

- With a view to the development of a support system through community-wide collective efforts, a number of examples are introduced, including “cases in which support was provided by instructors on management” and “cases in which support was provided by general-purpose coordinators.” (10 examples in total)

(Example) An example of instruction given by the Nakatsugawakita Society of Commerce and Industry in Gifu Prefecture / Instruction on management was conducted for the town’s photography shops, whose sales had been declining.



A radio-controlled helicopter



A drone

- Providing instruction on management to the town’s photography shops, whose sales had declined due to the spread of digital cameras and other reasons
- Conducting precise instruction on management and proposing the commercialization of aerial shots by radio-controlled helicopters and drones

(Reference) First Prize winner at the FY 2014 Meeting for Presentations on Management Support Cases, hosted by the Central Federation of Societies of Commerce and Industry