

The Internet Age: Japan's Challenge to E-Business

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Abstract:

Address by Yuji Takagi, General Manager of Mitsui & Co. (USA) Inc., on the future of the Internet industry in the context of Japanese business and consumer culture.

Keywords: Japan; JIMT; Japanese business; Mitsui Group; Internet

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INTRODUCTION

When I accepted the invitation to speak to you at the University of Texas at Austin, one of my good friends, who is a former college Dean, advised me about the key elements of a successful speech to a university audience. He emphasized communication is most important, reality is more valuable than theory, and sense of honesty is vital. Today, I will try my best to follow his recommendations.

I would like to begin by telling you about an e-mail I recently received from my daughter. It includes a bit of humor, and also some wisdom that relates to my speech. It goes something like this:

“Imagine your bank credits your account each day with \$86,400. But the balance never carries over to the next day. Every night you lose whatever you did not withdraw. What would you do? Draw out all of it, of course. Well, each of you has such a bank. It is called Time. Each day it credits you with 86,400 seconds. Each night it writes off, as lost, the time you failed to invest to good purpose. Each day it opens a new account for you, but if you fail to use it, you lose it.”

The story concluded with the message “time waits for no one. Yesterday is history. Tomorrow is a mystery. Today is a gift. That’s why it’s called the present.”

My message is quite similar. Time is the most valuable asset and treasure for each of us. The Internet now dominates the world. The Internet enables us to utilize time more efficiently and productively than ever before. Speed is the most admired and most important concept in today’s business world.

I’m very honored to speak here in Austin, the hometown of Michael Dell and one of the leading high-technology centers in the United States. I understand Michael Dell studied at this campus and started his business at a campus dormitory. From the Japanese perspective, too, Dell Computer is one of the most admired companies in the U.S. It is one of the best examples of the unique American concept of the venture business. The enormous growth in its stock price is a great symbol of this high-tech decade.

Today, I would like to speak on the subject “The Internet Age: Japan’s Challenge to E-Business.” My speech today will focus on four points: 1) *sogo shosha* and Mitsui; 2) where we stand now; 3) what is happening in Japan; and 4) Mitsui’s challenge to e-business.

I. SOGO SHOSHA AND MITSUI

Have you ever heard of *sogo shosha*, or Mitsui & Co? The *sogo shosha*, or general trading company, is a unique animal in the Japanese business community. Our role is somewhat similar to that of consulting firms or think tanks in the U.S. But it is completely different from those organizations. If I may use the golf swing as an example, the take-back and the moment of impact are the jobs of the consulting firm and think tank. But the *sogo shosha* is also responsible for the follow-through, the direction of the ball, and the final score. Those are much more important, because we are a results-oriented company. In other words, the *sogo shosha* has total commitment to its suppliers, manufacturers, consumers, business partners, and government. We have multiple functions, including trade transactions, investment, logistics, and finance, all over the world.

Mitsui is Japan's oldest *sogo shosha*. It was founded nearly 125 years ago, and its growth has kept pace with Japan's "miracle economy" after World War II. Mitsui's original function was trading: export, import, and offshore trade. Over the years our business has constantly evolved and changed. We have taken up new commodity lines. We have found new customers and new markets. We have moved beyond trading to investment, financing, project development, and many other new services.

Mitsui is proud of its contribution to the U.S.-Japan business relationship. In recent decades Mitsui has regularly been one of the top ten exporters of American products. Among our principal U.S. exports are GE power plants, aircraft engines, Philip Morris cigarettes, Brunswick bowling equipment, agricultural products, and a wide variety of other commodities. We have many joint ventures with American companies in Japan, such as Nippon Unisys for computers, and Exxon Mobil for oil refining, LNG project, and oil exploration. We are also engaged in a joint electric power development project in Indonesia jointly with GE and Mission Energy. We are developing an oil and gas project in Sakhalin with Marathon Oil and Shell. And we are developing LNG projects in Australia with Chevron and in Qatar with Exxon Mobil.

Mitsui is a truly global organization, with nearly 40,000 employees, 900 subsidiaries and affiliated companies, and 218 offices in 93 countries. Our annual trading transactions total \$120 billion. We have \$56 billion in total assets. Mitsui can be characterized as a multinational trading, investment, and financing company. As we look to the future, we are becoming actively involved in e-business; I will discuss this later in detail.

