

# **[2017 White Paper on Small Enterprises in Japan]**

## **FY2016 Developments among Small Enterprises**

## **FY2017 Small Enterprise Policy Measures**

### **Summary**

*April 2017*

# Outline

- Annual Report based on Article 12 of the Basic Act for Promoting Small Enterprises (Statutory White Paper)
- It is obliged to compile a report on the developments related to small enterprises based on opinions of the Council for Small and Medium Enterprise Policy and submit it to the Diet every year.
- This is the third annual report after the enactment of the Basic Act for Promoting Small Enterprises.

## Basic Act for Promoting Small Enterprises (extract)

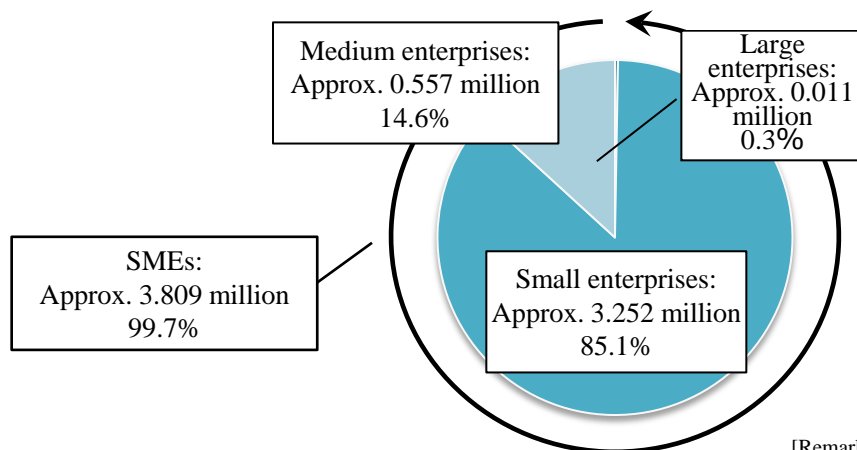
(Annual Report, etc.)

Article 12 (1) The Government must submit a report on the developments related to small enterprises and related measures it has taken to the Diet every year.

(2) The Government must prepare a document clarifying measures it intends to take in consideration of the developments compiled in the Annual Report, based on opinions of the Council for Small and Medium Enterprise Policy, and submit it to the Diet every year.

## Definitions under the Small and Medium-sized Enterprise Basic Act and the Number of Enterprises and Employees

	SMEs		Small enterprises
Business type	Stated capital or number of employee		Number of 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

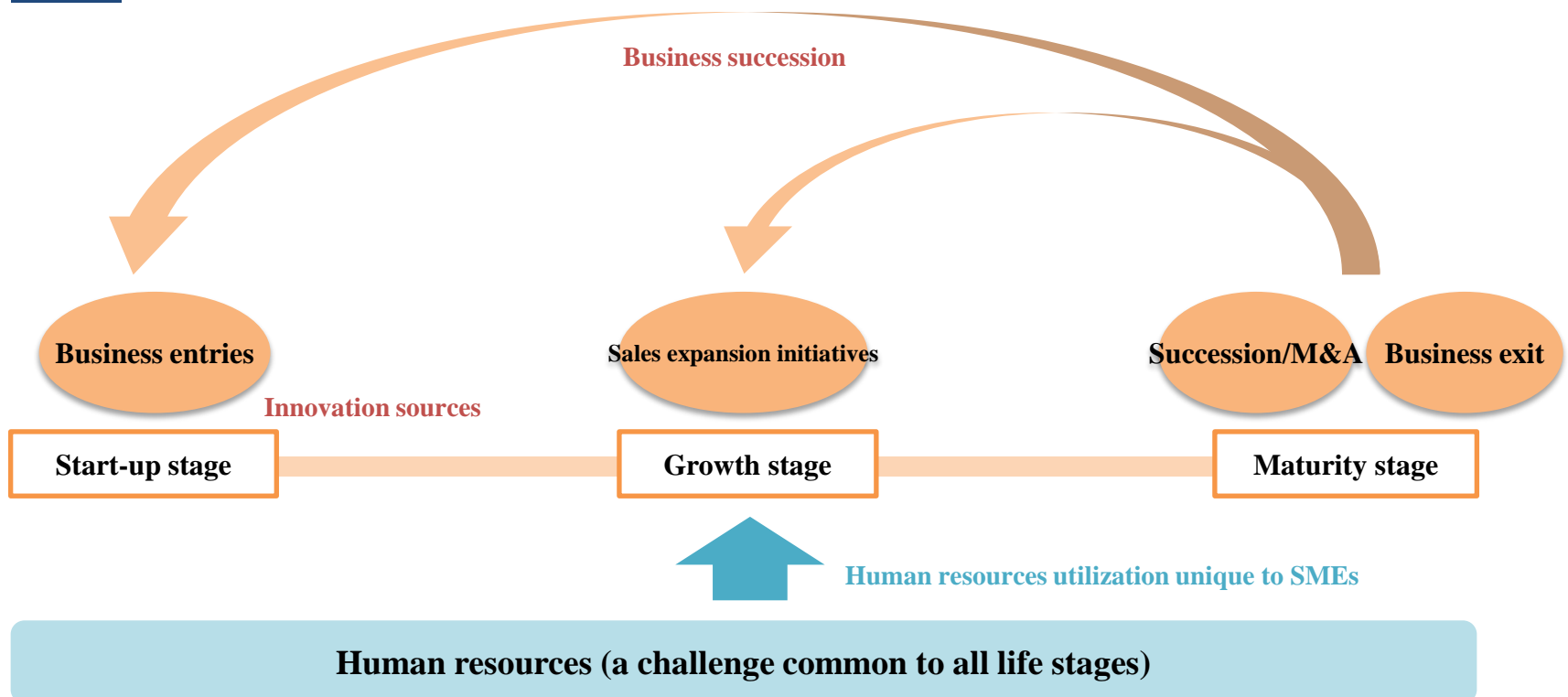


	Number of enterprises	Number of employees
Large enterprises	0.011 million	14.33 million
SMEs	3.809 million	33.61 million
Small enterprises	3.252 million	11.27 million

## Outline of FY2016 Developments among Small Enterprises (i)

- While SME and small enterprise business conditions are slowly improving, there are ongoing structural challenges including stagnant business entries, slackening productivity, the aging of managers and growing labor shortages.
- Important under such situation is a lifecycle in which innovation takes place through business entries, existing enterprises pursue growth, and projects and business resources (including withdrawing enterprises) are smoothly taken over by the next generation. Labor shortages common to all life stages and other challenges are analyzed.

**Fig** SME and small enterprise lifecycle (image)



# **Outline of FY2016 Developments among Small Enterprises (ii)**

## **Part 1 [Analysis of the Current Status]**

### **FY2016 Developments among Small Enterprises**

Chapter 1 Current Status of Small Enterprises

Chapter 2 SME and Small Enterprise Lifecycle and  
Productivity

Chapter 3 Current Status of the SME and Small  
Enterprise Employment Environment and  
Labor Shortage

## **Part 2 [Analysis by Theme]**

### **Small Enterprise Lifecycle**

Chapter 1 Business Entries

Chapter 2 Business Succession

Chapter 3 Sales Expansion Initiatives

## **Small Enterprise Policy Measures Taken in FY2016**

Chapter 1 Promotion of Demand-based  
Business Management

Chapter 2 Promotion of Corporate Metabolism

Chapter 3 Promotion of Business Operations  
Contributing to Vitalization of  
Regional Economies

Chapter 4 Development of United All-out  
Regional Support Arrangements

Chapter 5 Other Small Enterprise Promotion  
Measures

Chapter 6 Policy Measures by Business Type  
and Area

# 【Analysis of the Current Status 1-1】Current Status of Small Enterprises (i)

- Ordinary profits have remained at record-high levels and business confidence has been improving.

**Fig. 1** Changes in Ordinary Profits

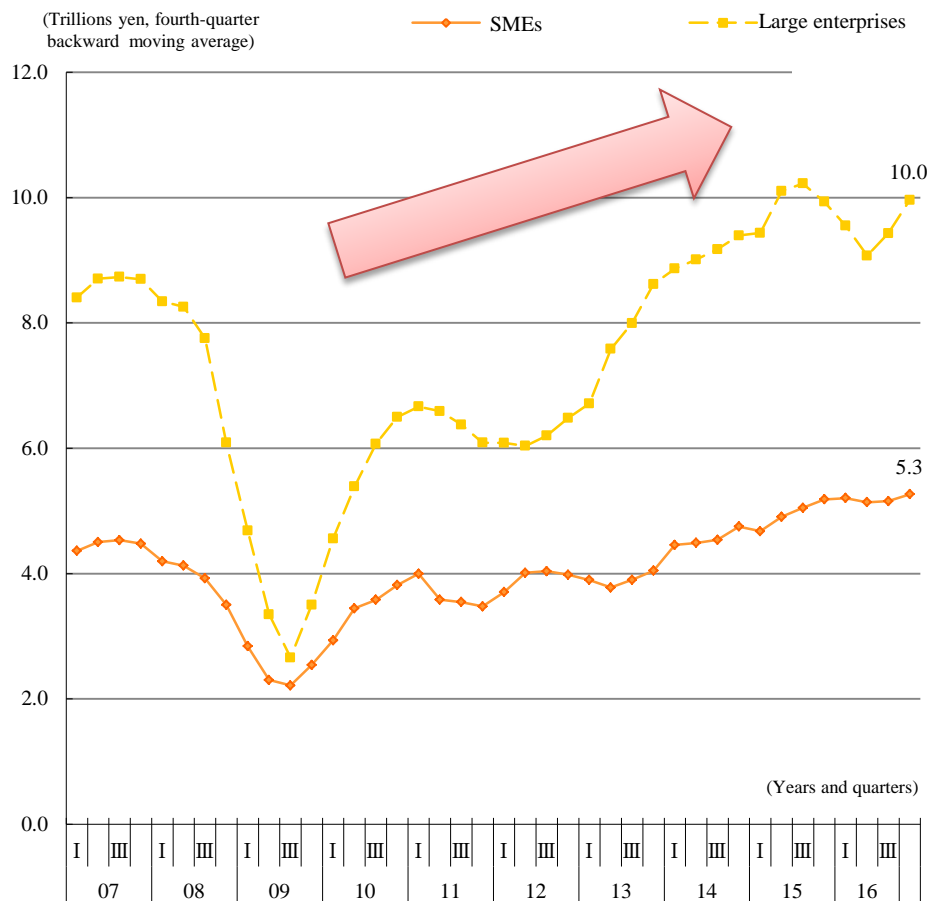


Fig. 1: “Financial Statements Statistics of Corporations by Industry (quarterly report)” (Ministry of Finance)  
 (Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more and SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen.

**Fig. 2** Changes in Business Conditions DI

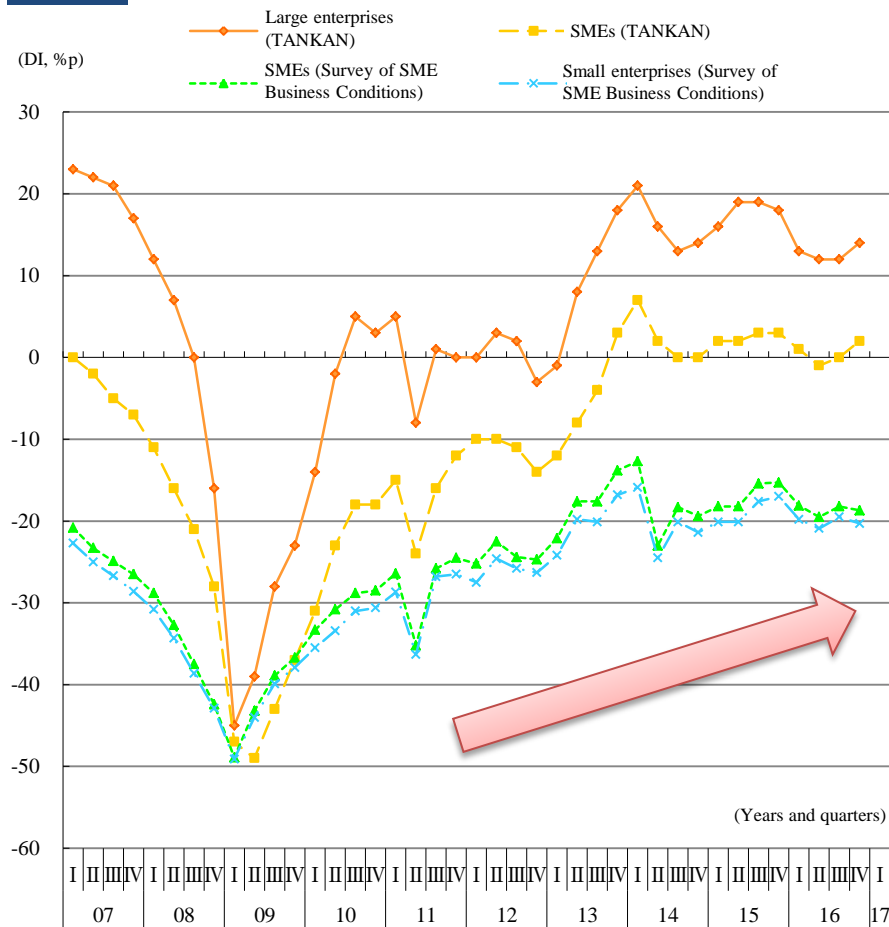


Fig. 2: “TANKAN (Short-Term Economic Survey of Enterprises in Japan)” (Bank of Japan) and “Survey of SME Business Conditions” (Small and Medium Enterprise Agency and Organization for Small & Medium Enterprises and Regional Innovation, JAPAN)  
 (Note) Large enterprises in TANKAN refer to those whose stated capital is 1 billion yen or more, and SMEs are those whose stated capital is 20 million yen or more but less than 100 million yen.

# 【Analysis of the Current Status 1-2】Current Status of Small Enterprises (ii)

- Sales and productivity have been stagnant.

**Fig. 1** Changes in Sales

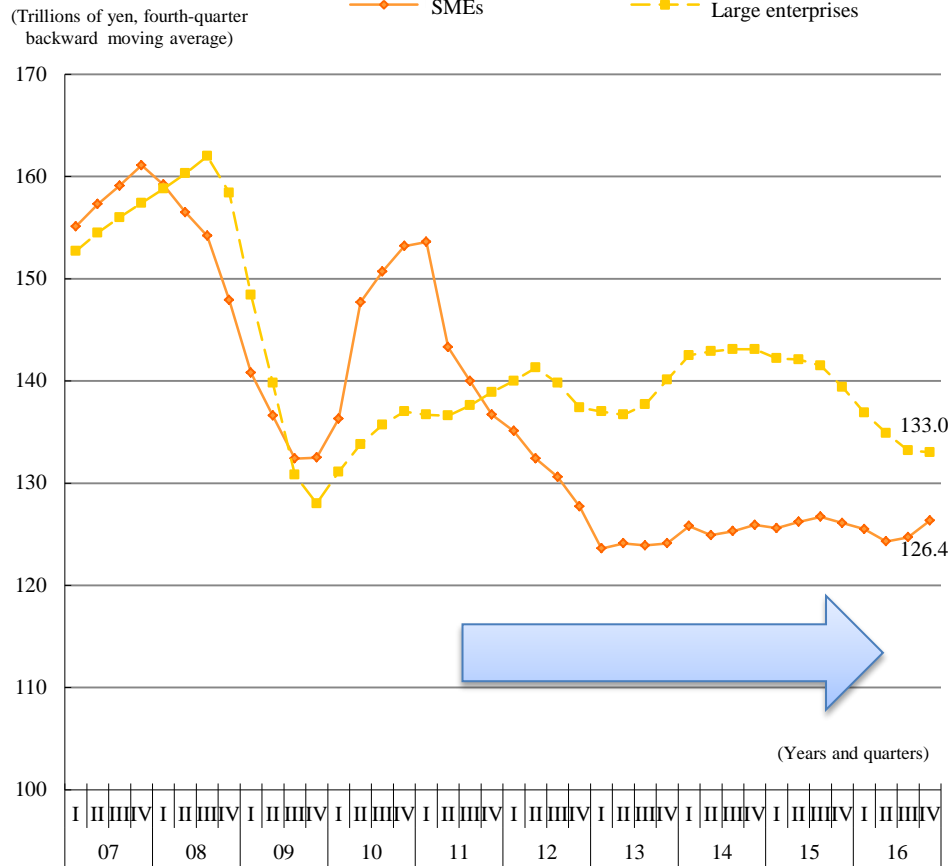


Fig. 1: “Financial Statements Statistics of Corporations by Industry (quarterly report)” (Ministry of Finance)  
(Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more and SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen.

