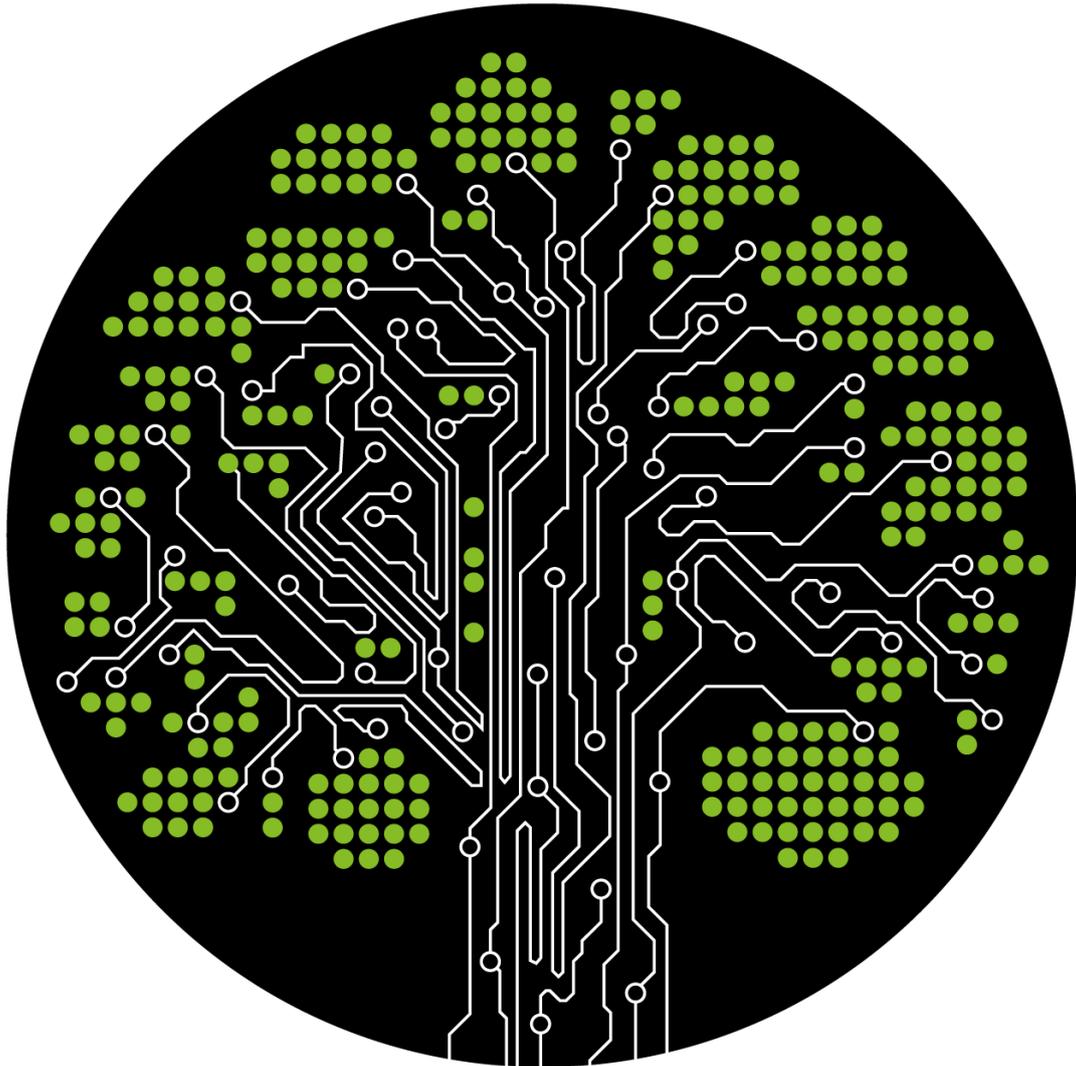


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**Redefining Corporate Strengths  
During Periods of Uncertainty**

**“In-the-Field Ecosystem” Brings out  
Fundamental Strengths**

Deloitte Tohmatsu Group



# Introduction

## Japan entering the “lost three-decades”

Rising trade tensions between the U.S. and China, the emerging digital economy, and progressing global warming – the external environment surrounding Japan has become increasingly uncertain in recent years. As it were, this is a tectonic change that brings about disruption and evolutionary selection. Amid the circumstances, are Japanese companies getting ahead of the current situation with clear visions? Are they taking leadership roles in solving challenges? The answer is that they are, unfortunately, nothing short of lagging.

