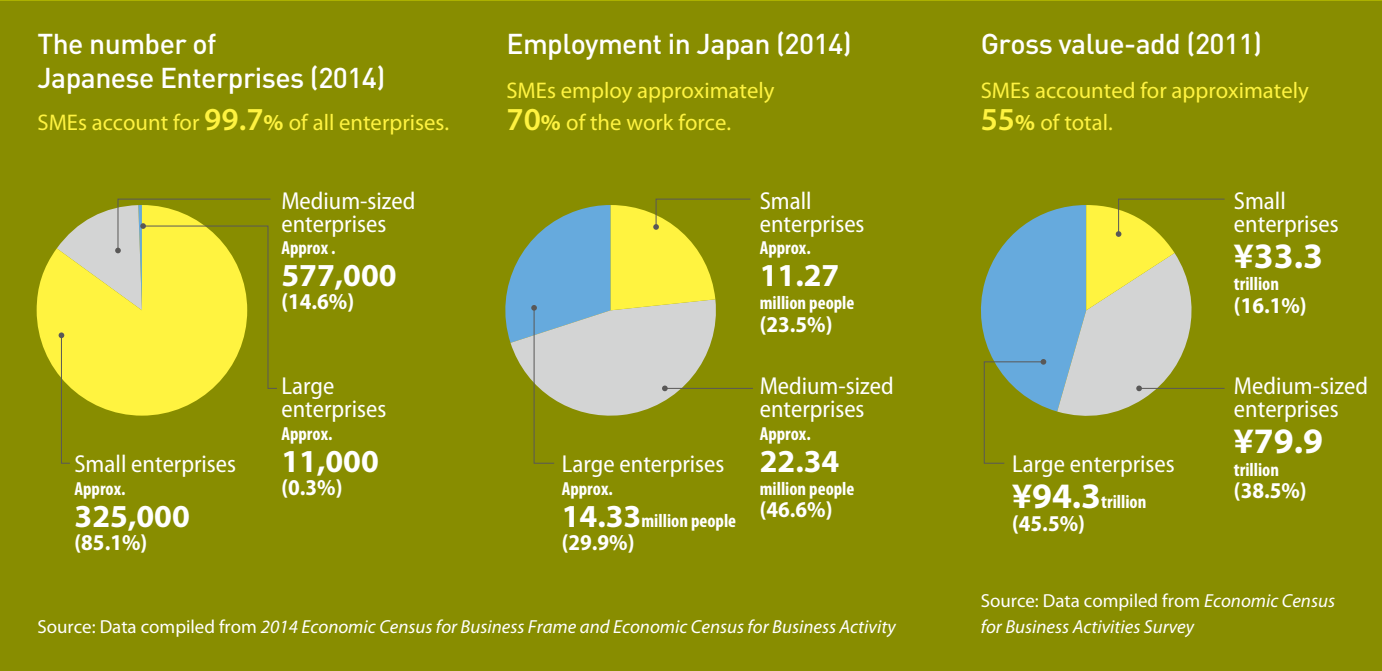


White Paper on Small and Medium Enterprises in Japan 2016



Ministry of Economy, Trade and Industry

Small and medium enterprises (SMEs) account for 99.7% of all enterprises in Japan and close to 70% of private sector jobs. Moreover, SMEs account for approximately 55% of gross value-add across the Japanese economy. They are the foundation of Japan’s labor market and essential for Japan’s economic growth.



Over the past 20 years, the number of SMEs in Japan has fallen by about 1 million. However, in recent years the decline in SME numbers has slowed and business conditions for SMEs are now in moderate recovery, with ordinary profits reaching record highs. Despite this recovery, growth in sales is stagnant. Additionally, several environmental changes and challenges have been identified, including shrinking domestic markets, labor shortages, aging facilities, and a widening productivity gap compared with larger enterprises. Even so, some SMEs are able to achieve high productivity and strong earning power. This White Paper analyzes efforts by SMEs to achieve diverse and vigorous growth by strengthening earning power with a focus on the following areas: IT Investment, Overseas Business Development, and Risk Management.



Part
1

IT Investment

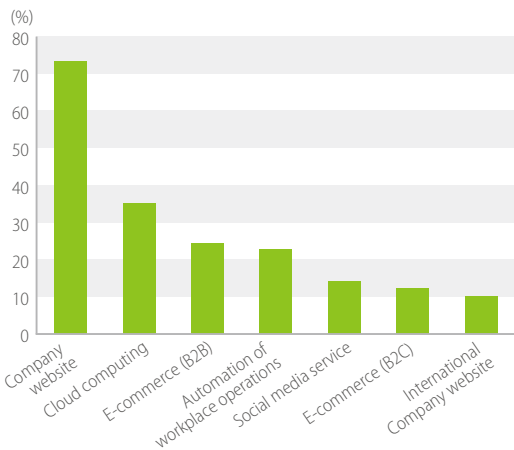
To overcome challenges such as labor shortages and changing trade dynamics, it is important for SMEs to make use of IT. Investment in IT also helps SMEs to expand sales while cutting costs, enabling them to increase earning power. A comparison of average sales over a three-year period shows that enterprises making IT investments achieved a higher level of sales than those that did not.