**Fig. 2** Labor Productivity Changes by Enterprise Size

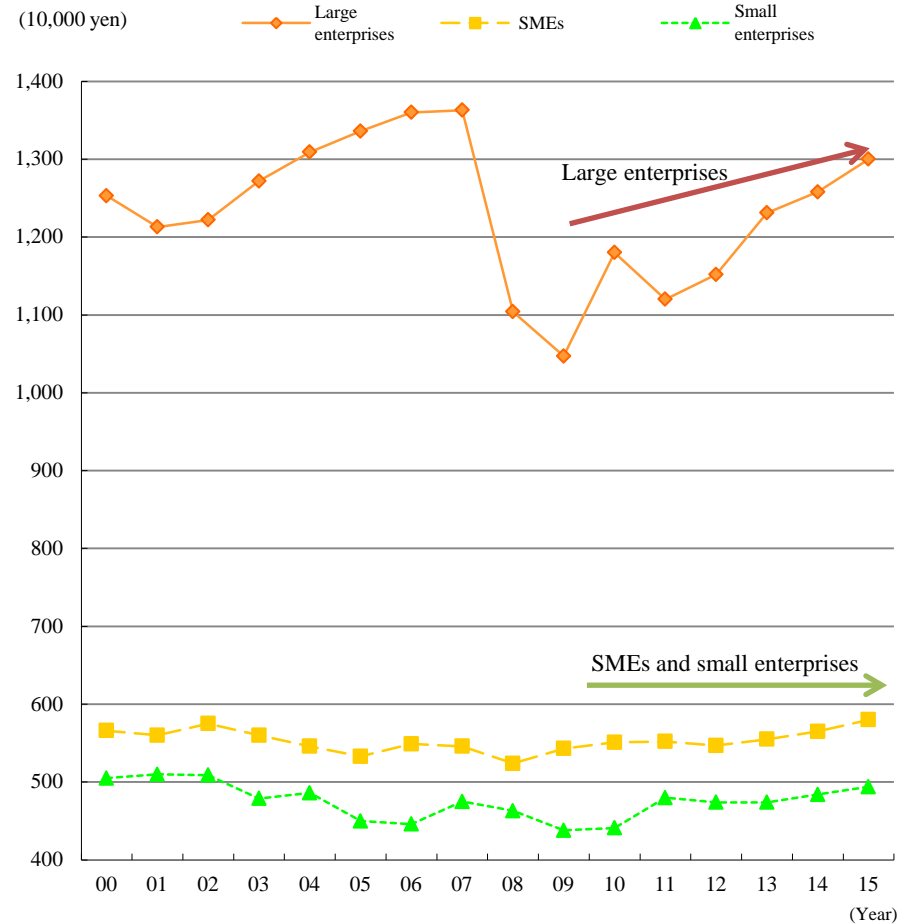


Fig. 1: “Financial Statements Statistics of Corporations by Industry (annually)” (Ministry of Finance)  
(Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more, SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen and small enterprises are those whose stated capital is less than 10 million yen.

## 【Analysis of the Current Status 1-3】

### Current Status of SMEs and Micro Enterprises (iii) - Business Practice Improvement Initiative -

- Ordinary profits of large enterprises have greatly improved, increasing their profitability margin over SMEs.
- To improve such situation, an initiative is being promoted to stabilize and spread appropriate transactions between subcontractor SMEs and their larger contractors to pave the way for SMEs to raise wages.

**Fig. 1** Changes in Ordinary Profits

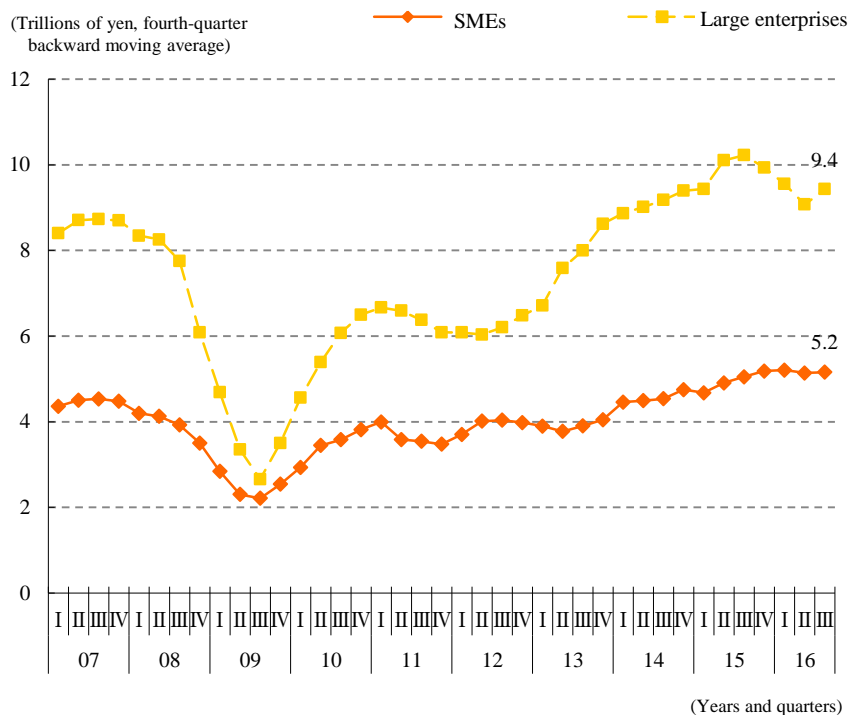


Fig. 1: “Financial Statements Statistics of Corporations by Industry (quarterly report)” (Ministry of Finance)  
(Note) Large enterprises here are enterprises whose stated capital is 1 billion yen or more and SMEs are those whose stated capital is 10 million yen or more but less than 100 million yen.

**Fig. 2** Business Practice Improvement Initiative (Seko Plan)

#### (i) Clarification and strict implementation of cross-sectoral rules

- Increasing the number of violation cases from 66 to 141 by including “inappropriate cost-cutting activities” and “passing die storage costs to subcontractors”
- Adding “cooperation in improving productivity” and other practices to desirable business practices for larger contractors and their subcontractors
- Larger contractors should make payments to their subcontractors in cash as much as possible and implement other measures to take leadership in improving business practices.

#### (ii) Development of voluntary action plans by sector, etc.

- Of sectors that have developed subcontracting guidelines, the automobile industry and some other large enterprises were requested to develop and steadily implement voluntary action plans to improve business practices and increase added value. A follow-up to the request has been conducted. **At the end of March 2017, 21 groups in eight sectors had developed such plans.**

#### (iii) On-site inspection by business practice investigators (Subcontracting Supervising Inspectors)

- Subcontracting Supervising Inspectors have been deployed to hold more than 2,000 interviews with subcontractor SMEs annually and use the data from the interviews to improve business practices.

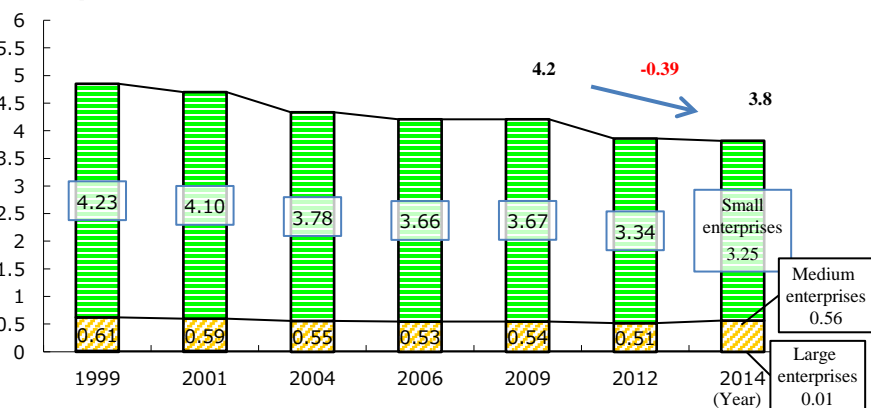
## 【Analysis of the Current Status 2-1】SME Lifecycle and Productivity (i)

### (Changes in the number of enterprises from business entries and business exits)

- The total number of enterprises has followed a downward trend, decreasing by 390,000 from 2009 to 2014. Small-sized business exits represent a large portion of this decline.
- This means a decreasing trend for small enterprises and an increasing trend for medium enterprises.

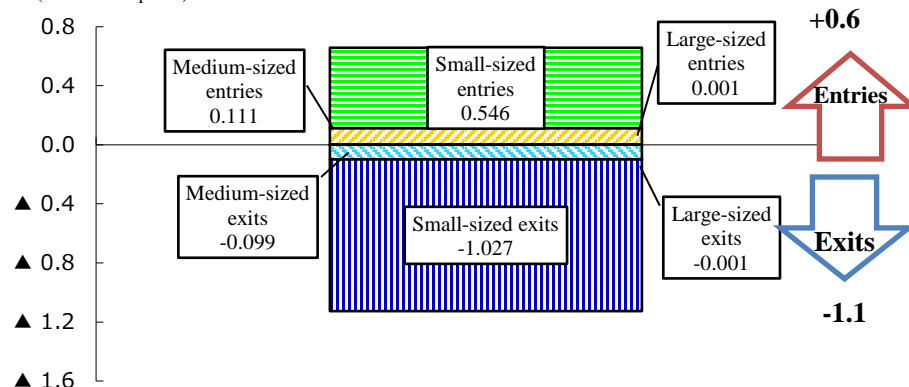
**Fig. 1** Changes in the Number of Enterprises

(million enterprises)



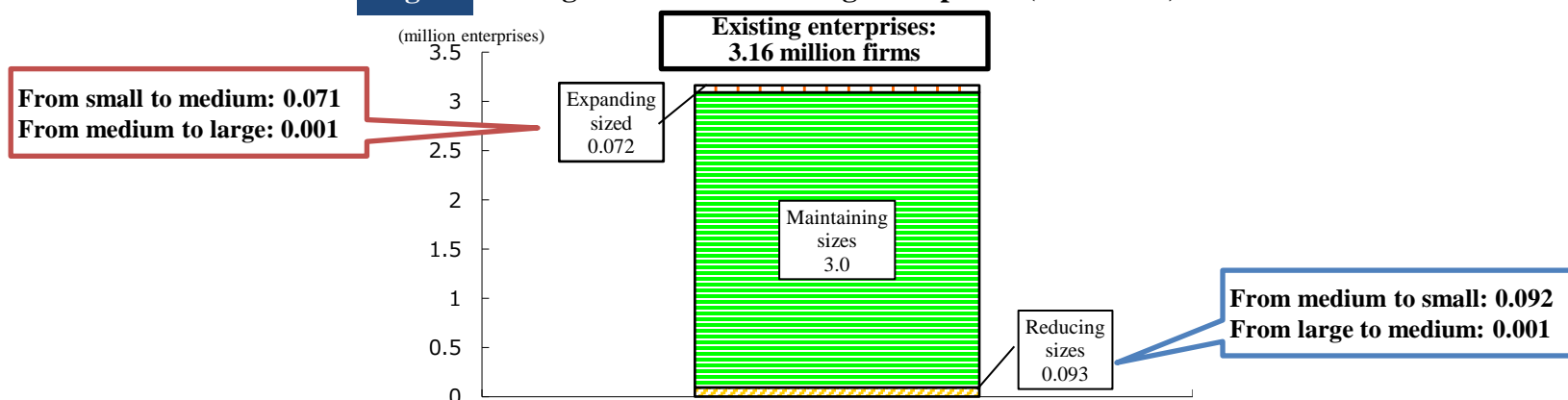
**Fig. 2** Breakdown of business entries and exits (2009-2014)

(million enterprises)



**Fig. 3** Changes in Sizes of Existing Enterprises (2009-2014)

(million enterprises)



(Note) Enterprises that maintained their sizes unchanged include about 110,000 enterprises that failed to be identified in 2009 and were identified in 2014 due to enterprise split-ups and the improvement of statistical precision and exclude 40,000 enterprises that were identified in 2009 and could no longer be identified in 2014 due to mergers, etc.

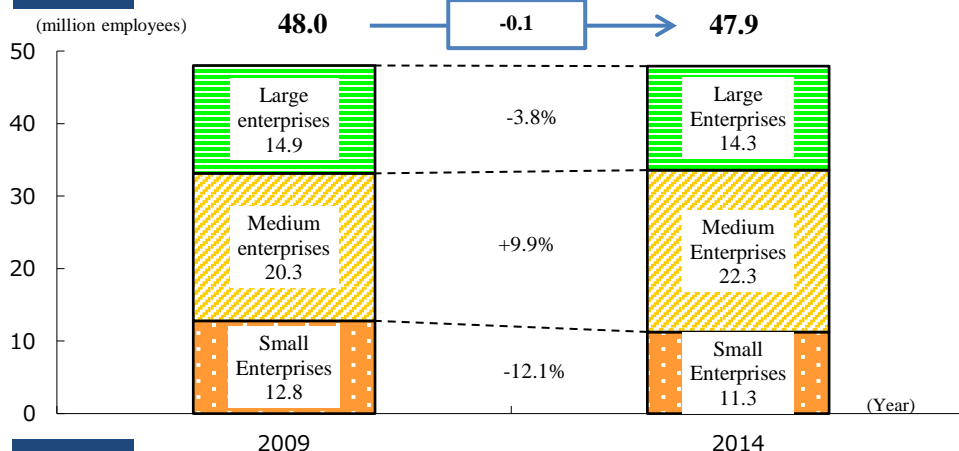


## 【Analysis of the Current Status 2-2】

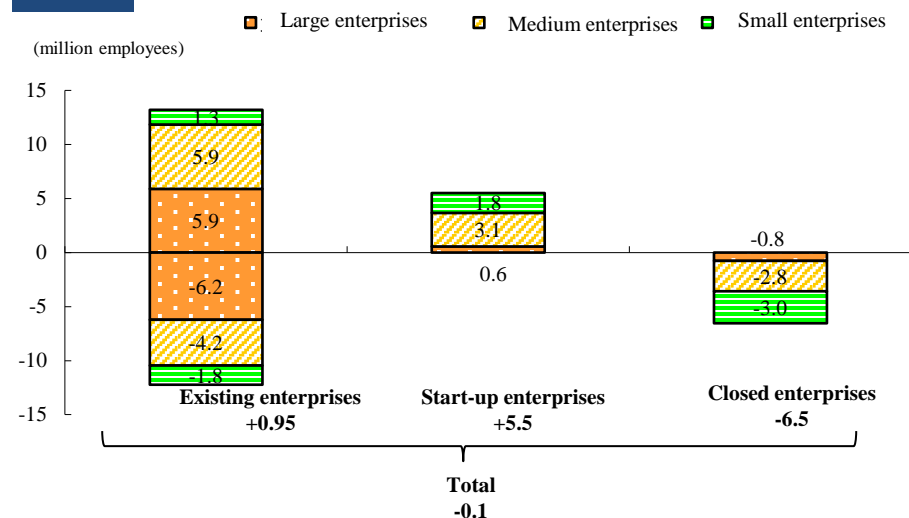
### (Changes in the number of employees from business entry and exit)

- While the overall number of employees remained basically unchanged from 2009 to 2014, employees at medium enterprises increased. Particularly, medium-sized business entries represent a significant contribution to the increase.
- The number of employees per enterprise increased particularly for medium enterprises.