It has often been said that Japanese companies are “one lap behind.” A long time ago, we were worried about the “lost decade,” which later on became a worry over the “lost two decades.” Over the course of time, we are on the cusp of entering the “lost three-decades.” We cannot just stand by fecklessly. Japanese companies do, in fact, possess unique strengths that no foreign players can think about replicating. Now is the time to take stock. By recognizing and redefining their true strengths, Japanese companies can come up with a clear sense of direction that guides them to take opportunities even in adverse circumstances. In this period of uncertainty, Japanese companies are urged to look to their underlying strengths as the key axis in presenting a clear road map to follow.

## Post-globalization, digitalization, and socialization as background factors

We should look at three trends which contribute to ever-increasing uncertainties. The first is post-globalization. Globalization based on free trade philosophy is currently being pushed back. The U.S. is advocating America-first, while European countries are experiencing a surge of populism, and the UK is preparing to leave the EU. The trade war between the U.S. and China is escalating. All these imply “fragmentation” of the world. Thus far, Japan Inc. has taken advantage of globalization and grown as a trading nation, and while it still needs to pursue the fruits of such globalization, it is now being challenged as to how effectively it can respond to this on-going fragmentation.

The second trend to note is digitalization. The emerging digital economy is creating interdependence among diverse stakeholders beyond the boundaries of nations and industries. Interestingly, the opposite dynamic is gaining momentum here vis-à-vis global fragmentation. As showcased by GAFA, Google, Apple, Facebook, and Amazon, global “platformers” who take advantage of gigantic amounts of data are gaining predominant control over the world. In this area, again, U.S., China, and European countries are taking the lead, while Japanese companies are forced to quickly establish their competitive positions in the digital economy.

The third trend is socialization. Globally, society is faced with increasingly serious social challenges. Environmental destruction brought by global warming, and marine pollution caused by plastics are just a few examples. To respond to these global challenges, international initiatives are gaining momentum. For example, the United Nations took the initiative in establishing Sustainable Development Goals, and global investors are promoting criteria for Environment, Social, and Governance investments. Taking part in the efforts to address these social challenges has become a critical factor for any corporation that seeks to continue to grow going forward.

### Rediscovering underlying strengths during a period of uncertainty

Faced with these trends of uncertainty, Japanese corporations cannot and should not drop behind. Rather, they should take initiatives in taking action. All the more, the period of uncertainty requires them to rediscover their inherent strengths and to combine these underlying strengths with their strategies.

The most visible underlying strengths attributable to Japanese companies lie in their “fields,” which have long served to their competitive advantage. “Field” here is defined as a holistic forum that covers products and services, which have been polished by highly sophisticated technologies and expertise of Japanese companies, as well as by consumers in Japan, who are known to be the most demanding in the world with a high level of criteria for quality and selection metrics. “Field” is also defined as a forum that brings together information, expertise, wealth, and talents, all of which are interconnected to bring about something like a chemical reaction. One of the core strengths in Japan’s manufacturing “field” is “approximation,” in which diverse ideas and methods are valued and incorporated into one core norm. This has been an implied wisdom inherent in Japanese companies and has been built over time by many loyal employees who possess an inquisitive mindset. From a foreign perspective, “approximation” is an obscure complication hidden in a black box. This is exactly why “approximation” plays to Japan’s strengths; a strength which cannot be replicated by others.

One of the other factors that sets the “field” in Japan apart, is consumers, who are known to be the most demanding in the world. Many consumers find value in conflicting concepts that are brought into harmony, for example, “reasonably priced yet high quality” and “a merger between Japan and the West.” Japan’s pop culture and Japanese food are gaining popularity in the world, and that can be explained by the “field” of consumption in Japan. Quality standards in Japan are nothing but an outcome of the dedication of Japan Inc. which has made persistent efforts to create value through merging conflicting and complicated concepts into value; both in manufacturing and consumption “fields.” It should be more than justified to acknowledge this as one of the strengths of Japan.

