

Japan's Manufacturers Navigate Global Shifts

By Antoine Azoulay

Japan's manufacturing industry, celebrated for its high quality and advanced technology, today faces a dynamic global landscape shaped by economic shifts, competition and evolving market demands.

Masato Oda, president of BEMAC, acknowledges the complexities introduced by the weakened Japanese yen against the U.S. dollar. "The depreciation of the yen has both positive and negative effects," Mr. Oda explains. While increased material, import and labor costs have led to inflation and higher commodity prices, the BEMAC president views the low exchange rate as an opportunity. "It has become easier for Japanese companies, including ours, to compete price-wise with Korean and Chinese companies," he says. This competitive edge is crucial for the shipbuilding industry, where global markets are highly interconnected.

The dominance of Chinese shipyards has been anticipated for over a decade, and Japanese shipyards like Onomichi Dockyard still play a significant role, accounting for about 20 percent of new orders. However, Takashi Nakabe, president of Onomichi Dockyard, highlights the looming labor shortage. "China, Korea and Japan dominate more than 90 percent of commercial shipbuilding capacity, but all face an aging problem at a similar speed," Mr. Nakabe observes. The industry's future is uncertain, with fewer young people interested in heavy industries. "I'm not

sure who is going to build vessels in the future, and this is quite a big problem," he states. Mr. Nakabe predicts increased delivery delays due to reduced building capacity and labor shortages. He emphasizes the need for the industry to acknowledge and adapt to these realities, unlike some competitors who may be in denial.

Despite the intense regional competition, Japanese firms have maintained their leadership in specialized B2B fields. Shinji Shimoda, president of Shimoda Iron Works, attributes this success to the inherent trustworthiness and reliability of Japanese companies. "Japanese firms have been able to sustain their leadership because they are very trustworthy and reliable," Mr. Shimoda states. This reputation for quality and dependability has allowed Japanese manufacturers to hold their ground in niche markets, even as competitors offer cheaper alternatives.

However, the Japanese economy's maturation and declining population pose significant challenges for businesses. Katsushi Ishida, president and CEO of JES, highlights the difficulty of growing a business solely within Japan. He sees substantial opportunities in the elevator maintenance market. "We estimate there are about 1.1 million elevators installed in Japan," Mr. Ishida notes. With current regulations requiring regular maintenance, the market is substantial but dominated by manufacturers and their affiliates.

Mr. Ishida aims to increase the market share of independent service providers to 50%, similar to the split seen outside Japan. "Currently, we service about 100,000 elevators, translating into about JPY 50 billion in sales," he says, indicating the potential for significant growth.

Digital transformation (DX), meanwhile, has progressed slowly in Japan compared to other advanced countries. Tadashi Ito, representative director and president of NTT-AT, identifies several factors hindering this transition. "Japan's business environment is very analog and based on the principle of fine-tuning," Mr. Ito explains. Additionally, the craftsmanship-based working style and rigid recruitment standards complicate the integration of digital solutions. However, Japan has reached a critical point where digitalization is no longer optional. "Many firms are now attracted to robotic process automation software, which has become popular within the industry," Mr. Ito says. The motivation behind Japan's digital transformation differs from that of the U.S., focusing more on necessity than efficiency. Despite these challenges, Mr. Ito sees the next stage as an opportunity to use technology creatively to add value to businesses.

The Japanese manufacturing industry stands at a pivotal juncture, navigating economic fluctuations, maintaining leadership in niche markets, adapting to domestic changes, embracing digital transformation and addressing labor shortages.