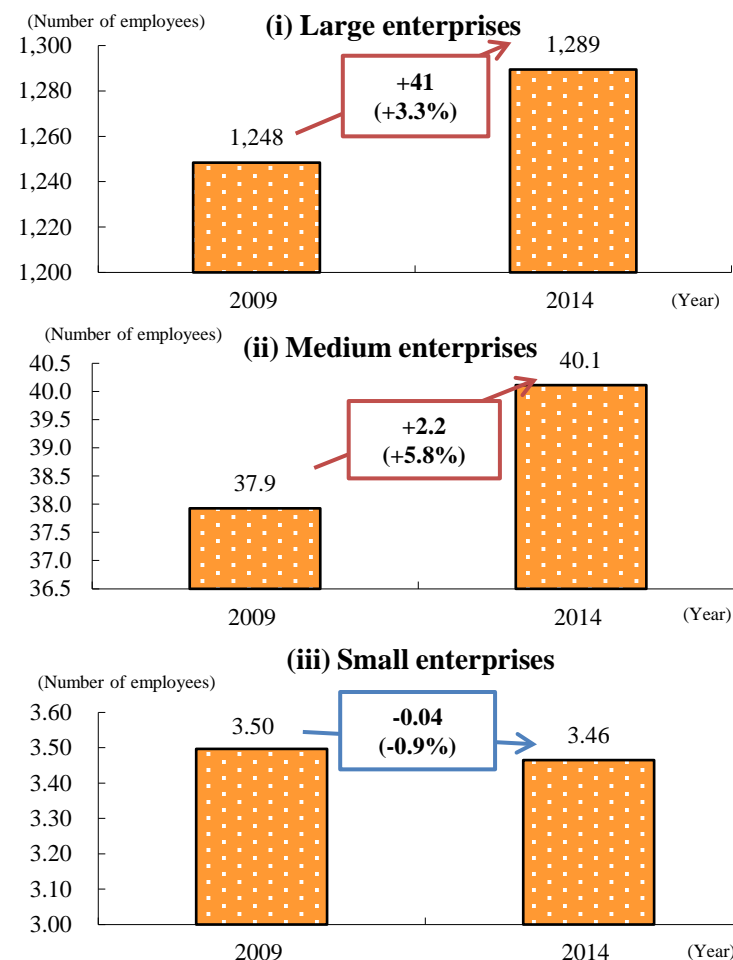
**Fig. 1** Changes in the number of employees



**Fig. 2** Breakdown of changes in the number of employees (2009-2014)



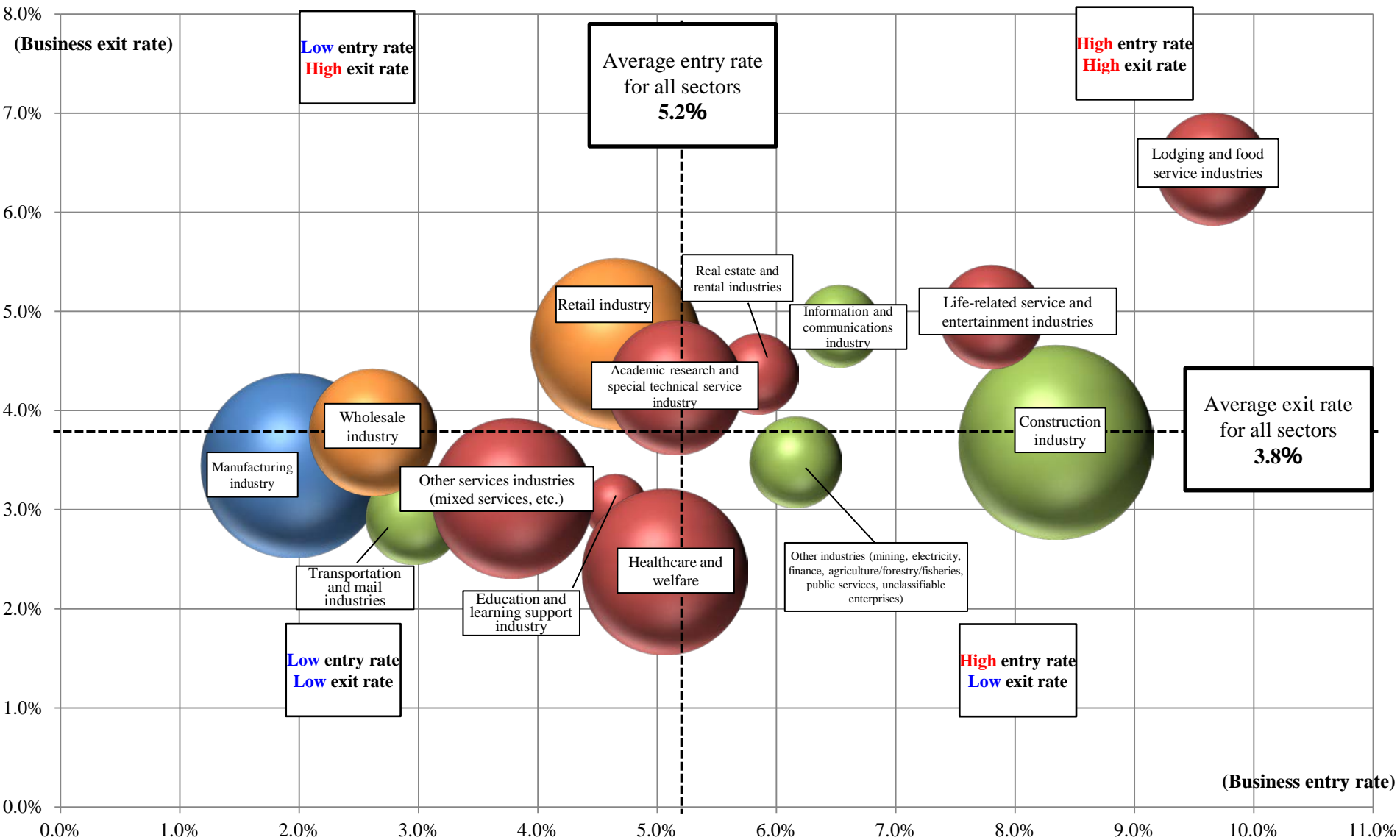
**Fig. 3** Changes in the number of employees by enterprise size



# 【Analysis of the Current Status 2-3】SME and Small Enterprise Lifecycle and Productivity (iii)

## (Business entry and exit rates by sector in FY2015)

- The status of business entries and exists differs from sector to sector.



Remarks: "Annual Report on Employment Insurance Services" (Ministry of Health, Labour and Welfare)

(Notes) 1. The business entry rate in the Annual Report on Employment Insurance Services is computed by dividing the number of business establishments where employment relationships were established in a fiscal year by the number of business establishments adopting employment insurance at the end of the previous year.

2. The business exit rate in the Annual Report on Employment Insurance Services is computed by dividing the number of business closings where employment relationships were closed in a fiscal year by the number of business closings adopting employment insurance at the end of the previous year.

## 【Analysis of the Current Status 2-4】SME and Small Enterprise Lifecycle and Productivity (iv) (Current status of business exits)

- As SME managers are aging, the number of business exits has hit a record high, despite a decline in the number of bankruptcies.
- Enterprises with managers aged 60 or more and 80 or more hit their respective record-high shares of closed enterprises.

**Fig. 1** Distribution of Ages of Managers of SMEs  
(by five-year interval)

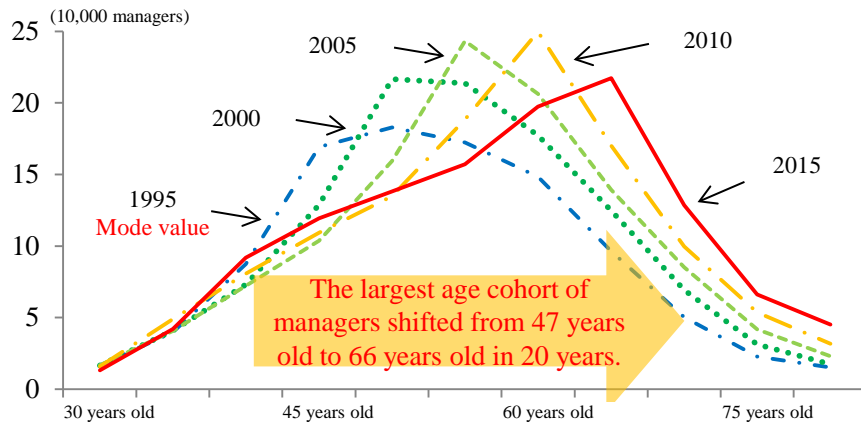
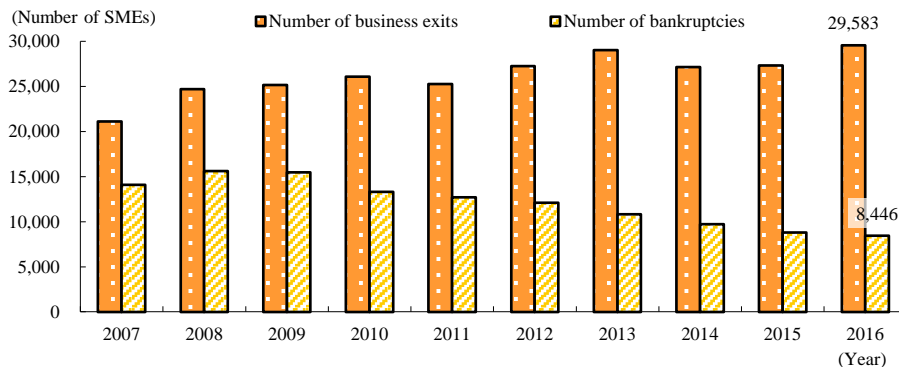


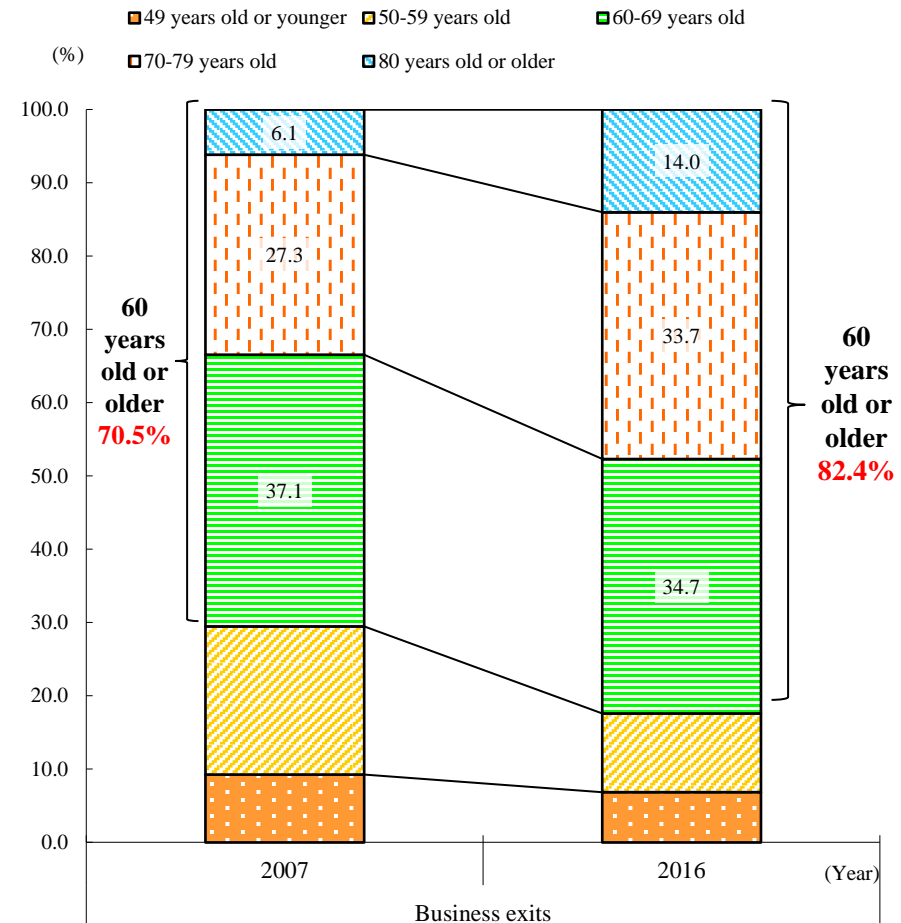
Fig.1: “COSMOS2 (corporate information file)” (Teikoku Databank, Ltd.) (rearranged and processed)  
(Note) The mode value is the value that occurs most frequently.

**Fig. 2** Changes in business exits and bankruptcies



Figs. 2-3: “2016 Business Exit Trend Survey” (Tokyo Shoko Research)

**Fig. 3** Ages of managers of closed enterprises



## 【Analysis of the Current Status 2-5】SME and Small Enterprise Lifecycle and Productivity (v) (Relationship between Lifecycle and Productivity (i))

- Influences of each lifecycle element's trend on SME productivity are analyzed.
- While start-up enterprises have boosted productivity, the latest productivity-boosting effect has declined. Existing enterprises with high productivity have been expanding their share and thus pushing up overall productivity. On the other hand, a decline in existing enterprises' productivity, and bankruptcies and exits of enterprises with high productivity have pushed down overall productivity.