One should not, however, overlook the fact that some Japanese corporations, especially manufacturers, are sticking to traditional norms fixated on keeping everything in-house. They may be too conservative, preventing them from catching the next wave and finding new directions. What is necessary is to neither blindly believe in traditional norms of strength in the “field,” nor to neglect them as obsolete. In the context of post-globalization and digitalization, the “field” needs to be redefined and to be established as a new source of strength and growth. In this sense, Japanese corporations are tested as to whether they can break from exclusive, in-house production, even if this contributed to their success in the past.



*“Field” is defined as a holistic forum that covers products and services, which have been polished by highly sophisticated technologies and expertise of Japanese companies, as well as consumers in Japan, who are known to be the most demanding in the world with a high level of criteria for quality and selection metrics.*



*We propose “in-the-field” ecosystem that 1) promotes open competition and collaboration among many diverse players in Japan and around the world and 2) rejuvenates “field” in a new context.*

What is necessary to transform strengths in the “field” into competitive advantage? We propose a need for a new ecosystem that 1) promotes open competition and collaboration among the many diverse players in Japan and around the world and 2) a rejuvenation of “field” in a new context. Let’s give this forum a new definition, “in-the-field ecosystem,” which maintains the strengths of “field” that have been built up over time based on a relationship of trust yet engage a wide range of stakeholders from a global perspective and promote dynamic, “chemical” reactions that respond to digitalization. It is when companies revisit their unique characteristics, strengths, and *raison d’être*, as well as create an open forum, or in-the-field ecosystem, that they will surely find new competitive advantages within themselves.

We should also pay attention to socialization, one of the three trends contributing to our present uncertainty. In the context of socialization, too, forming an in-the-field ecosystem is becoming increasingly important from a strategic standpoint. Japan is an “advanced” country in terms of facing many social challenges including an aging population and other issues. In-the-field ecosystem should play a central role in addressing these challenges, as solutions call for the engagement of diverse stakeholders, including national and local governments, international organizations, and non-profit organizations.

Japan can position itself as an enormous test field for innovation if the country can capitalize on the inherent strengths in the field and bring together the wisdom and power of diverse stakeholders for finding solutions to complex social challenges. The test field is huge in that it has more than 100 million participants. Once innovations to bring about a resolution of these social challenges occur in this market, they do not just unleash ginormous potential demands in Japan but also yield opportunities for businesses to position themselves to take the lead in the global market as well. Japan’s original in-the-field ecosystem will shine globally.

In the following sections, the report makes proposals on three guiding principles that outline the path forward for Japanese corporations, with three trends, post-globalization, digitalization, and socialization, as the underlying themes of uncertainty.

# Guiding Principle 1: True Globalization

## Balancing concentration and diversification

We propose to attain “true globalization” as the first guiding principle. Corporations are required to leverage in-the-field ecosystem and balance concentration and diversification of operations at a high level. As mentioned previously, globalization and fragmentation are occurring concurrently during this period of post-globalization. Globalization continues even during this period of uncertainty, making it impossible for us to simply turn back to our home country, gazing inward. Breaking away from pursuing globalization single-mindedly, corporations now need to keep asking themselves; what is the true globalization they need to pursue?