II. WHERE WE STAND NOW

I believe we now experience a new era of opportunity that comes only once in every 100 years. The ability to think differently from our traditional ways is the key to creating successful new ventures.

When I go back to Japan and report what is happening in the U.S., most Japanese are shocked to hear about the growing gap between Japan and the U.S. I always tell them the

words of Cisco Systems' CEO John Chambers: "The big will not beat the small, but the fast will beat the slow." And Tom Friedman's phrase in his book The Lexus and the Olive Tree: "The slow Cold War system has been replaced by a new interconnected system called globalization."

We are now living in a new era. Global society is divided into the fast world and the slow world. Even at General Electric – one of the biggest, most traditional and most admired companies – CEO Jack Welch has stated his intention to transform GE into an e-business company. He has empowered his employees by creating a new organization, "destroyyourbusiness.com." He has been called "e-Jack" since then. In this Internet age, every old business model is being destroyed. Other aspects of life are being transformed as well. We are already becoming accustomed to B2B and B2C business. Even "e-democracy" through Internet voting may become common in the future. Truly we are facing "e-to-e," everybody to everybody, so-called "e-life" in the 21st century. Austin will likely be one of the creative centers of this continuing innovation.

III. WHAT IS HAPPENING IN JAPAN

1) U.S.'s New Internet Riches, Japan's Consulting Issues

In the U.S., abundant new Internet riches were born last year. The number of millionaires doubled, reaching a total of more than 9 million. The Web has changed everything. The digital divide exists not only in society generally, but also within industries and even within companies. The competitive gap is getting wider. At the end of last year, out of the top 25 U.S. companies in terms of market capitalization, 13 companies – more than half – were high-tech or telecom companies. The market is now putting a premium value on knowledge capital. In the U.S., the old economy has been replaced by the new economy. There is no doubt about that.

Let me give you an idea of what is happening in Japan these days. Japanese firms are rushing to get advice from American consulting companies. The top 5 consulting topics are: (1) how to start up an e-business and develop an Internet strategy, (2) how to diversify after the coming deregulation of the electric utility industry, (3) how to modernize government work by information technologies, (4) environmental issues, and (5) countermeasures to respond to the declining birth rate and declining population in Japan. These are the symbolic key issues Japan is facing now. Among the world's leading nations, Japan was the best performer in the 1980s. But Japan was the worst performer in the 1990s.

By contrast, the U.S. economy has been extremely successful in the last ten years. Improvement in productivity has been a core engine of U.S. economic growth. Let us think about what productivity means in our world today. Productivity means change. Willingness to change is the most powerful motivation for business leaders. Crisis and opportunity could be the trigger for creating change. Japan is now facing such a

situation. Our traditional business model is in crisis, and we have new opportunities to change.

2) Japan's Venture Spirit

Despite Japan's problems, we have still many strengths. As MIT's Professor Lester Thurow has said, the Japanese people are the slowest in decision making but fastest in implementation. My own view is that Japan is very much a venture-oriented country. After World War II many venture companies were born in Japan. Those include Sony, Matsushita, Toyota, Honda, and Kyocera. Many newer ventures followed in later years, including Nintendo, Sega, Orix, and Secom.

We did not have many remarkable new venture businesses in the years following the collapse of the bubble economy. But recently some amazing new venture companies have been created. Softbank is famous throughout the world. Others include Hikari Tsushin (a cellular phone company), Yahoo Japan, and Rakuten Ichiba (a virtual Internet mall). NTT's sister company, NTT DoCoMo, was founded just 8 years ago to develop the cellular phone business. NTT DoCoMo is now the number one company in Japan in terms of market value. It is followed by Sony, Softbank, Fujitsu, NTT Data, Hikari Tsushin, Oracle, and Yahoo. These are mostly Internet and high-tech companies. So we are seeing the same trend in Japan as in the U.S.

3) Japanese Style Internet: Convenience Store

Japan is also developing its own unique ways of Internet business, based on convenience stores and cellular phones. In fact, convenience stores and cell phones will be the important triggers to expand Internet business in Japan.