**Fig. 1 Breakdown of productivity changes by element**

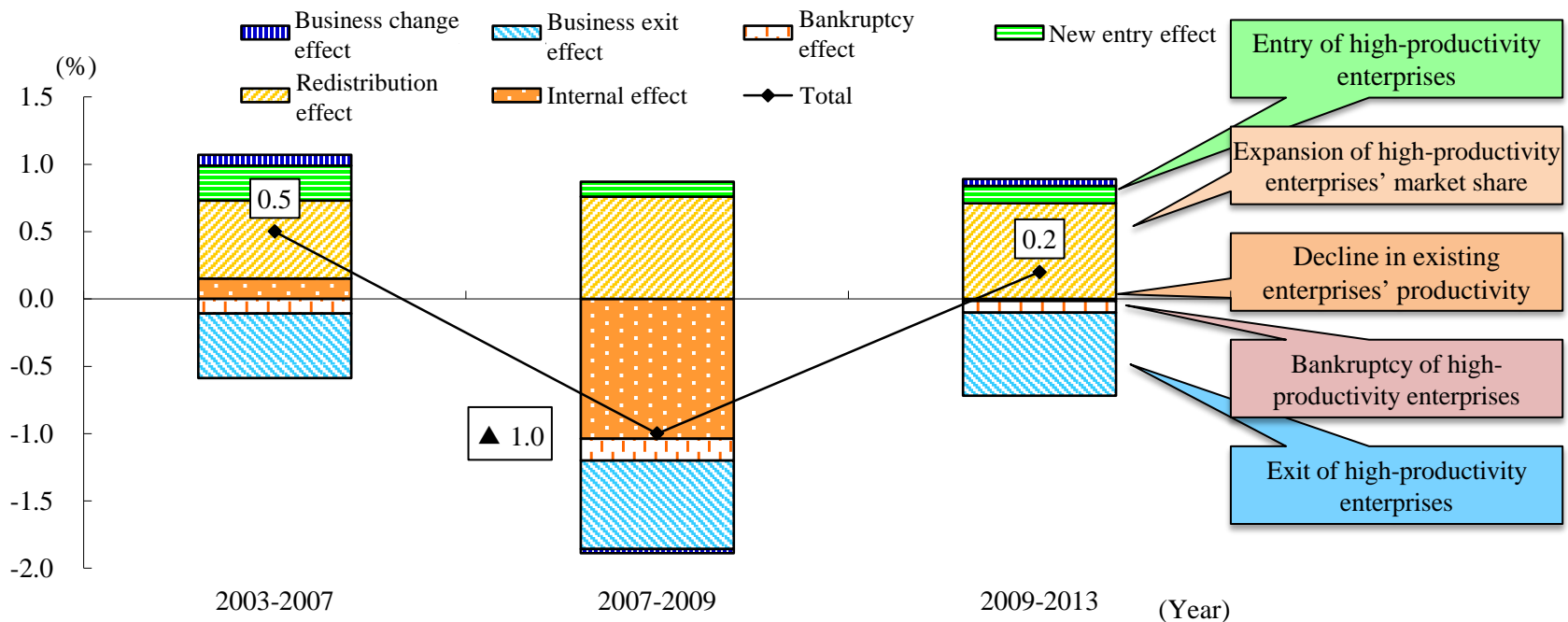


Fig. 1: “FY2016 Analysis of Corporate Metabolism for SMEs” under contract from the Small and Medium Enterprise Agency (Research Institute of Economy, Trade and Industry, December 2016)

(Notes) 1. Productivity here refers to total factor productivity, which indicates how overall value added changes when labor and capital change.

2. The business change effect refers to the overall productivity boosting or reducing effect of enterprises' business changes.

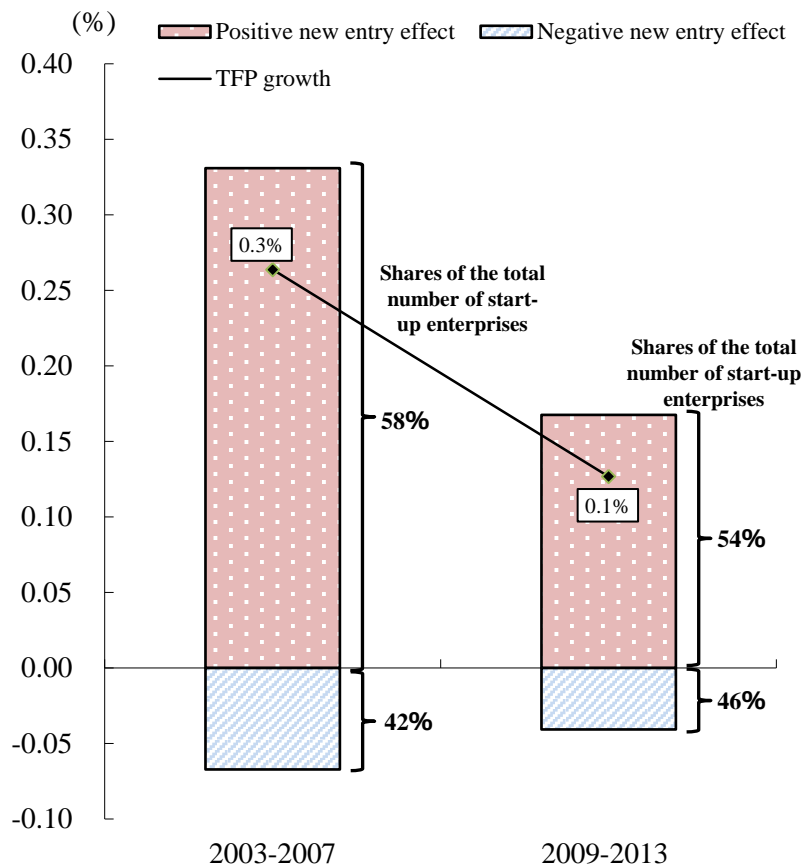
3. Used here are financial data of customer SMEs that the CRD (Credit Risk Database) Association received from its members (credit guarantee associations and financial institutions).

# 【Analysis of the Current Status 2-6】

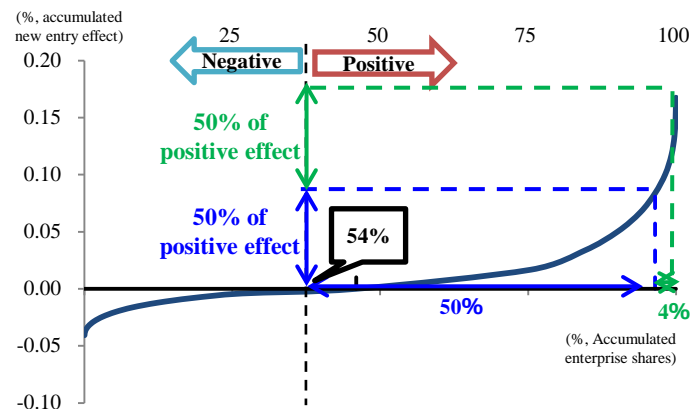
## SME Lifecycle and Productivity (vi) (Relationship between Lifecycle and Productivity (ii))

- Approx. 50% of start-up enterprises have raised SME productivity overall.
- The trend of raising productivity has recently declined due to a drop in high-productivity start-up enterprises.

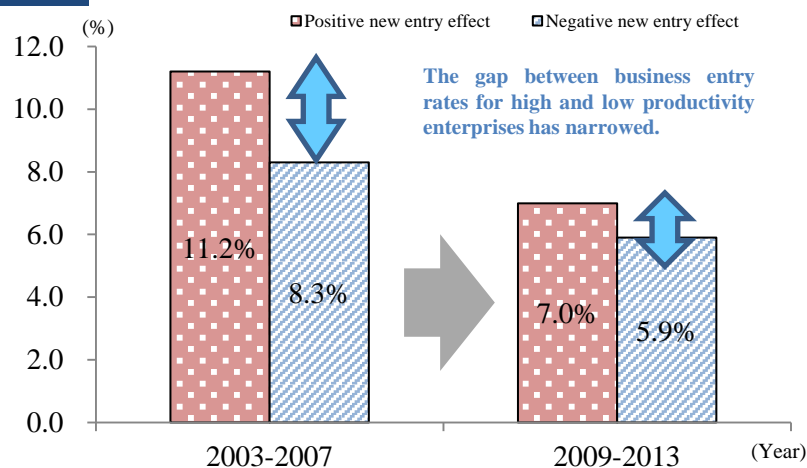
**Fig. 1 Breakdown of new entry effect**



**Fig. 2 Distribution of new entry enterprises (2009-2013)**



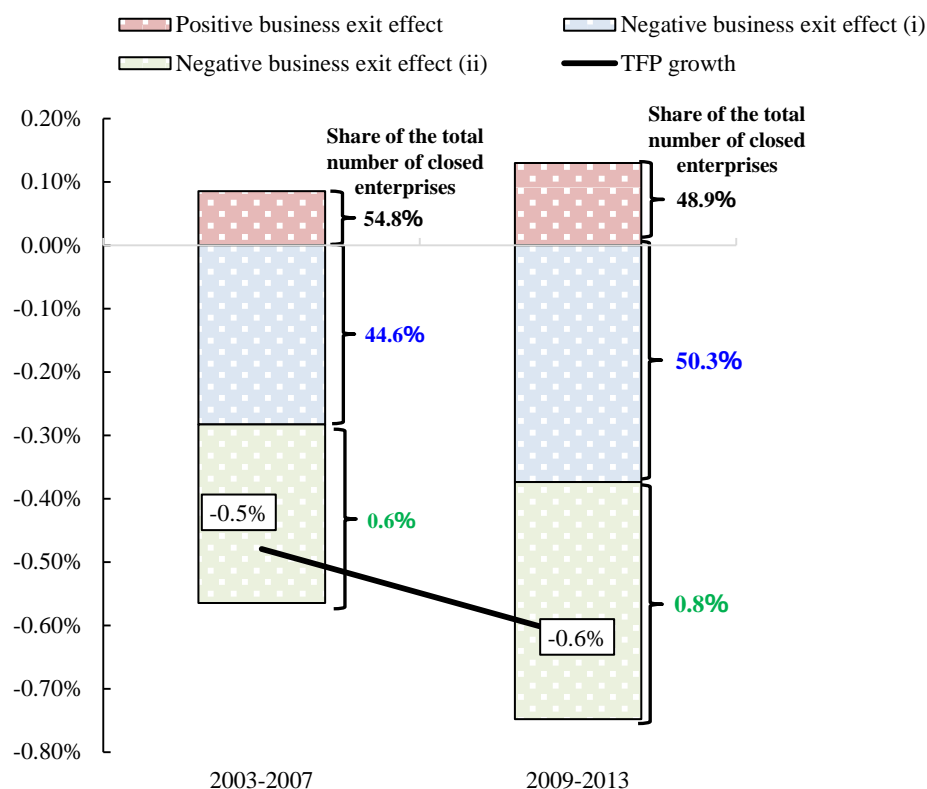
**Fig. 3 Business entry rate changes (2009-2013)**



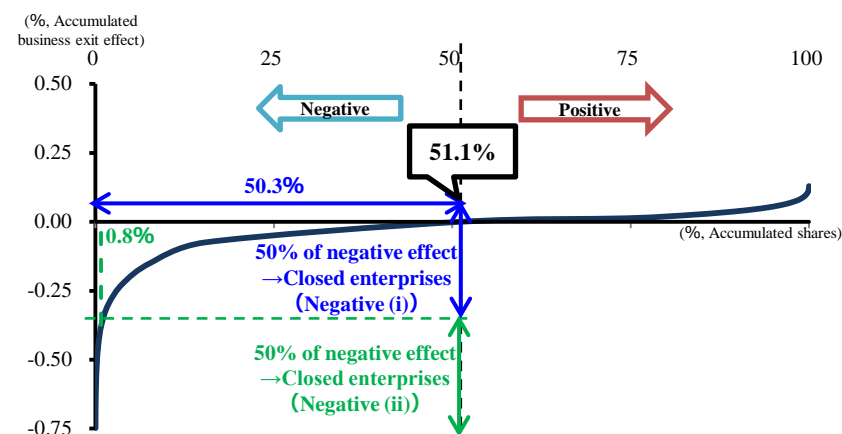
## 【Analysis of the Current Status 2-7】SME and Small Enterprise Lifecycle and Productivity (vii) (Relationship between Lifecycle and Productivity (iii))

- Some 50% of closed enterprises have pushed down productivity. Half of closed enterprises, excluding those attributable to mergers and acquisitions and moving overseas, have substantially pushed down productivity.
- Such enterprises feature fewer employees and sales and higher profits than existing enterprises. The share of enterprises that have determined successors to owners is relatively small for closed enterprises, indicating it is important to reduce business exits resulting from successor shortages.

**Fig. 1 Breakdown of business exit effect**



**Fig. 2 Distribution of closed enterprises (2009-2013)**



**Fig. 3 Average characteristics of closed enterprises (business performance indicators)**

	Closed enterprises (Negative (i)) 50.3%	Closed enterprises (Negative (ii)) 0.8%	(Reference) Existing enterprises	Closed enterprises (pushing up) 48.9%
Number of employees	6.4	94.5	11.2	8.7
Sales	0.19 billion yen	6.59 billion yen	0.34 billion yen	0.09 billion yen
Sales growth	0.55%	3.54%	1.4%	-3.8%
Ordinary profit margin	3.93%	4.95%	1.9%	-1.1%
Fixed asset growth	1.0%	8.0%	3.9%	-0.5%
Share for enterprises that determined successors to owners	42%	41.7%	45%	40.8%

Fig. 1-3: “FY2016 Analysis of Corporate Metabolism for SMEs” under contract from the Small and Medium Enterprise Agency (Research Institute of Economy, Trade and Industry, December 2016)  
(Note) Productivity here refers to total factor productivity, which indicates how overall value added changes when labor and capital change.

**【Analysis of Current Status 3-1】Current Status of the SME and Small Enterprise Employment Environment and Labor Shortages (i)**

- SMEs have increasingly perceived labor shortages, especially concerning the high ratio of job offers to applicants. Particularly, the number of employees has been decreasing at smaller-sized SMEs. The background factors of such situation are job and wage gaps.

**Fig. 1** Changes in Employee Overcapacity and Insufficiency DI

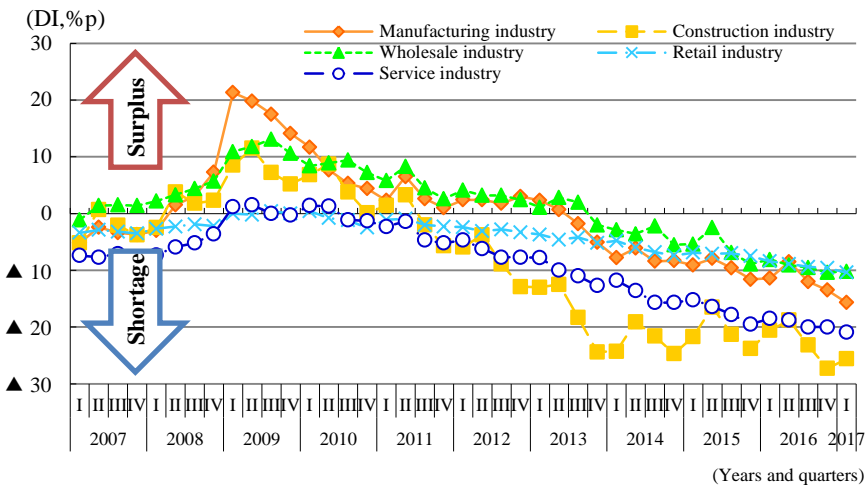


Fig. 1 "Survey of SME Business Conditions" (SME Support, Japan, Small and Medium Enterprise Agency)

**Fig. 2** Changes in the number of employees by employment size

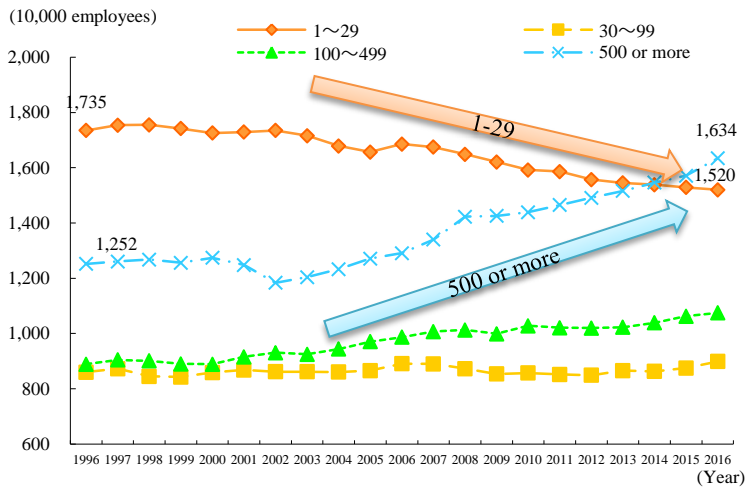


Fig. 2: “Labor Force Survey” (Ministry of Internal Affairs and Communications)

**Fig. 3** Gap between job offers and applicants by job type

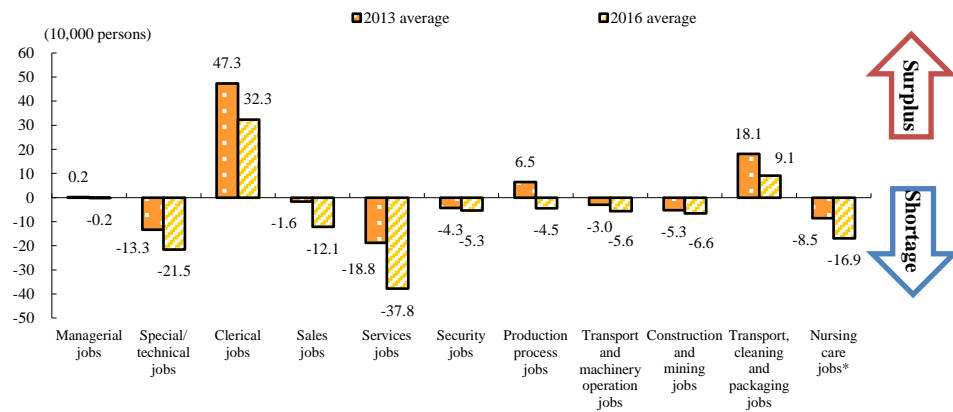


Fig. 3: "General Public Employment Placement Conditions" (Ministry of Health, Labour and Welfare)

(Notes) 1. Excluding “agriculture/forestry/fisheries jobs” and “unclassifiable jobs”

2. "Nursing care jobs" cover "welfare facility instruction specialists," "other social welfare specialists," "domestic helpers" and "nursing care service jobs" extracted from "special/technical jobs" and "services jobs", based on "Classification of Jobs (2013 Revised Edition)" by the Ministry of Health, Labour and Welfare.