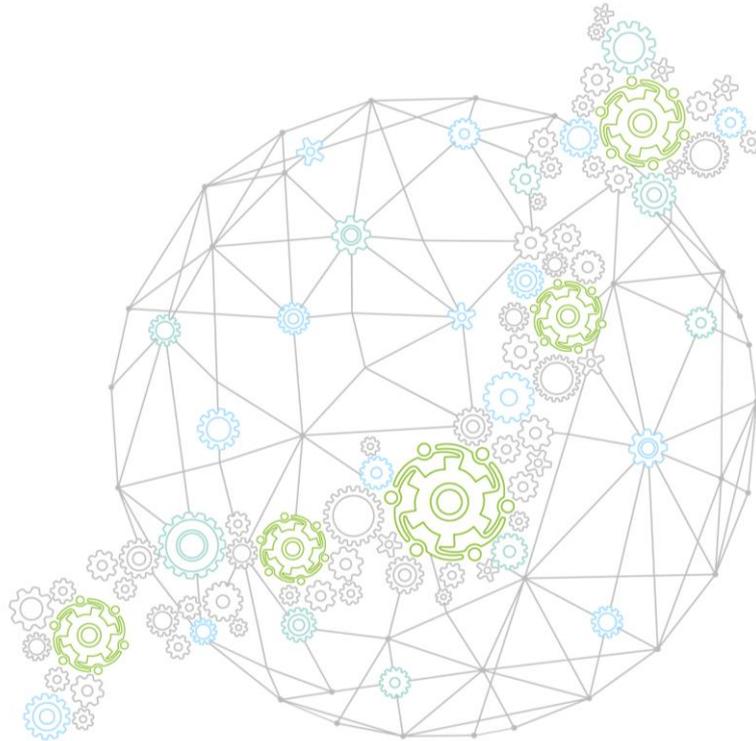
When exploring true globalization, Japanese companies have a strong foundation to rely upon, namely, their home factory (the strongest manufacturing in the world), home R&D hub (the strongest R&D hub in the world) and home market (the most demanding consumers in the world). In a way, they are concentrating the most competitive business resources in the Japanese market. In the worst-case scenario during this period of global uncertainty, in which hidden risks could break to the surface all of sudden, corporations could find themselves thrown into a trade war and, as a result, could get kicked out of important markets or suffer serious damage to their core manufacturing factories and R&D hubs. Concentration in Japan makes logical sense from an economic and security standpoint. But which part of the company should be concentrated in Japan? The decision really tests top leaders' strategic insights.

Tokyo Electron, a leading semiconductor manufacturer, is consolidating design, development, and production processes into factories in Japan, thereby integrating their home factory and home R&D hub. Combining facilities, talents, processes, and after-sale services, the company successfully and organically connects its digital technologies with the “craftsman's skill” of their employees, and that serves as their in-the-field ecosystem that provides them a competitive foundation. Tokyo Electron has put in place a structure in which techniques are passed down to loyal employees over a long period of time, based on their relationship of trust with local communities. This is a great example of how Japan's in-the-field ecosystem generates a high level of competitive value for global competition.

## Diversification while recognizing the destabilizing trend of the U.S., China, and Europe

While “concentration” gives a solid basis for businesses, corporations also need to seek out diversification of global operations, while at the same time, they need to keep their eyes on how the destabilization of the U.S., China, and Europe plays out. We propose focusing on three points for diversification;

1. Area coverage expansion: Corporations should pursue global growth opportunities by getting into emerging markets, including Asia, in order to capture the market's high rate of growth. They also need to be open for global M&As and partnerships.
2. The locally-produced and locally-consumed model: In order to minimize risks involved in trade wars, corporations are required to 1) localize businesses that blend in with local characteristics, 2) improve production and supply structures that do not go across multiple countries and regions, and 3) develop a model where production is in proximity to consumption.
3. Increased alternatives: In order to diversify risks associated with global uncertainties, corporations need to re-establish supply chains, so that they have alternative means of producing and getting materials in any situation.



*“True Globalization” is about leveraging in-the-field ecosystem and balancing concentration and diversification of operations at a high level.*

When businesses globalize through diversification, delegating authority to local subsidiaries is the key in drawing out local expertise and managing the response to local risks. On the other hand, centripetal force is also required for global management. In this sense, putting in place a solid headquarters function is a necessity, as global headquarters, whether it be in Japan or elsewhere around the world, play a central role in managing business portfolios that are agile and resilient to unexpected events. Balancing centrifugal and centripetal forces, a universal challenge for any corporation, will gain even more importance in this time of uncertainty.

Let's look at Komatsu, a leading construction machinery company, as a role model for truly globalized management. Komatsu separates core parts from other parts to balance concentration and diversification. Development and manufacturing of core parts is consolidated in Japan, but assembly of non-core parts is delegated to local markets, close to where client demands are generated, in essence, “locally produced and locally consumed.” Their sales strategies are aimed at building a long-term relationship of trust in the local countries, with a strong policy that the company never exits a market once it gets into it. Komatsu puts in place a global structure that allows optimal global production adjustment in which any production hub can supply products to any market. In this way, the company stays responsive to foreign currency fluctuations or demands. In addition, all data on production, sales, and inventory management is centrally aggregated, managed, and analyzed in Japan. Positioning their headquarters in Japan in a commanding position while balancing concentration and diversification at a high level, Komatsu demonstrate how global management should play out.