Breakdown of IT Investment by SMEs

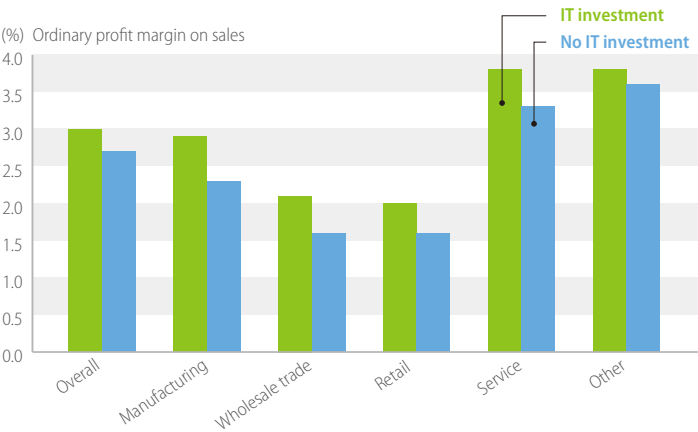
Creating and running their own websites typically accounts for the biggest IT investment by Japanese SMEs. The second-largest investment is cloud computing. The number of SMEs investing in this area is rising every year, attracted by cloud computing’s ability to more effectively utilize in-house data and counter security risks. Additionally, SMEs are actively investing in cloud computing because it enables them to manage their IT environments at low cost with shorter lead times. The third-largest investment area is building out B2B e-commerce capabilities, which also offer cost savings to help SMEs rationalize their business processes.

Enterprises actively investing in IT generated higher ordinary profit margins on sales than enterprises that did not. Among enterprises investing in IT, high-profit enterprises tend to be more receptive to internal feedback from different parts of their business as well as their employees. They are also generally more active in providing employee training, make ongoing efforts to enhance business processes, and make IT investments in a more strategic manner.

SME IT Investments in Japan

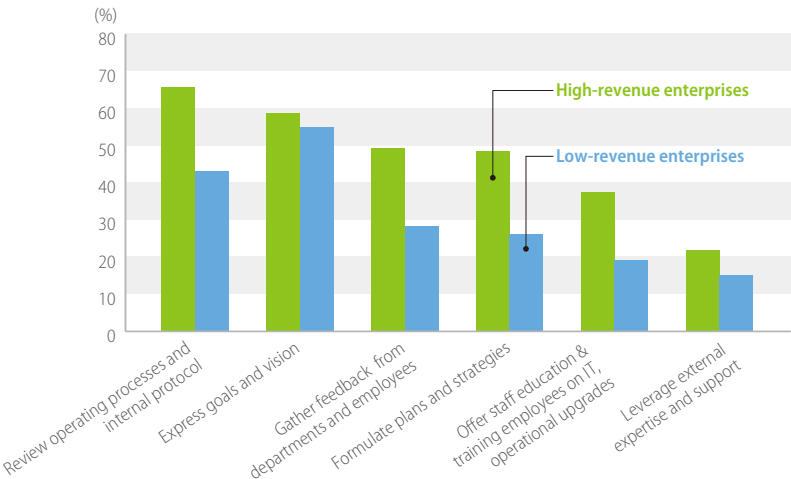


The Relationship between IT Investment and Business Results by Sector



Source: Survey on Growth and Investment Behavior of SMEs, Teikoku Databank, Ltd. Research commissioned by the Small and Medium Enterprises Agency, December 2015

Efforts to Increase Earnings through the Introduction of IT

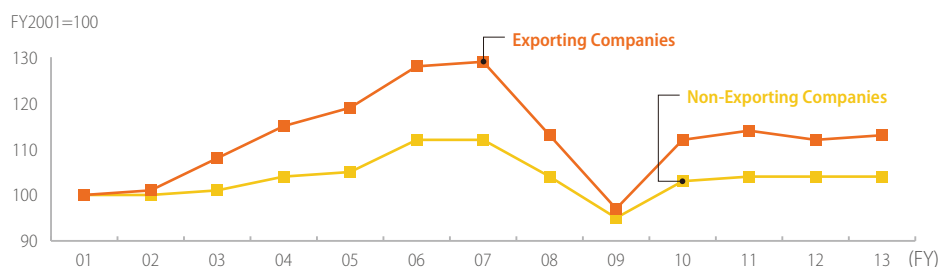


Source: Survey on Growth and Investment Behavior of SMEs, Teikoku Databank, Ltd. Research commissioned by the Small and Medium Enterprises Agency, December 2015