### Fig. 4 Changes in wages by enterprise size



Fig. 4: "Basic Statistical Survey of Wage Structure" (Ministry of Health, Labour and Welfare) rearranged and processed

(Notes) 1. "Regular employees" covered general workers with no specified employment periods until 2004. Since 2005, they have covered general workers described as "regular employees" by business establishments.

2. Wages represent “regularly paid cash wages” for June every year, covering basic pay, predetermined allowances and overtime money.

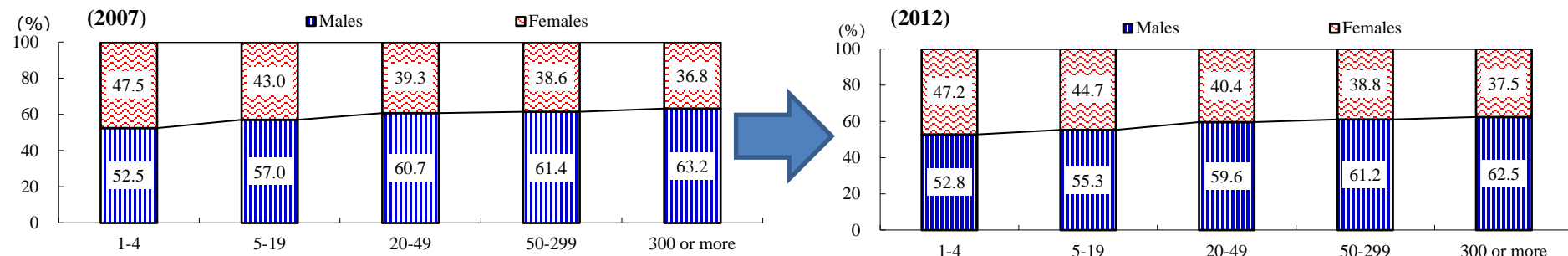
3. Enterprises with 299 or fewer permanent employees (99 or fewer permanent employees for wholesale, services, retail and restaurant industries) are classified as SMEs. The others are large enterprises.

# 【Analysis of the Current Status 3-2】

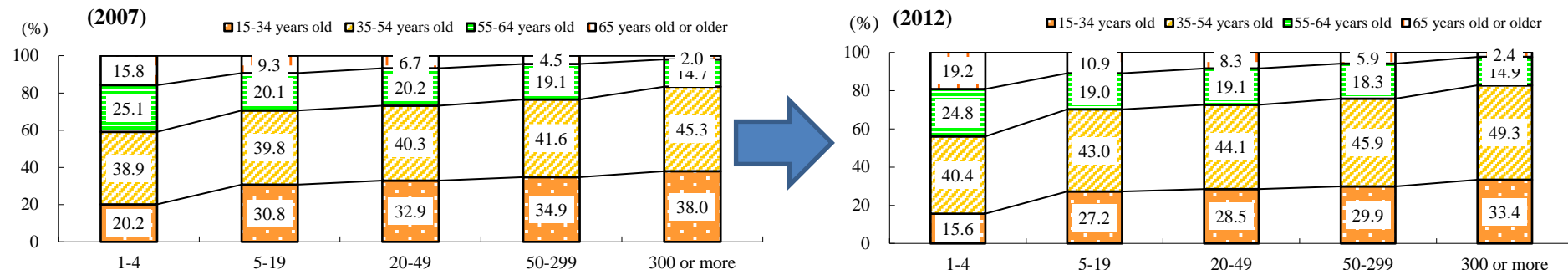
## Current Status of the SME Employment Environment and Labor Shortages (ii) (Utilization of various human resources)

- Smaller enterprises utilize more various human resources, including women and seniors.
- Many SMEs utilize or consider utilizing various human resources as core employees.

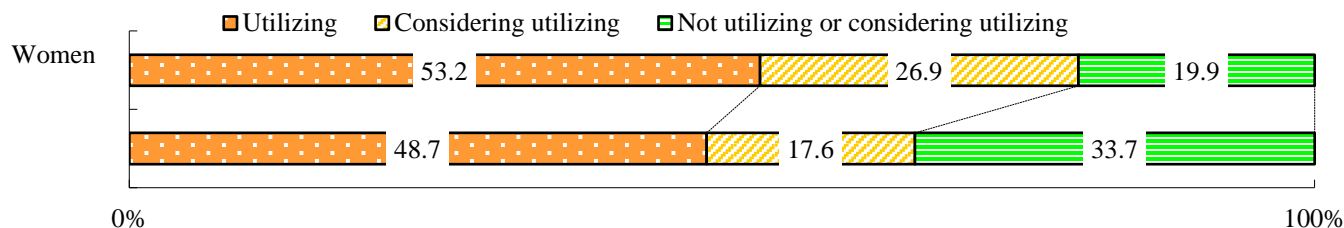
**Fig. 1** Male and female shares of employees by company size (employees)



**Fig. 2** Age distribution of employees by company size (employees)



**Fig. 3** Utilization of various human resources as core workers (SMEs)

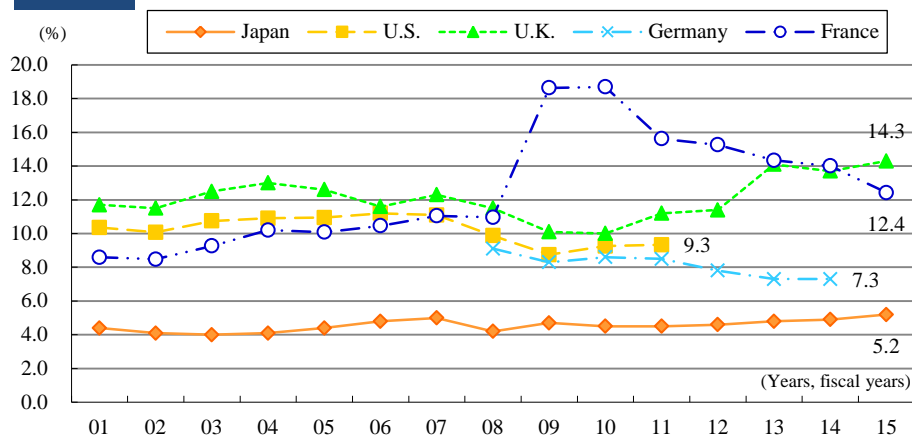




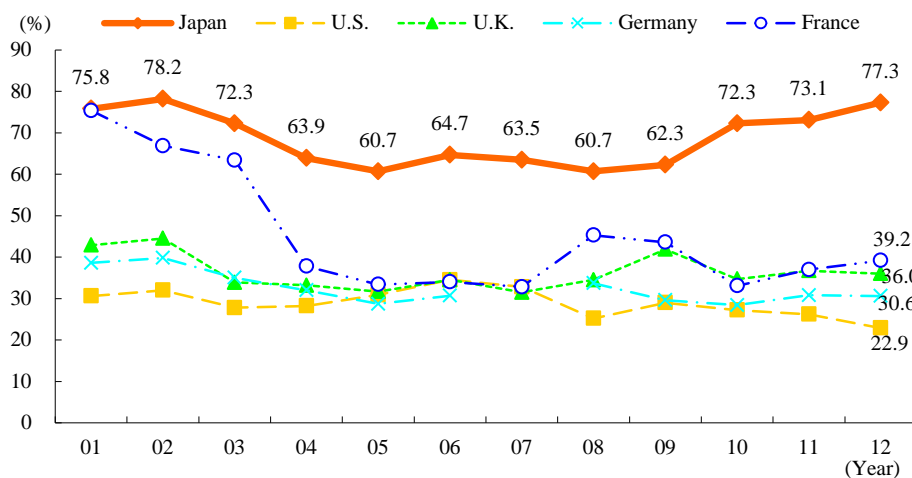
## [Analysis by Theme 1-1] Business Entries (i)

- In comparison with other countries, Japan features a lower business entry rate and a larger share of people who are indifferent to starting up enterprises. However, people attempting to start up enterprises in Japan are likelier to actually succeed in starting up those enterprises.
- Increasing public interest in starting up enterprises is important. A key motivator for people to start up enterprises seems to be recommendations from close friends.

**Fig. 1 International comparison of business entry rates**



**Fig. 2 Percentages of people indifferent to starting up enterprises (international comparison)**



Figs. 1-2: Prepared by the Small and Medium Enterprise Agency from a report on a FY2013 "Survey on Entrepreneurship" (Venture Enterprise Center, March 2014)

**Fig. 3 Percentages of people who are interested in starting up enterprises that actually succeed in starting up those enterprises (international comparison)**

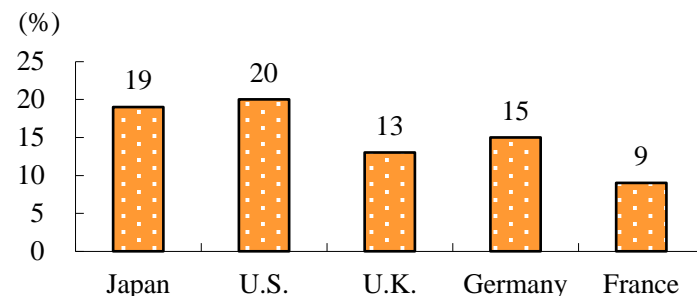


Fig. 3: Prepared by the Small and Medium Enterprise Agency from "International Comparison of Factors Influencing Business Start-up Activities" (Research Institute of Economy, Trade and Industry, March 2016)

**Fig. 4 Motivations for entrepreneurs to start new enterprises**

Recommendations by close friends and the presence of entrepreneurs can become key motivations.

		Most frequently cited	Second most frequently cited	Third most frequently cited
49 years old or younger	Male (n=961)	Influence of surrounding entrepreneurs and managers (40.7%)	Failing to do what I want to do at my place of employment (29.2%)	Future uncertainties and worsened treatment at my place of employment (27.5%)
	Female (n=75)	Recommendations by close friends (33.3%)	Home environment changes (marriage, child delivery, etc.) (25.3%)	Influence of surrounding entrepreneurs and managers (22.7%)
50-59 years old	Male (n=809)	Future uncertainties and worsened treatment at my place of employment (35.7%)	Failing to do what I want to do at my place of employment (28.4%)	Influences of surrounding entrepreneurs and managers (27.3%)
	Female (n=107)	Recommendations by close friends (37.4%)	Home environment changes (marriage, child delivery, etc.) (29.0%)	Failing to do what I want to do at my place of employment (23.4%)
60 years old or older	Male (n=949)	Influence of surrounding entrepreneurs and managers (25.2%)	Recommendations by close friends (21.9%)	Future uncertainties and worsened treatment at my place of employment (21.7%)
	Female (n=99)	Failing to do what I want to do at my place of employment (30.3%)	Recommendations by close friends (26.3%)	Acquisition of licenses or qualifications useful for business operations (24.2%)

Fig. 4: "Survey on Business Entry Realities" under contract from the Small and Medium Enterprise Agency (Mitsubishi UFJ Research and Consulting, November 2016)

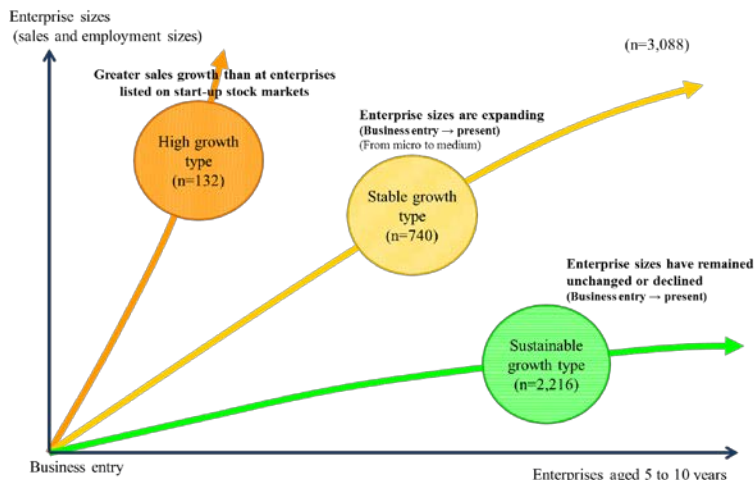
(Notes) 1. Motivations for entrepreneurs to have interests in starting up enterprises before actually doing so are compiled.

2. Because respondents were allowed to cite multiple motivations, percentage shares may not necessarily add up to 100%.

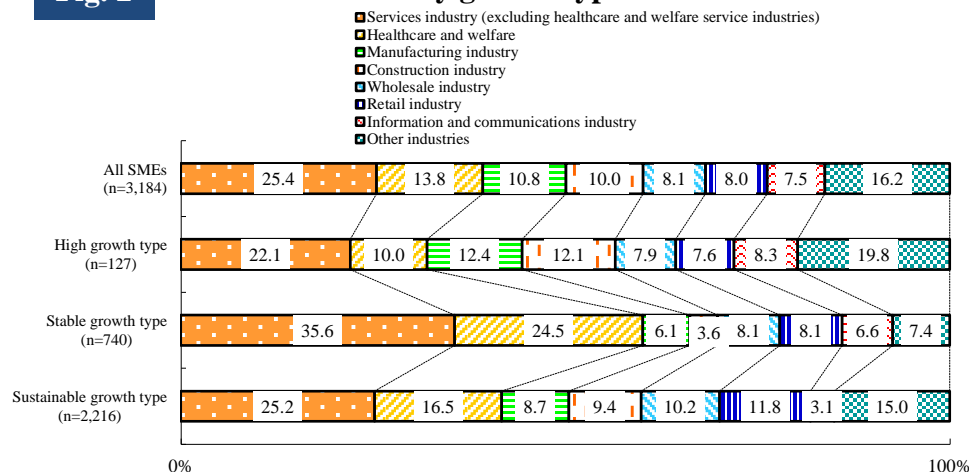
## 【Analysis by Theme 1-2】Business Entries (ii)

- Enterprises aged five to 10 are classified into three types -- high growth, stable growth and sustainable growth.
- Services and manufacturing enterprises are dominant among high-growth enterprises. Their managers are young and indicate effects of entrepreneurial education.