There are about 40,000 convenience stores in Japan, such as 7-Eleven, Lawson, Family Mart, Cycle K, and Thanks. They are open 24 hours a day, 7 days a week. Many are located nearby train and subway stations. Can you imagine 40,000 convenience stores? By comparison, Japan has approximately 5,000 train and subway stations, 15,000 retail bank branches, 25,000 post offices, and 50,000 gas stations. We can find convenience stores on almost every corner of the street.

In recent years, convenience stores have become important centers of Japan's daily cultural life. Why do they have such influence? Following the terrible Kobe earthquake in 1995, convenience stores kept up a continuous supply of food and other daily necessities to the victims. They proved to be a lifeline in that emergency situation. Their feature is an adaptation of supply-chain management, or just-in-time management of inventory, delivery, and knowing customers' demands.

Since then, many industries and government agencies have recognized the importance and quick responsiveness of convenience stores. In the near future convenience stores will provide a growing range of services. In addition to retail shopping and ticketing

services, they will offer banking, and also government services such as passport applications, tax filing, and even voting.

Because of their central place in Japanese life, it is natural that convenience stores will play an important role in the expansion of Internet services. They are expected to become a logistics platform, serving as centers for B2C e-commerce. Already customers can use computer terminals in convenience stores to order concert tickets, make travel reservations, and buy books over the Internet. Their purchases are delivered to the convenience stores for easy pick-up. At one Japanese book web site, 93% of customers pick up their books at the convenience store instead of having them delivered to their home. I expect that the linkage between convenience stores and the Internet will become increasingly popular in Japan. It may interest you to know that 7-Eleven will establish a similar system in the U.S., starting with 250 stores in the Dallas-Fort Worth area this summer.

4) i-Mode Cell Phone

Mobile phones are also very popular in Japan, especially among the younger generation. There are now more than 50 million mobile cell phones. This is greater than the number of traditional phones. The newest trend is “i-mode”, which connects cell phones to servers, e-mail, and the Internet. This linkage of Internet functions and cell phones is Japan’s newest innovation. Almost 5 million cell phones now have Internet access. This number is expected to double by the end of this year. The Japanese government recently decided to donate “i-mode” cell phones to the many delegations attending this summer’s G-8 Summit in Okinawa. This could be a great opportunity to demonstrate that Japan is getting to be an advanced Internet country.

Another sign of Japan’s innovativeness and capacity for high-tech venture business is patent approvals. Out of the ten companies that received the most patents in the world last year, six were Japanese companies, including Sony, Fujitsu, Canon, and Toshiba. Only three were American companies: IBM, Motorola, and Lucent Technologies. This is definitely proof that Japan is a very advanced country in the field of technology.

IV. MITSUI’S CHALLENGE TO E-BUSINESS

1) Mitsui’s Change

As I mentioned, Mitsui is one of the oldest and most traditional companies in Japan. But like all such companies, three key management concepts – lifetime employment, the seniority system, and the *keiretsu* group – are now gradually being destroyed by the new economy.

Mitsui is one of the most popular places of employment for new college graduates in Japan. Every year about 7,000 new graduates apply for jobs at Mitsui. Only 100 are accepted. But last year, approximately 20% of those accepted for employment declined

Mitsui's job offer. Can you imagine where they went instead? They went to American companies in Japan, such as Merrill Lynch, Goldman Sachs, Andersen Consulting, Citigroup, etc. This is an example of the changes occurring in Japan. Deregulation is definitely proceeding. The young generation no longer believes in the concept of lifetime employment. Another example is the recent merger of Sakura Bank (formerly Mitsui Bank) and Sumitomo Bank, a combination that cuts across traditional *keiretsu* lines.

Japan is gradually changing into a "new economy", and e-business is gradually moving ahead in the Japanese market. Where it is popular in the U.S., it will be popular in Japan a few years later. Internet transactions – the so-called "e-marketplace" – will be a key threat to Mitsui's business, because our traditional earning resources have been commissions on trades. Dell Computer's business concept of "Be Direct" in the e-marketplace could be the trigger for disintermediation that threatens our middleman function.