# Guiding Principle 2: The Strongest Catalyst

## Evolution of the iPhone relies on parts and materials from Japan

Rapid digitalization is bringing abrupt changes in the competition landscape, putting “platformers” at the center of the stage. GAFAs are now superpowers controlling the world while Chinese players are coming to the forefront, leaving Japanese companies “one lap behind.” Here, as the second guiding principle, we propose that Japanese companies become “the strongest catalysts.” As a catalyst is generally defined as an agent that provokes change, likewise, Japanese corporations should focus all their efforts in uniquely positioning themselves as catalysts indispensable for presenting changes through digitalization. This requires them to capitalize on their strengths and characteristics deriving from in-the-field ecosystem. In this regard, they do not necessarily have to compete head-on against mega platformers like GAFAs.

This strong catalyst can be two things. One is to become a “core supplier” who supports mega platformers behind the scene, leveraging technologies and insights gained from the “field.” The other is to become a “real platformer” itself, taking advantage of raw, highly accurate data, from the “field.”

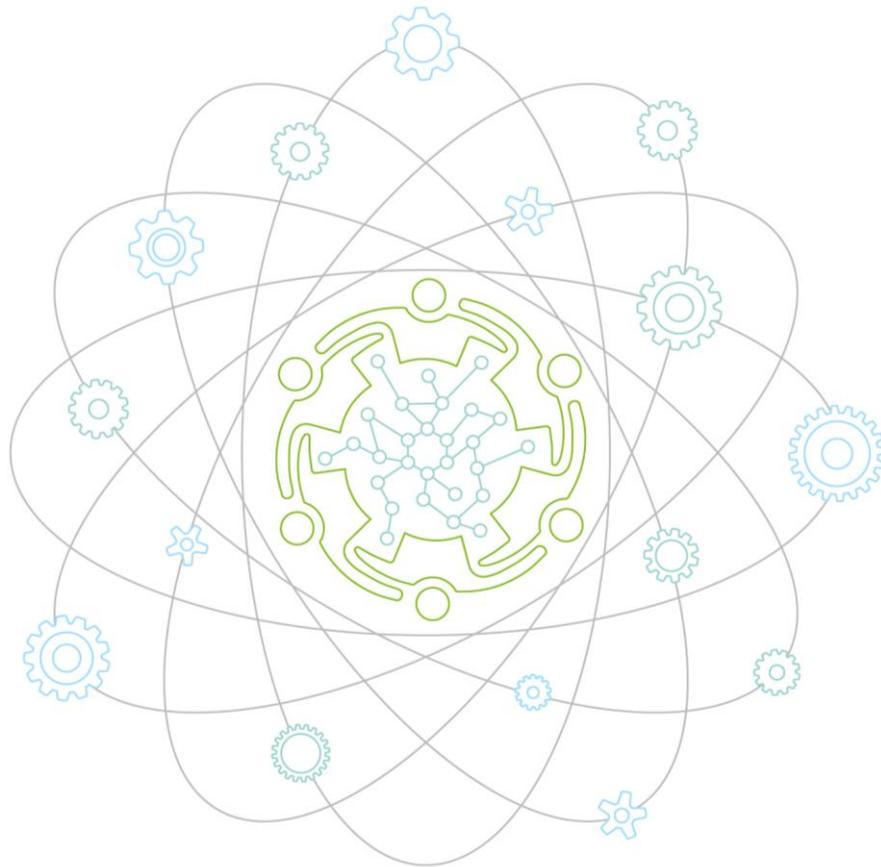
Let’s look at the core supplier first, who plays the role of “catalyst” to help GAFAs and other global platformers grow. Core suppliers co-exist and co-flourish with mega platformers. Mega platformers consume a huge amount of parts and materials in the production of devices and the development of cloud services. Apple’s iPhone has evolved into a product of high quality and high functions, thanks to parts and materials produced in Japan that work as catalysts.