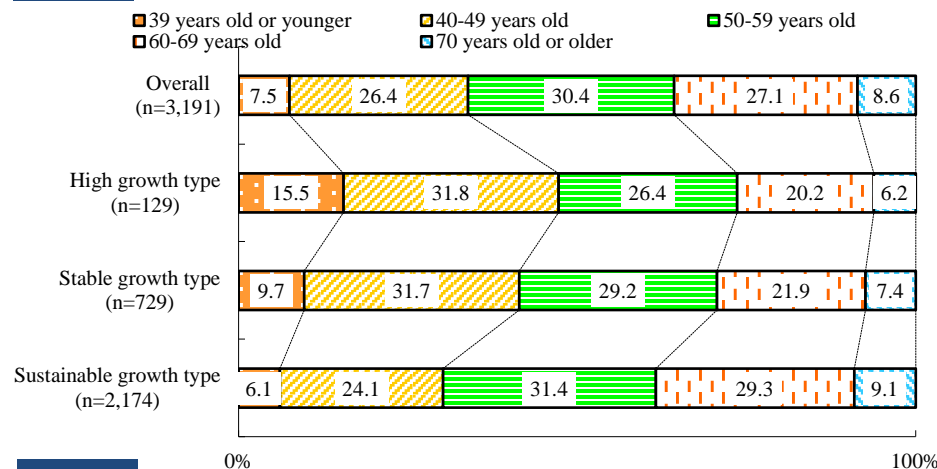
**Fig. 1 Growth types after business entry**



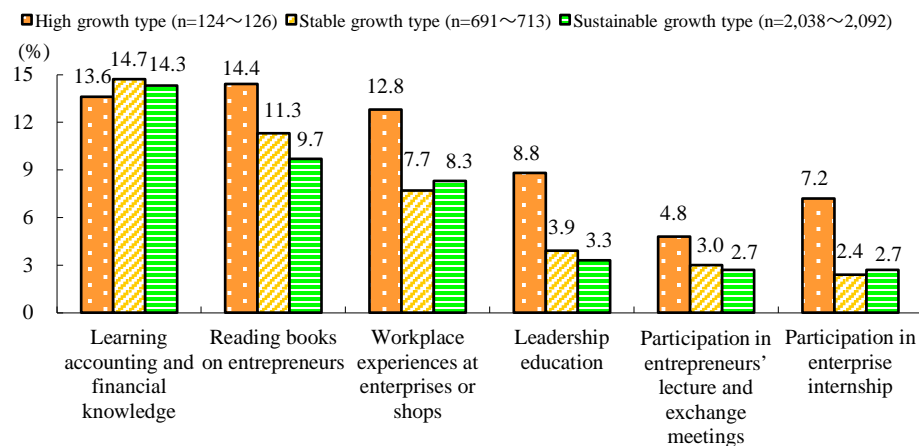
**Fig. 2 Industries' shares by growth type**



**Fig. 3 Entrepreneurs' age distribution by growth type**



**Fig. 4 Details of entrepreneurial education at school by growth type**



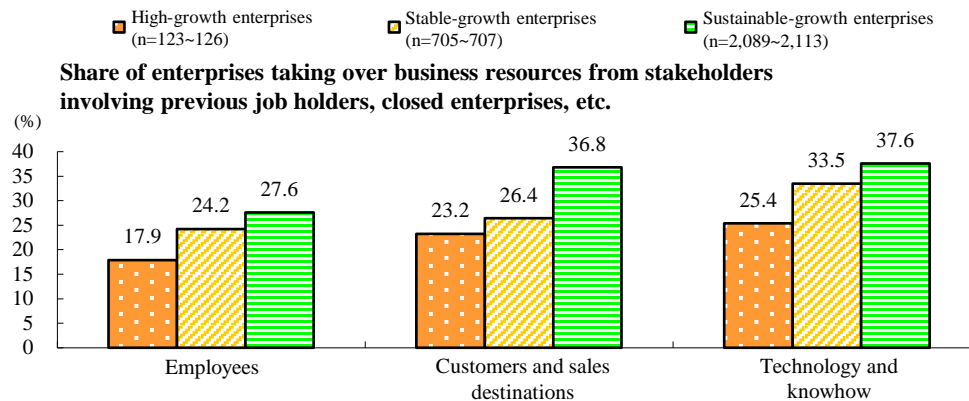
(Note) The data cover respondents who cited specific courses at elementary schools, junior high schools, senior high schools, technical colleges, vocational schools, junior colleges, universities or graduate schools.

# [Analysis by Theme 1-3] Business Entries (iii)

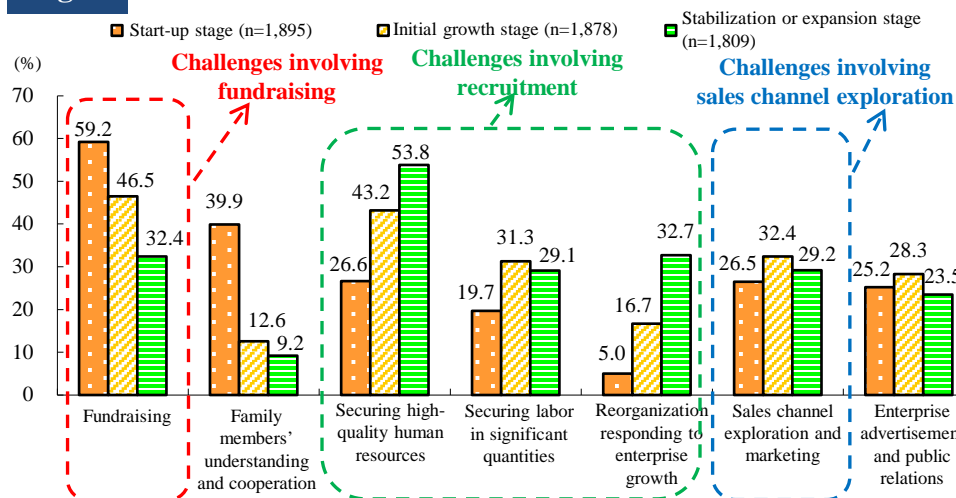
- Small enterprises account for 80% of sustainable-growth enterprises and tend to take over customers, technology and other business resources from other businesses such as closed enterprises more frequently than enterprises belonging to other growth types.
- Small enterprises' challenges include fundraising in the start-up stage and human resources management, particularly concerning how to secure successors, in the stable growth stage.

**Fig. 1 Sustainable-growth enterprises' takeover of business resources upon start-up**

Sustainable-growth enterprises take over business resources more frequently than others.



**Fig. 2 Sustainable growth enterprises' challenges in each growth stage**



Figs 1-4: "Survey on Business Entry Realities" under contract from the Small and Medium Enterprise Agency (Mitsubishi UFJ Research and Consulting, November 2016)

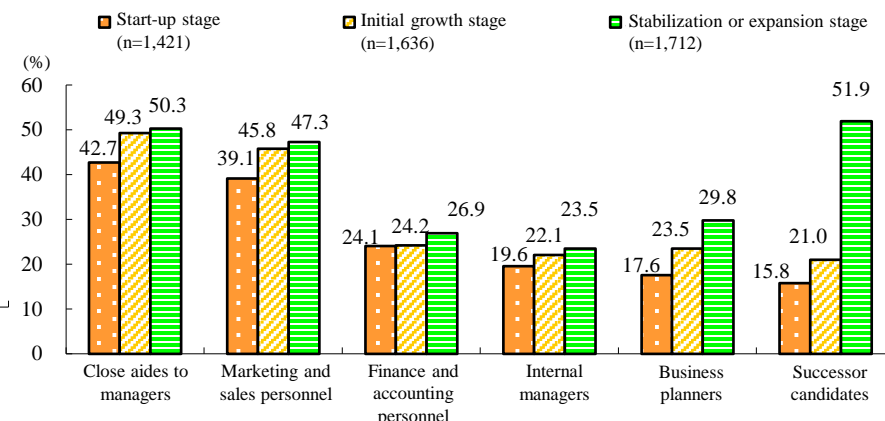
**Fig. 3 Sustainable-growth enterprises' fundraising methods in the start-up stage**

Needs for loans are great in the start-up stage.

	Most frequently cited	Second most frequently cited	Third most frequently cited	Fourth most frequently cited	Fifth most frequently cited
Fundraising methods used in the start-up stage (n=1,956)	Enterprise managers' own funds (80.2%)	Loans from private financial institutions (34.9%)	Loans from family members, relatives, acquaintances, etc. (34.0%)	Loans from government financial institutions (25.2%)	Using public subsidies (8.9%)
Fundraising methods that enterprises wanted to use in the start-up stage (n=391)	Loans from private financial institutions (48.8%)	Loans from government financial institutions (48.6%)	Using public subsidies (43.5%)	Investment from venture capital firms, investment partnerships, funds, etc. (38.6%)	Investment from individual investors (36.1%)

(Note) The five most frequently cited items are listed for fundraising methods that enterprises used and those that enterprises wanted to use.

**Fig. 4 Human resources required by sustainable-growth enterprises in each growth stage**



## [Analysis by Theme 1-4] Business Entries (iv)

- Consultants for sustainable-growth enterprises shift from relatives to financial institutions and others subject to frequent contacts as they go to higher stages. Receiving support from business contacts and business partners leads to smooth business operations.

**Fig. 1 Consultants for sustainable-growth enterprises in each growth stage**

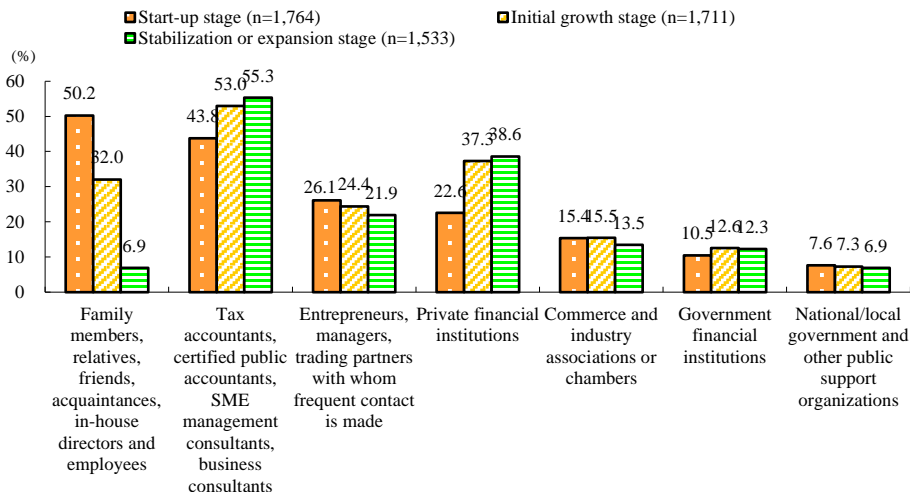


Fig. 1: "Survey on Business Entry Realities" under contract from the Small and Medium Enterprise Agency (Mitsubishi UFJ Research and Consulting, November 2016)

**Fig. 2 Start-up Support Plan Approval System under the Act on Strengthening Industrial Competitiveness**

- The Act on Strengthening Industrial Competitiveness includes a scheme to promote regional business start-up.
- Municipal governments develop "start-up support plans" for national government approval and cooperate with start-up supporters in providing specific start-up support.
- As of December 2016, 1,275 of Japan's 1,742 municipal governments had developed start-up support plans, covering 95% of Japan's population.

### [Specific case] Little Pianist (Ryugasaki City, Ibaraki Prefecture)

#### Successful business start-up using the Comprehensive Support Center Launching production and marketing of the world's first special piano shoes

- Little Pianist in Ryugasaki, Ibaraki Prefecture, started up in April 2014 and developed special piano shoes for production and marketing.
- The representative had been a regular employee at a game production company before leaving the company upon her marriage. While engaging in childcare after a child delivery, she found that her daughter had difficulties in pedaling a piano during her piano performance. Then, she developed special piano shoes on her own, acquired a patent on the shoes and decided to start up a business.
- While the business idea was innovative, she had no knowledge or knowhow regarding business and management, including how to start up a business. Then, she took counsel from Comprehensive Support Centers in Ibaraki and Tokyo. Receiving total support from the bases for the preparation of a business plan, subsidy application procedures, coordination with an outsourcing destination, sales outsourcing contracts, advertisement methods and other matters, she successfully started up a business.
- After the start-up, the piano shoes were covered by a television program, leading Little Pianist to successfully secure sales channels including the largest Japanese music instrument retailer and expand earnings smoothly.



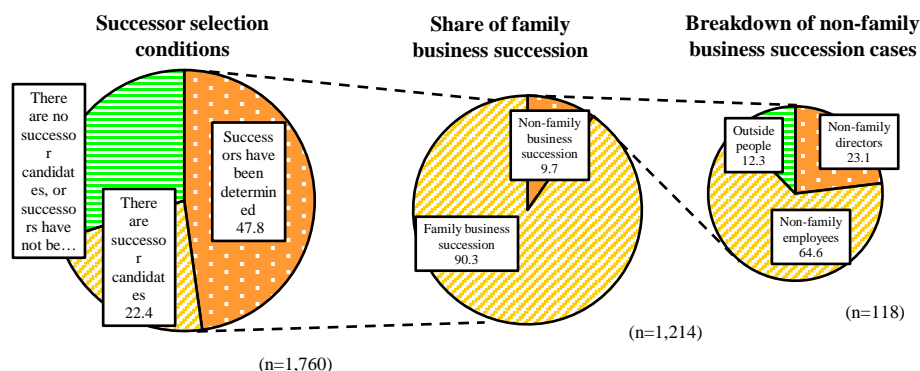
Little Pianist Representative Kurachi and special piano shoes

## 【Analysis by Theme 2-1】Business Succession (i)

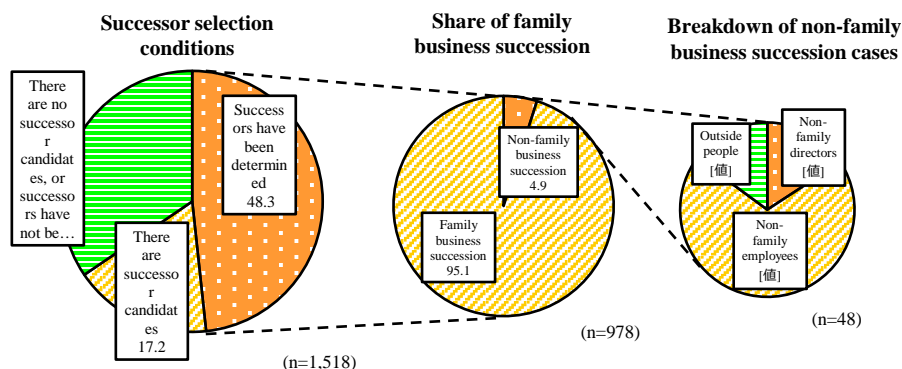
- Family succession is dominant among small enterprises.
- Some small enterprise owners resist non-family succession apparently due to their failure to separate business assets from personal assets.