2) Mitsui's New E-Business Ventures

To cope with this challenge, Mitsui is thinking about how to achieve re-intermediation. Mitsui itself can provide e-marketplace functions through our established brand value, our business know-how in such areas as logistics, credit, and finance, and our extensive international network. In fact, we have already begun many new e-business ventures to establish our presence in the Internet world.

1. More than two years ago Mitsui started AOL-Japan through a joint venture with America Online, with the same business concept as in the U.S. This was our "kick-off" step in developing Mitsui's IT strategy.
2. In the U.S., we are equity participants in e-marketplace ventures, including e-steel.com, plasticnet, chemconnect, and e-credit.
3. We established e-steel.com Japan, a joint venture with e-steel.com of the U.S., for steel product transactions through the Internet. This venture will use exactly the same business model in Japan as e-steel uses in the U.S.
4. In the B2C area, we sell rice on the Internet through our affiliated company Mitsui Bussan Rice.
5. We are operating Curio City, Japan's second largest virtual shopping mall on the Internet. This virtual mall already includes nearly 2,000 shops and is one of our successful B2C business models. In order to encourage employees to enhance the company's market value, we are giving them stock options. This is Mitsui's first trial case of this approach.
6. We are going to start up 7dream.com, to be engaged in e-commerce transactions; this will be a "dream team" venture with eight companies altogether, including 7-Eleven Japan, NEC, Nomura Research Institute, Sony, and Japan Travel Bureau.
7. Mitsui is also establishing an e-commerce business development fund, with an initial investment of \$100 million for the coming six months. This fund will be used to accelerate our participation in e-commerce, through equity investment, joint ventures, and our own web site.

8. We are going to start Internet banking jointly with Sakura Bank, Fujitsu, Tokyo Electric Power Company, NTT DoCoMo, and other companies.
9. We are developing an Internet-based electronic securities trading network, together with 10 other companies, including DLJ Direct, Manek Securities, Orix Securities, Goldman Sachs, and Morgan Stanley. This will be the first electronic securities trading network in Japan.
10. We recently invested, together with Softbank Finance and Mitsubishi, in a New York-based Internet venture company called Trade Card. It will provide on-line trade settlement service.
11. We are going to start another on-line settlement service company, Cybercash, jointly with Softbank.
12. In June we will start an Internet insurance company called Mitsui Direct Insurance Company. This is a Mitsui Group joint venture; our partners are Mitsui Marine and Fire Insurance Company and Sakura Bank. The new company will provide insurance price quotations and settlement over the Internet, mostly in the field of auto insurance. It will utilize the Mitsui Group's know-how in both information technology and financial technology.
13. We are establishing a new company together with 7-Eleven Japan, NEC, and Nichii to provide food and delivery service to elderly and sick people. Customers of this company, called Seven Meal Service, will be able to access 7-Eleven convenience stores through cell phones and the Internet to place orders for delivery. NEC will be responsible for creating the system, and Mitsui will arrange the logistics. This could be one of many good ways to solve Japan's future social problem – the growing elderly population – thorough Internet technology.

3) Mitsui's IT Investment Strategy

Mitsui's total outstanding investment amount in the so-called "IT" industry is about \$1 billion. This is the largest exposure among all Japanese trading companies. Our Internet ventures are based on the joint venture concept, whereby Mitsui has important roles in providing equity capital, logistics know-how, management skill, and our international network.

The ventures I have mentioned are just some examples among those already announced publicly. We have many ideas to develop more Internet ventures, both B2B and B2C. We are working to achieve our company's e-transformation, for the purpose of new business development as well as reform of our internal systems. Information technology has a central place in our corporate strategy, as we work to survive in the new Internet economy. Our objective is to create new earning resources by taking full advantage of the Internet. The concept of Internet business should be that the early bird takes everything. We are trying not to be behind, but to take a leading position in Japan's Internet market.

I believe that in order for companies to survive in the 21st century, three key factors are vital: technology, partnerships, and people. These three factors – advanced technology,

value-added global partnerships, and well trained people – will be necessary not only for companies, but also for individuals and even nations, in order to survive and be competitive. Technology changes everything, and it will continue to do so. I am confident that we have a bright future ahead if we will adapt to the opportunities.