Murata Manufacturing has helped iPhone with MetroCirc, multilayer circuit boards, that made it possible for the phone to gain functionality while becoming thinner. Smartphones require highly customized parts and materials that integrate hardware and software. Murata is also a global leader of a multi-layer ceramic capacitor, or MLCC, which is indispensable for the evolution of smartphones. The “approximation” makes it possible for Murata to keep its competitive advantage, leaving Chinese and Korean competitors unable to catch up. Many Japanese companies, including electronic component and material companies, have unique, leading, technologies. As core suppliers, they should take leading roles in forming in-the-field ecosystem, involving mega platformers and other suppliers. This is how they become the strongest catalysts with overwhelming competitive advantages.

## Raw data aggregated in the field which GAFAs cannot copy

Now let’s turn to “real platformers,” who become catalysts themselves to connect players in the field, within and outside of their organizations, and digitalize the field itself. These platformers are based on niche areas in proximity to the field, thus they do not necessarily compete with mega platformers. They take accurate raw data generated in the field and integrate it with the software that works within the hardware where their original strengths come from. In this sense, their strategic positioning is clearly different from mega platformers. This type of catalysts integrates software and hardware as well as creates value through combining in-the-field raw data with online virtual data. The strongest catalysts cannot be replicated, even by mega platformers.

Komatsu, which we looked at in the previous section on “true globalization,” is strengthening its unique presence as a real platformer. The construction machinery company is now offering “Smart Construction” in an effort to save labor and to automate construction, by bringing the entire process on a platform. In Smart Construction, the entire “field” is made visible, and raw data is collected by the use of hardware, such as ICT-based machineries and drones, to be shared among participating players through Komatsu’s applications. In this way, Komatsu is no longer a mere construction machinery maker. Rather, it has grown into a real platformer after they created an in-the-field ecosystem that unleashes the power of data. And it is not just about Komatsu. Many others in Japan have accumulated technologies and expertise inherent in their “fields” and created their own platforms. Whether or not corporations have the capabilities to embrace digitalization in this manner will separate the winners from the losers.



*“The Strong Catalysts” capitalize on their strengths and characteristics deriving from in-the-field ecosystem, and present changes through digitalization.*

# Guiding Principle 3: New Domestic Demands

## Leading innovation ahead of all others as an “advanced” country for social challenges

In this time of uncertainty, unexpected events around the world, a trade war, for example, present risks that directly impact the economy in Japan. While global demands continue to drive the growth of Japanese corporations, for Japanese companies to achieve sustainable growth they need to consider how to stimulate domestic demand which accounts for nearly 80% of Japan's GDP.

This understanding leads us to the third guiding principle, which is to explore “new domestic demands.” There are two types of demands to stimulate; 1) digital demands, aimed at bringing solutions to social challenges, and 2) transformation of inbound demands into outbound supplies. As argued previously, Japan is an “advanced” country in terms of social challenges which requires “social” solutions. If the country can take a lead in providing innovations to address these challenges, new domestic demands will arise accordingly. In addition, through the process of innovation, Japan can showcase “Japan-quality” to the world, which in turn will give the country opportunities to make a leap ahead into global markets.

Below are examples of three areas where Japanese corporations can bring about innovation. The key is to leverage unique characteristics inherent in the Japanese market, namely, manufacturing technologies of “approximation” as well as the most demanding consumers in the world. On top of that, companies should draw fully upon the strength of AI, robotics, and other digital technologies to take a chance going forward.

Aging population (demands related to the “silver” market): Medical and nursing care, as well as healthcare, present a huge market, due partly to a continuous undersupply of the workforce. How about making full use of digital technologies and develop infrastructure, services, and technology designed for an aging population that can be shared among users, just like other sharing services? This should solve the workforce shortage issue and create new businesses.

Declining population in rural towns (demands through rejuvenating local economies): Our proposal is to promote “smart cities” in which social infrastructures are effectively managed by the use of drones and robots. Local governments can partner with electric power companies and courier services who have extensive local networks that can be utilized for the purpose of remote-monitoring and remote-watching services.

Natural disasters (demands for construction): With earthquakes, heavy rain, and typhoons, 2018 highlighted the reality that Japan is a country of natural disasters. Given significant damages brought by natural disasters, there should be tremendous demands for construction and infrastructure maintenance, including renovations to houses which have yet to comply with the quake-resistance standards, and for measures to prevent landslides. To exemplify, some recent earthquake studies implement the power of AI.