**Fig. 1** Successor selection conditions and present status of non-family succession (small enterprises and self-employed business operators)

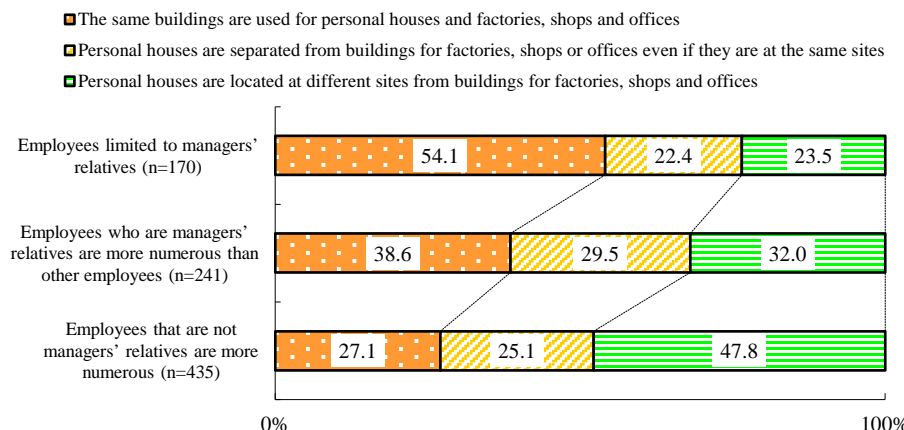
### (1) Small enterprises



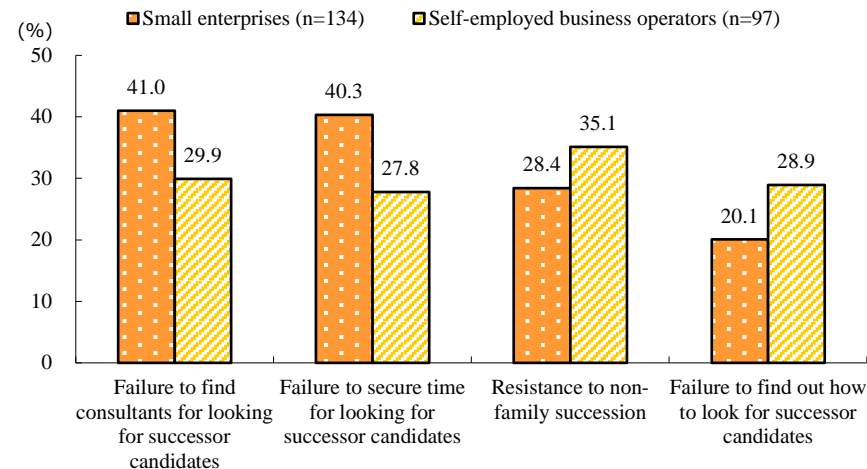
### (2) Self-employed business operators



**Fig. 2** Separation of managers' or their relatives' business real estate from their personal houses by employment mix (small enterprises)



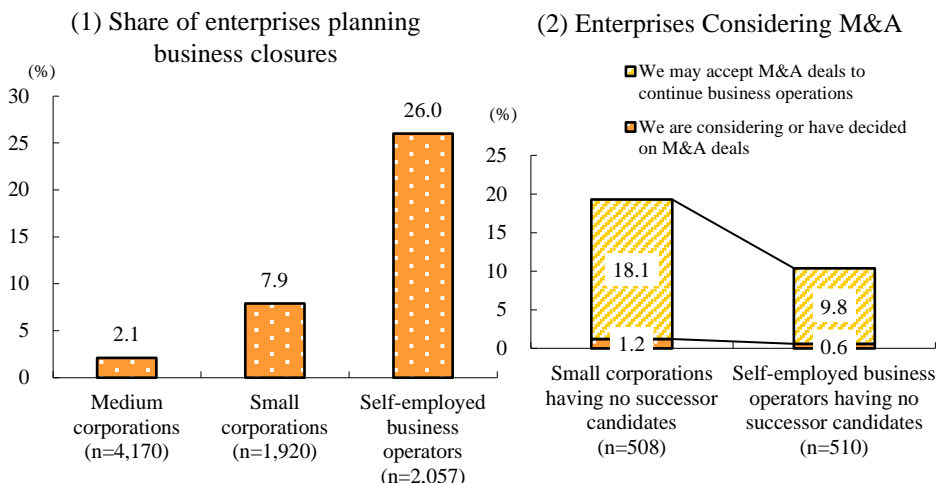
**Fig. 3** Reasons for failure to find successor candidates (small enterprises)



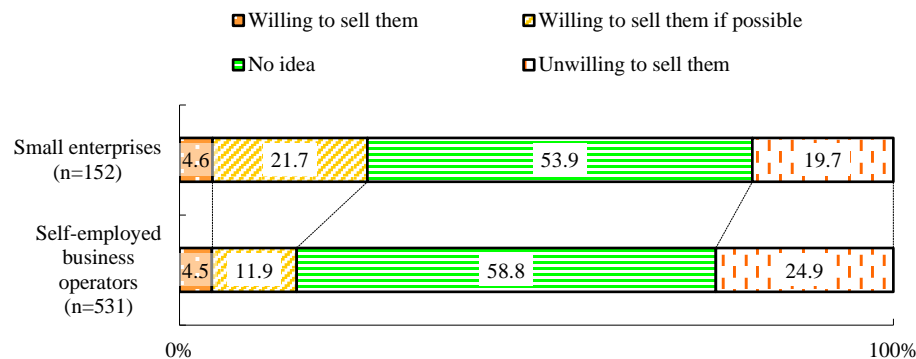
## 【Analysis by Theme 2-2】Business Succession (ii)

- While many small enterprises see business closures as the only option, the challenges for corporate enterprises are very different from those for self-employed business operators.
- While some small enterprises are willing to sell their business operations and assets with the closure of their business, appropriate buyers are difficult to find. Matching services that respond to these needs are necessary.

**Fig. 1 M&A consideration and business closure planning**  
(small corporations and self-employed business operators)

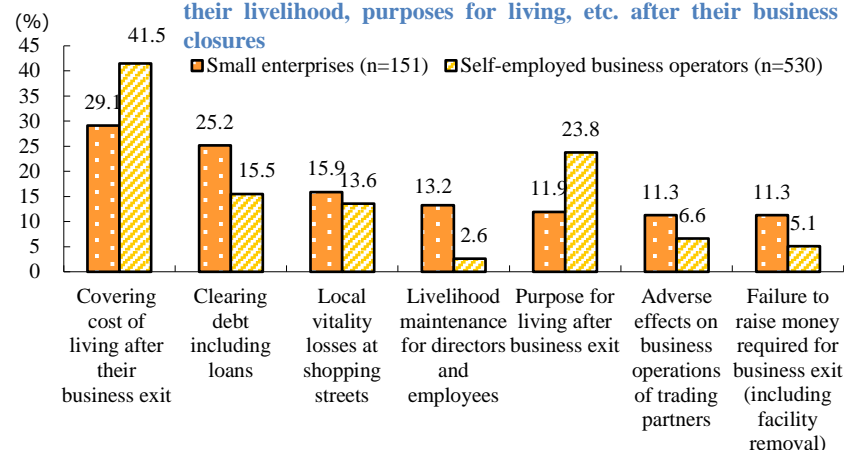


**Fig. 3 Sale of business operations and assets upon business closure**  
(small enterprises)

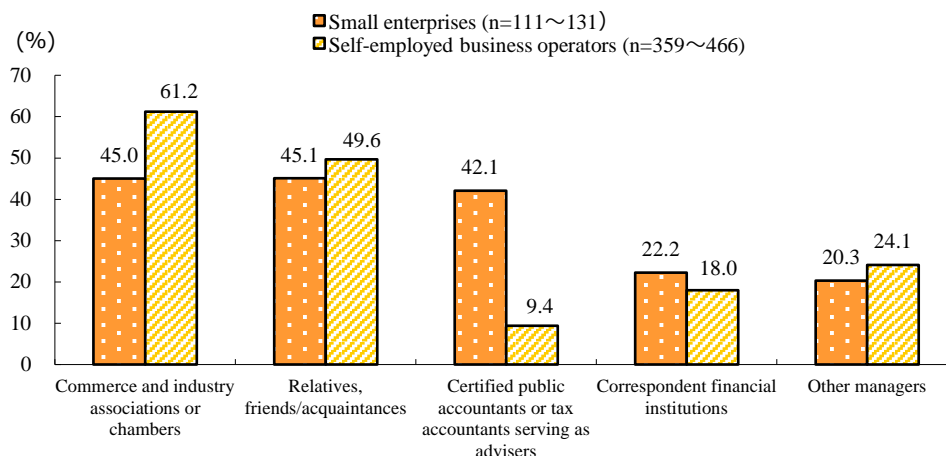


**Fig. 2 Possible business closure problems**  
(small corporations and self-employed business operators)

Self-employed business operators tend to be concerned about their livelihood, purposes for living, etc. after their business closures



**Fig. 4 Consultants for small enterprise operators planning business closures**





## 【Analysis by Theme 2-3】Business Succession (iii)

### 【Specific case】Matsunaga Ceramics Shop (Namie Town, Fukushima Prefecture)

**Overcoming business suspension on the Great East Japan Earthquake,  
resuming traditional business**

**Exploring new sales channels upon business succession**

- The present representative of Matsunaga Ceramics Shop was born at a pottery for Obori Soma Ware, a traditional craft product in Namie Town, Fukushima Prefecture. He is the fourth head of the pottery.
- Namie, where the pottery was located, was designated as a difficult-to-return zone due to the Great East Japan Earthquake, forcing 25 Obori Soma Ware potteries to be closed with the business suspended.
- As Obori Soma Ware cannot be made without glaze from Toyamaishi stones from Namie Town, it was difficult to resume the business. Recommended by the present representative and trading partners, the previous representative, though having a negative attitude about the business resumption, developed a substitute material with help from the Fukushima prefectural government and resumed the business in Saigo Village.
- The present representative decided to succeed to the business in a strong attempt to uphold the local tradition and lead more consumers to understand the excellence of Obori Soma Ware.
- While the present representative's father, who is his predecessor, has been in charge of production, the present representative has started up a sales enterprise, focusing on the joint development of new products with designers and the exploration of new sales channels including overseas channels.



Reopened Matsunaga Pottery

### 【Specific case】Maruyama Shoten (Daisen Town, Saihaku County, Tottori Prefecture)

**A small enterprise owner took over goods, brands and customers from  
a self-employed business operator lacking a successor.**

- Maruyama Shoten was an individual business operator producing and selling asa-zuke young pickles. Its representative failed to find a successor among relatives and employees while feeling that he would have difficulties in maintaining business operations.
- The Maruyama Shoten representative proposed a business transfer to the Fukushima Shoten president, a pickle producer. They had remained acquainted with each other for a decade. They reached broad agreement on the transfer and made consultations with the Tottori Prefecture business succession support center through a regional financial institution.
- Although it was difficult to set a transfer price in the absence of specific pricing methods for this kind of individual business operator, the business succession support center mediated the transfer, resulting in smooth coordination.
- As a result, the business transfer to Fukushima Shoten was concluded, leading Fukushima Shoten to maintain the employment of Maruyama Shoten's owner and its seven employees and take over asa-zuke knowhow, product brands and customers from Maruyama.
- The previous Maruyama Shoten representative says: "It was difficult for me alone to make a decision on the transfer. I was able to relax thanks to the support."
- Fukushima Shoten says it successfully acquired Maruyama Shoten's brands and sales channels outside the prefecture amid a decline in demand within the prefecture and wants to take advantage of the acquisition for future business development.

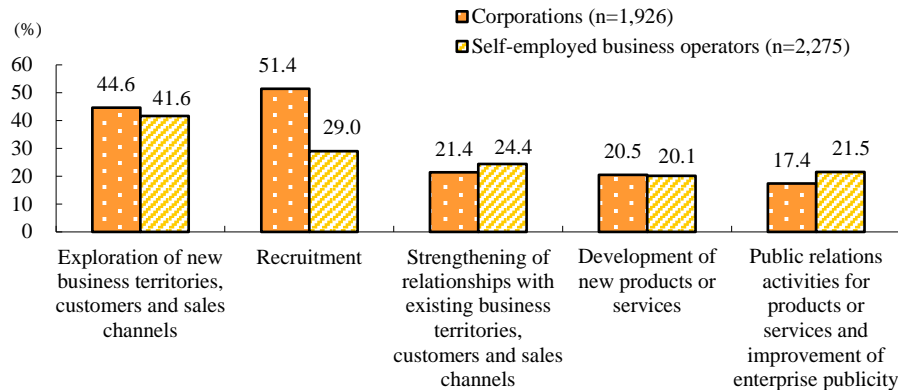


A scene at a signing ceremony for  
the business transfer agreement

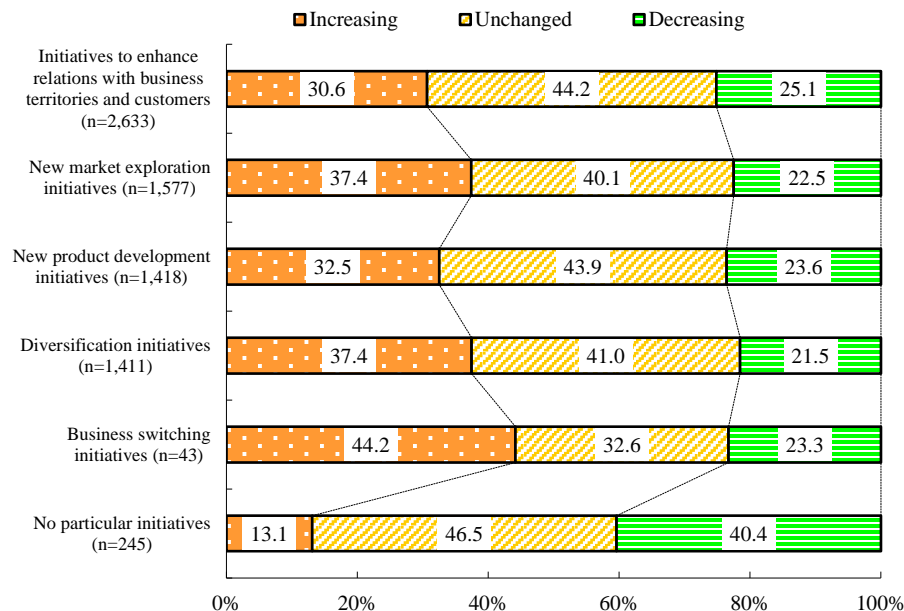
## 【Analysis by Theme 3-1】Sales Expansion Initiatives (i)

- Small enterprises' earnings are stagnant, facing new sales channel exploration and recruitment challenges.
- Enterprises that strive to find needs and their own strengths in coordination with public relations activities when implementing sales expansion initiatives (including new market exploration, new product development, diversification and business switching) feel strong effects of their efforts but face a labor shortage challenge.