Overseas Business Development

With domestic markets shrinking, the increase in the number of tourists visiting Japan and the potential conclusion of new trade pacts such as the Trans-Pacific Partnership (TPP) Agreement mean it is key for Japanese SMEs to attract overseas demand. The chart below shows that labor productivity among Japan's exporters has consistently exceeded non-exporters (excluding fiscal 2009, when many businesses were affected by the global financial crisis).

Labor Productivity of Exporters vs. Non-Exporters (small and medium-sized manufacturers)

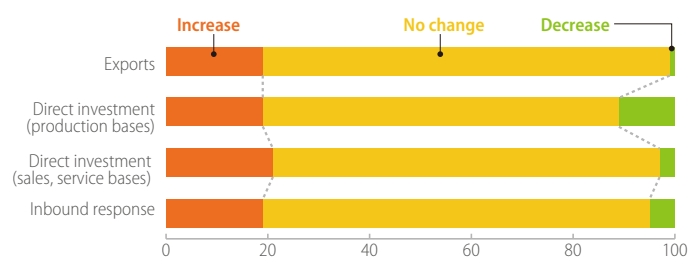


Source: Data compiled from Ministry of Economy, Trade and Industry, *Basic Survey of Japanese Business Structure and Activities*

The Relationship between Overseas Business Development and Employment

There is concern that overseas business development will lead to fewer local employment opportunities. However, analysis shows SMEs which invest overseas tend to increase their domestic employees. This indicates that rather than reducing domestic employment, overseas business investment has the potential to boost domestic employment.

Net Change in Local Employee Numbers Versus Overseas Business Investment Type



Source: *Survey on Growth and Investment Behavior of SMEs*, Teikoku Databank, Ltd. Research commissioned by the Small and Medium Enterprises Agency, December 2015

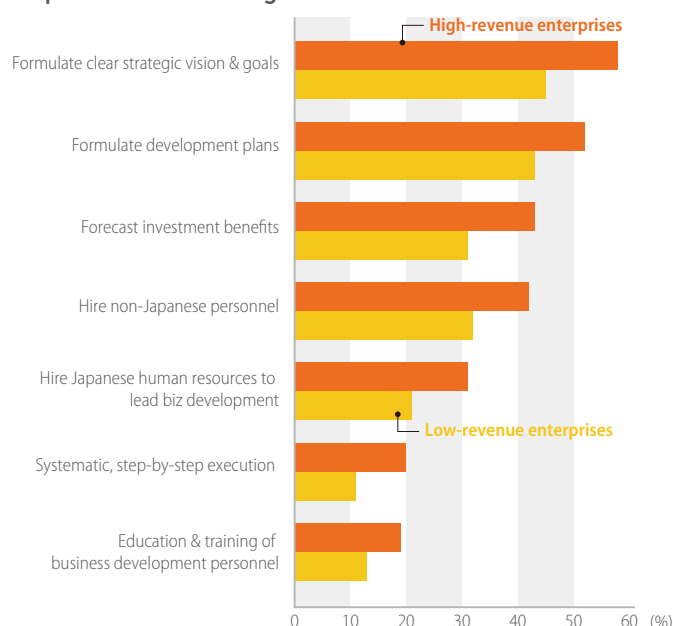
Making Overseas Business Development a Driver for Profit Growth at SMEs

The number of Japanese SMEs building overseas businesses is expected to increase over the medium term. However, many Japanese enterprises do not currently reap the full rewards of overseas investment.

Analysis shows that SMEs which generate healthy returns from their investments in overseas business development share a series of common approaches. These include effective cost-benefit forecasting for hiring, training the necessary human resources including non-Japanese staff, formulating a strategic vision and business plan as well as taking a flexible, step-by-step approach as they build their overseas operations.

Low-revenue SMEs can boost their earning power if they develop and implement international investment plans suited to their own business needs by incorporating key elements from the approaches of their successful peers.