*“New domestic demands” facilitate competitions and collaborations.  
In-the-field ecosystem plays an important role there.*

Regardless of which areas we are working on, the key word again is in-the-field ecosystem. Solving social challenges inevitably involves diverse stakeholders. We need to create a new ecosystem in which all participants, including governments, share data from a wide range of areas to pursue both solutions to challenges and growth of businesses. Of course, all the players are required to probe their own strengths that come from their respective fields, to leverage the power of digital technologies, and to collaborate beyond the boundaries of industries. Creating open and energetic in-the-field ecosystem, where a diversity of wisdom and relationships are merged for the purpose of a better society, leads to generating new demands, creates digital investments and other opportunities, and presents growth opportunities for Japanese corporations going forward.

### Transformation of inbound demands into outbound supplies

There is potentially a tremendous level of demand in transforming inbound demands into outbound supplies, reflecting the dramatically increasing number of inbound foreign visitors. Anticipating the Tokyo Olympics and Paralympics, a total 120 million foreigners are projected to visit Japan in the three years leading up to 2020, which is equivalent to the total population of Japan. It is as if a potential market of foreigners as big as the domestic market exists outside of the country. If companies can capture the recurring demands of those visitors after their trips, as well as inbound demands while they are in the country, they can surely stimulate new demand. This is the “transformation of inbound demands into outbound supply.” Recurring demands from foreigners who experienced good food and high-quality products and services during their stay in Japan are in a larger sense, extending domestic demands. Taking advantage of such demands from foreigners, Japanese corporations should expand the domestic market beyond the physical boundaries, and that should open new possibilities for domestic demand.

Japanese companies seem to be successful in identifying and capturing such “expanded” demand in recent years. One of the leading examples is “Merries,” paper diapers produced by Kao. The company displays the strengths of the “field,” satisfying conflicting demands of “breathability” and “rare-leakage.” The product is the outcome of demands of the most demanding consumer in Japan, representing “Japan-quality.” This is why the diaper has become one of the shopping binge targets of Chinese people who have high regard for Japanese quality. There are potentially many more such inbound foreigners who are impressed by Japan-quality. In fact, we are witnessing new demands created in Asia and other countries in the areas of food, household goods, and cosmetics. ‘I want to eat Japanese food back home because I enjoyed it in Japan,’ or, ‘I want to buy the same lotion that I found in Japan,’ etc. - this is how demands should come into existence. Now it is all about building cross-border online sales platform to cater to such demands after the actual visits to Japan.

Japan-quality has been polished by the most demanding consumers, and foreign consumers who are impressed by that will contribute to broadening the base of the in-the-field ecosystem to Japan’s advantage.

### Three guiding principle as a compass in displaying fundamental powers

In the midst of increasing uncertainty, with post-globalization, digitalization, and socialization as the background, Japanese companies should avoid becoming introverted for fear of risks. Rather, they should see this as an opportunity. Reshaping Japan’s inherent strengths in the field into a new “in-the-field ecosystem” in line with the trend and context of changes as well as thinking through strategies to capitalize on such strengths – these are the keys for the path to making a leap in the midst of this uncertainty. Three guiding principles - true globalization, the strongest catalysts, and new domestic demands - will surely shed some light on the path forward.

The key for success, regardless of which guiding principles we follow, is employee talent, which is the most valuable management resource. When asked “how can we achieve the best outcome during a period of uncertainty,” Jim Collins, a business scholar who is known as the author of “Visionary Company,” answered “talent.” He meant that companies can weather through any hardship so long as they have the best talent. Truly, it is talented people who have loyalty to their companies and support in-the-field ecosystem. As a country with scarce natural resources, talented employees are all the more important. Highly capable and inspired employees are the drivers for the in-the-field ecosystem. In this sense, continuous investment in people, from a long-term point of view, continues to be an underling proposition for sustainable growth of any Japanese company.

Corporate leaders now must redefine their companies’ inherent strengths and present their fundamental power – in this way, we can see 2019 as the starting point for the leap forward.

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