**Fig. 1 Business challenges recently growing important**

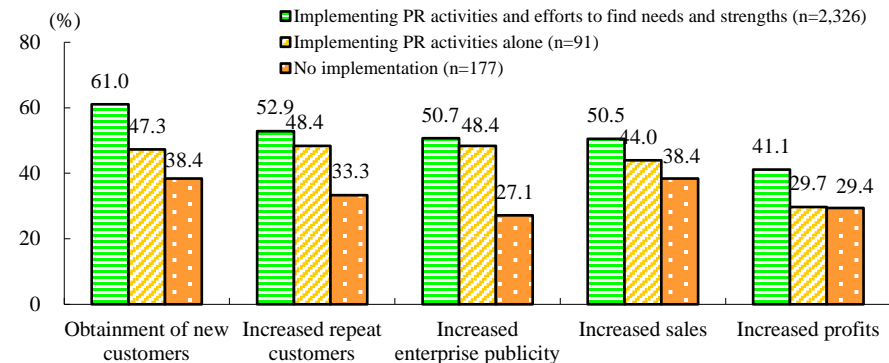


**Fig. 2 Relationship between “sales expansion initiatives” and actual sales**



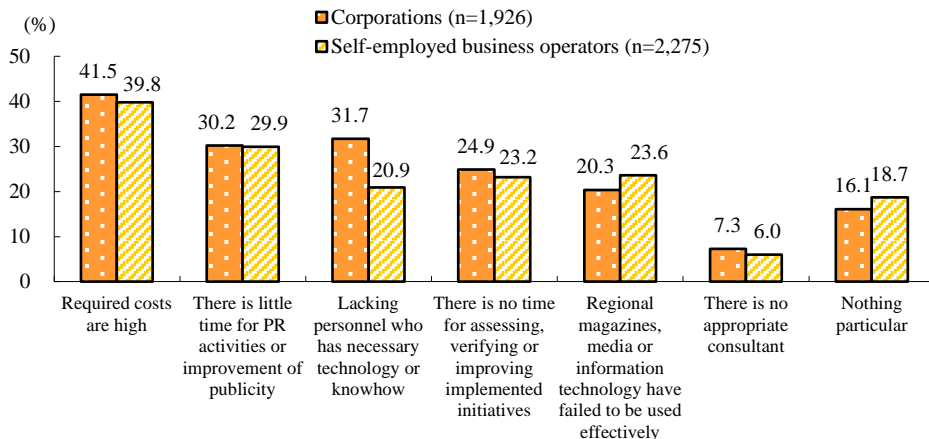
**Fig. 3 Effects of “sales expansion initiatives” by marketing operation conditions**

It is advantageous for small enterprises to find market needs and their own strengths in line with public relations activities in implementing “sales expansion initiatives.”



**Fig. 4 PR activity challenges**

Costs and labor shortages are challenges for public relations activities.





## 【Analysis by Theme 3-2】Sales Expansion Initiatives (ii)

### 【Specific case】Saga Cardboard Firm (Arita Town, Saga Prefecture)

**A firm selling traditional crafts in a high-price market through 'only-one' product development**

- The firm produces and markets cardboard boxes and packaging materials for packing Arita ware products. It also produces and markets Arita ware products. While the market for traditional Arita ware has shrunk year by year, the firm has tried to develop new Arita ware products under two self-imposed missions -- (1) demonstrating the beauty of Arita ware to the world and (2) reviving the Arita region economy.
- President Ishikawa, when being sick in bed, was attracted by the beauty of kaleidoscopes and conceived the idea of making kaleidoscopes with Arita ware. However, it was technically difficult to combine precision-requiring kaleidoscopes with Arita ware. In 2003, the firm launched a research panel on Arita Porcelain Scope (brand name of kaleidoscopes) to solve the problem. Experts concentrated their wisdom to successfully develop Arita Porcelain Scope.
- In the same year, the firm exhibited Arita Porcelain Scope at an annual kaleidoscope society convention in the United States and got high ratings on the graceful industrial art of Arita Porcelain Scope, receiving inquiries from overseas department stores. As Japanese department stores heard the overseas reputation of the product, sales destinations in Japan increased. In one year from the launch of the product, the firm achieved 130 million yen in sales.
- After the exhibition, the firm developed Arita ware products one after another. Finding that Japanese arts are accepted by wealthy people around the world, the president has collaborated with domestic and foreign brands for fountain pens, watches and other high-priced products to develop 'only-one' products with high value added.



### 【Specific case】Tajima Technica Co. (Yoshinogawa City, Tokushima Prefecture)

**A small enterprise that has established a new brand by adding B to C business to its traditional B to B business for business diversification**

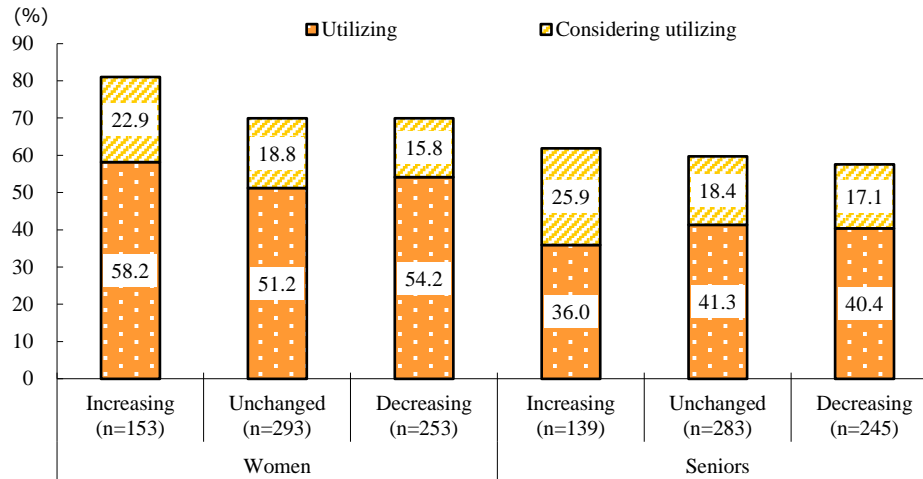
- Tajima Technica is a foam slicing and laminating enterprise. Focusing attention on ethylene-vinyl acetate materials used for shock absorbers and sandal soles, the firm has produced and sold tablet cases, accessory cases and other sundry goods taking advantage of EVA materials' softness and durability.
- The firm had focused on processing EVA materials at the request of a footwear maker. As the footwear maker launched overseas production, Tajima Technica felt that new business development would be required.
- After concentrating on business customers, the firm was then considering making general consumers new customers. In a bid to develop new products using EVA materials that the firm had handled traditionally, it began to produce and sell tablet cases and accessory cases taking advantage of EVA materials' shock-absorbing characteristics.
- Tajima Technica has energetically collaborated with designers introduced by a support organization, utilized subsidies and exhibited products at trade fairs, successfully boosting its publicity and getting new customers. Particularly, the firm has been adopted for a Tokushima Prefecture support program, improving its brand power substantially.
- Tajima Technica hopes to expand B to C business sales to some 50% of total sales.



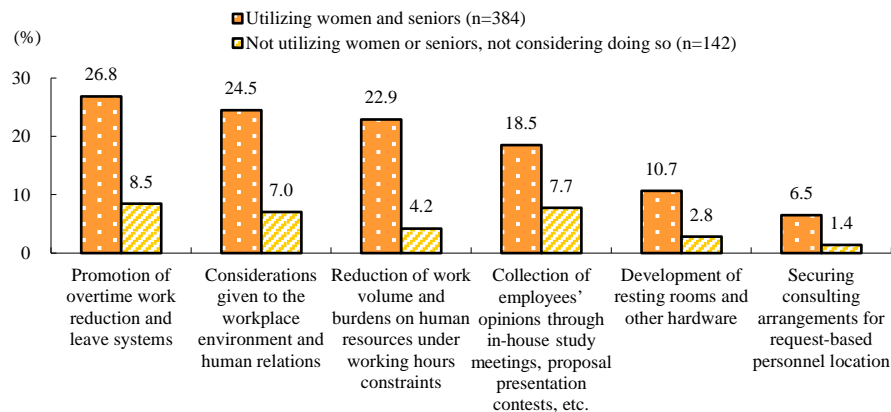
## 【Analysis by Theme 3-3】Sales Expansion Initiatives (iii)

- Small enterprises growingly feel labor shortages. Workplace environment improvement, the utilization of various human resources including women and seniors and outsourcing are effective for responding to labor shortages.

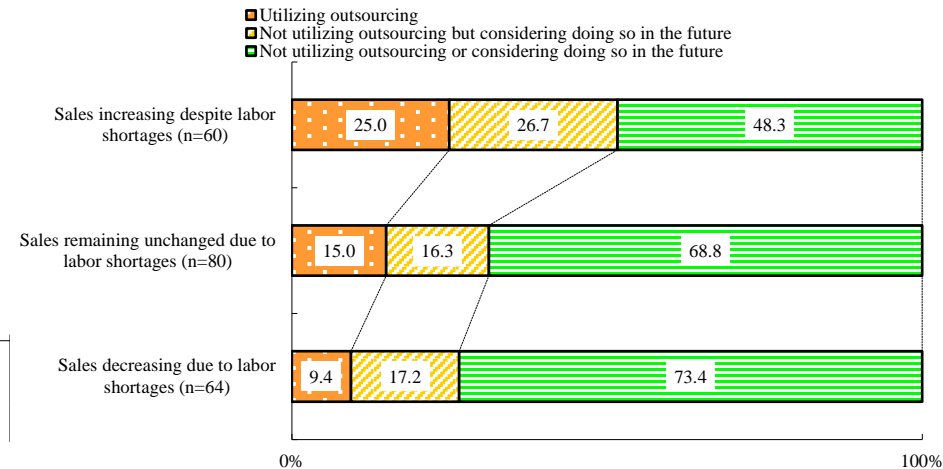
**Fig. 1** Utilization of women and seniors by latest sales trend



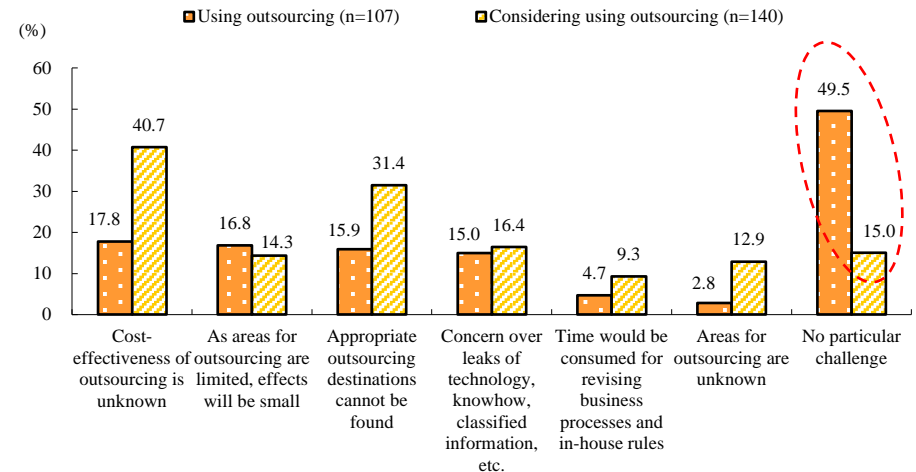
**Fig. 2** Workplace environment improvement initiatives at enterprises utilizing women and seniors and at those not doing so



**Fig. 3** Labor-short enterprises' outsourcing conditions by latest sales trend



**Fig. 4** Outsourcing-related challenges for outsourcing users and others



## 【Analysis by Theme 3-4】Sales Expansion Initiatives (iv)

### 【Specific case】Sugioka Textile Co. (Takashima City, Shiga Prefecture)

**An enterprise promoting capital investment and information technology to improve productivity and the workplace environment**

- Sugioka Textile Co. is a 62-year-old enterprise producing and marketing cotton fabric under the regional brand of “Takashima Chijimi.” In 2014, President Sadahiro Sugioka took over the business from his father who was the president. With a sense of crisis that the firm’s business could face difficulties if continuing to do the same operations as in the past, he has implemented new initiatives while collecting information on customer needs and subsidies since before the takeover.
- For example, the current president installed equipment according to specific purposes in order to produce goods reflecting customer needs for quick delivery. In 2016, he took advantage of the Small and Medium Enterprise Agency’s new manufacturing, commerce and service development support subsidy program to install a high-performance design system. The system has allowed the firm to improve value added to goods and ease the work burden on employees, substantially reducing overtime work that used to continue late into the night.
- The firm has improved sales and paperwork operations as well as manufacturing. In 2012, it launched sales to end users via the Internet, paving the way for employees to directly receive consumers’ opinions and improve their motivations. While handwritten vouchers and pay statements were still dominant in the traditional local industry, Sugioka Textile took the initiative in 2006 to computerize paperwork, easing the work burden on clerical employees. Furthermore, the firm introduced cloud accounting in 2015 to positively promote the improvement of clerical efficiency.
- These initiatives have improved the workplace environment and productivity and led to new capital investment and overseas expansion, resulting in a virtuous cycle.

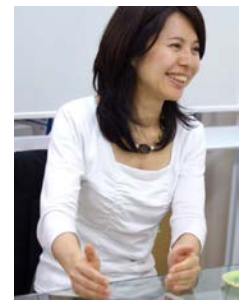


President  
Sadahiro Sugioka

### 【Specific case】YPP (Chuo Ward, Tokyo)

**An enterprise that takes advantage of leisure time to support labor-short enterprises**

- YPP Co. is an enterprise providing outsourcing services for accounting, taking and making orders, wage computation and other operations. It matches SMEs and self-employed business operators unable to hire clerical workers with registered members who face workplace, working hour and other constraints due to childcare, nursing care and other reasons but are willing to take advantage of leisure time to work for short periods.
- The firm has organized teams of registered members that respond to members’ sudden absences attributable to family-related reasons, allowing members to work primarily at home. It gives priority to work sharing, enabling members to work flexibly without being solely responsible for deadlines. To secure smooth job performance, the firm makes manuals for outsourced operations and provides coordination and follow-up services for customers and registered members.
- The firm’s outsourcing services allow customer enterprises to enable employees to focus on core operations. Customers can cover labor shortages resulting from clerical employees’ sudden resignation and continue business operations until replacement workers are found. Customers thus enjoy various advantages.
- Among the registered members are women trying to become pregnant, adjustment disorder sufferers and other persons who have difficulties in performing full-time services. They can gain income while improving their work skills and avoid isolation from society, says President Gomibuchi. Some registered members have gradually increased working hours and earned more than 200,000 yen per month despite working from home. Others were recruited as full-time employees before leaving YPP Co.



President  
Noriko Gomibuchi

# Outline of the Measures Targeting Small Enterprises Taken in FY2017

## [Awareness]

3.81 million SMEs nationwide: in particular 3.25 million micro businesses, which account for approx. 85% thereof, are engaging in business activities while taking advantage of characteristics of respective regions and providing employment opportunities in response to local needs, and are playing an extremely significant role through their contribution to the stabilization of regional economies, improvement of daily living of local residents, and promotion of exchanges among them.

In June 2014, the Basic Act for Promoting Small Enterprises and the Act for Partial Amendment of the Act on Supporting Small Business by Commerce and Industry Association and Chamber of Commerce and Industry were enacted. The former positions "sustainable development of business" as one of the basic principles, in addition to "growth" as prescribed in the Small and Medium-sized Enterprise Basic Act, and aims to directly support micro businesses maintaining employment and striving in local communities.

## [Key points]

In order to effectively implement measures targeting micro businesses, efforts will focus on the following four goals, which were set in the Basic Plan for the Promotion of Small Enterprises formulated and approved by the Cabinet in October 2014 based on the Basic Act for Promoting 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

## [Structure]

Chapter 1: Promotion of Management with an Eye on Demand

Chapter 2: Promotion of Regeneration of Institutions

Chapter 3: Promotion of Business Activities that Contribute to the Revitalization of Regional Economies

Chapter 4: Enhancement of Support Systems through Region-wide Collective Efforts

Chapter 5: Other Measures for the Promotion of Small Enterprises

Chapter 6: Measures by Business Type and Sector