Key Approaches for Translating Overseas Business Development into Earnings Growth



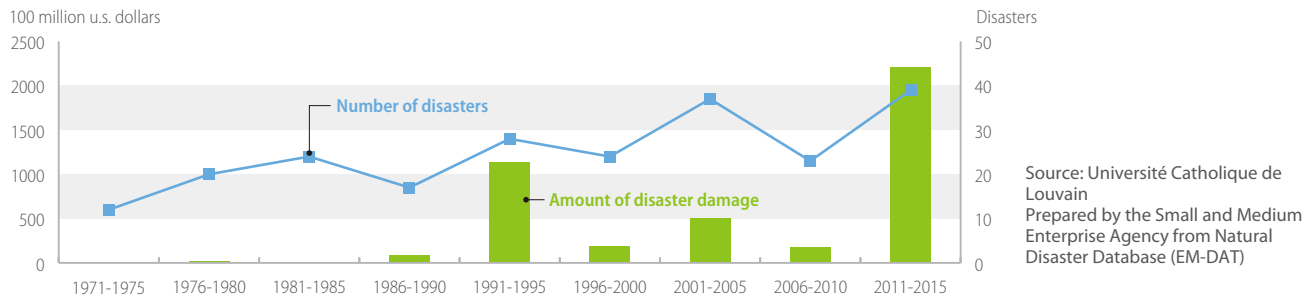
Source: *Survey on Growth and Investment Behavior of SMEs*, Teikoku Databank, Ltd. Research commissioned by the Small and Medium Enterprises Agency, December 2015

Part
3

Risk Management

Enterprises face many risk factors that can threaten business continuity, including natural disasters and data security. While large enterprises and SMEs share many of the same risks, often SMEs have lower risk awareness. Japan experiences a particularly large number of natural disasters and damage from these disasters can often be catastrophic.

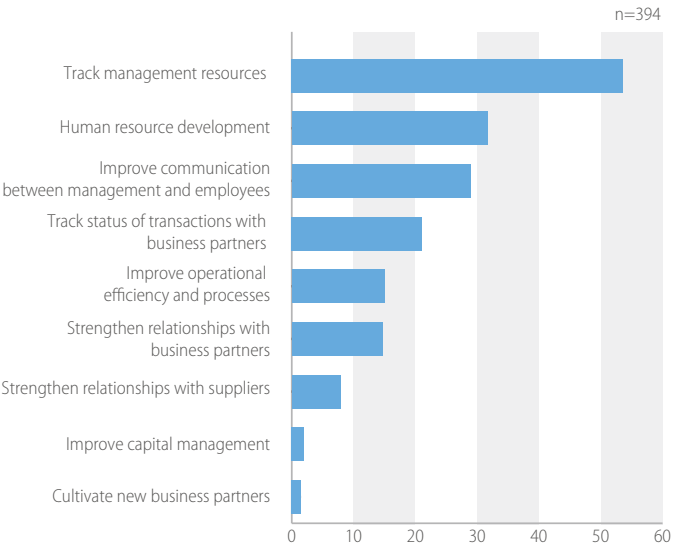
Natural Disaster Frequency in Japan vs. Damage



Disaster Response

Even in a state of emergency following a natural disaster, it is imperative that business activities continue. Business Continuity Management (BCM) practices, including formulating a Business Continuity Plan (BCP), are essential to ensure continuous operations. Although BCM is intended for responding to emergencies, there are many instances where promoting BCM initiatives leads to major improvements in regular business management. Consequently, actively engaging in BCM initiatives is an essential element of efforts to improve regular business management.

Positive Effects of BCM on Regular Business Operations



Source: Survey of Initiatives for Risk Management of SMEs, Mizuho Research Institute Ltd. Research commissioned by the Small and Medium Enterprises Agency, December 2015

BCM Case Study

Taisei Fine Chemical Co., Ltd.

Taisei Fine Chemical Co., Ltd. was forced to halt operations for a month following the Great East Japan Earthquake in 2011. Prior to the earthquake, company management had considered Business Continuity Planning but had not been able to gain sufficient internal buy-in. Taking lessons learned from its experience following the earthquake, Taisei Fine Chemical restarted its BCP initiative working with support agencies from the Tokyo Metropolitan Government. The company distributed the new BCP to its warehouses and installed onsite power generators. Additionally, as a damage-mitigation measure, Taisei Fine Chemical relocated its network management and file servers to an external facility capable of withstanding a scale-7 earthquake, commissioning an external data center to operate these servers. As a result, the company was also able to reduce annual operating costs by just under ¥1 million. These initiatives were covered by the media and earned acclaim from financial institutions and insurance companies, which ultimately led to an increase in orders.



Onsite power generators installed following a natural disaster.



Ministry of Economy, Trade and Industry

The Small and Medium Enterprise Agency Website (English)

http://www.chusho.meti.go.jp/sme_english/index.html

**Organization for Small & Medium Enterprises and Regional Innovation,
JAPAN [SME Support, JAPAN] Website (English)**

<http://www.smrj.go.jp/english/index.html>