

## **Shosha: Road Map for Future Development**

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(full text)

### **Introduction**

The Japanese “shosha” – Japanese Trading Companies – have played a major role in the phenomenal growth of the Japanese economy. Japan’s shosha are known for their distinctively diverse businesses, making massive investments in natural resources and also dealing in many other areas like food, autos, and electric power. Throughout the century, shosha have secured raw material import inputs and have marketed and manufactured high value-added exports of the Japanese economic machine. Shosha have contributed to global economy as well. It was often said that shosha were the driving force behind Japan’s global economic effort and an integral part of the Japanese economic miracle.

However, once known as the “epitome of the Japanese economy”, shosha have somehow lost its role in the Japanese economy as the circumstances changed.

The twenty-first century is already here – along with its global interdependent economy. The world is in the middle of an important change. After 2008 recession, economic growth is more and more moving toward developing economies. How will the shosha respond and adapt to these new economic realities? Does the shosha have a future? The answer is “Yes”, but some changes are necessary if the shosha are to survive in this century.

Equipped with a variety of capabilities for a variety of functions, their global network, and economy of scale, shosha can play very important role in the further development of not only Japan but the whole world. But for that it will have to go through some changes and also adopt and apply some new strategies.

### **Road Map for Future Development: Re-innovating and Re-engineering Itself for Bigger Roles in Global Market**

21st century has already proved to be an age of mega competition in which reform calls for counter-reform. New ideas and new business models are emerging and they are getting successful as well. In the tech-world, newer models are coming out as if there is a flow of innovation. These newer models retain features of previous models, but include enhancements in functionality and efficiency.

Also increasing is the fear of crisis as crises are more frequent in the world now. Whether it is directly related to the economy, like Lehman shock (subprime loan) or indirectly, like terrorist attacks (world trade center attack), or political turmoil like Ukraine, business world is sure to suffer from these events and accidents.

Effects of these problems are not confined to any specific business sector. As business world is evolving as a big global value chain due to globalization, every part of the chain is affected by these events. So, as a big business entity, shosha cannot separate itself. Worsening of problems related to supply of natural resources, energy, and food as well as global environmental problems have also come to fore front as challenge and threat to human civilization itself.

Faster reaction to the changes in the market condition will be really important in the future. More innovation, high value added products and services, highly capable employees, and market competitiveness will be needed in order for shosha to grow. So, to remain in the business world, retain the market share, grow continuously, and serve in the growth of Japanese as well as global economy, shosha need to take care of each of the aforementioned elements.

In this scenario, I would like to suggest four factors that will be important for future growth and more important role in global economy.

**Fig. 1 Factors required for global growth**



Source: author

## **1. Competitive Edge: Innovation as a Keyword**

As globalization is progressing, new opportunities are being found. It has also made business world more and more competitive. To keep holding on the market, every company needs to have a competitive edge over its competitors. It is true with shosha as well. As world is shrinking because of development in Information Technology (IT) and transport sector, any company can have impact of global scale if it can come up with new idea and /or innovation. A good example of this is smart phone technology and Facebook.

Accelerating the process of innovation itself through the technology is also important. As the CEO of Cisco system, John Chambers once said “it's not the big that beat the small, but the fast that beat the slow”. This one quotation summarizes the entire picture of today’s fast moving business world, where innovation is the keyword. There are three different aspects related to innovation.

### **1.1 Innovation Prizes**

Shosha should invest significant amount of their resources on innovation. And it should also invest in promoting innovative ideas from individuals. Big institutions have better human resources that qualify them to deal with the problems of innovation. But it shouldn't mean that smaller groups cannot contribute. In May 2014, Google announced a \$1 million prize in “Little Box Challenge” which aims to create smaller and cheaper solar power inverter. Their idea is to encourage many groups to spend a hundred thousand dollars on trying to win the prize. The cumulative amount of capital that will be spent on trying to win the prize will be much greater than the prize money. Shosha can also use this model to accelerate innovation. Providing the smaller groups with financial incentives will not only encourage those unexploited talent pools, but also, shosha can have competitive edge over other companies with/for new technologies. And these new technologies can be the game changer.

This has three fold effects. First, it mobilizes larger amount of capital and more talent pool with smaller amount of prize. Second, if the new innovation is indeed useful, it will be a shining armor in the portfolio of shosha. Third, it will enhance the role of shosha in the world economy and development.

### **1.2 Reverse Business Innovation**

Shosha should be concentrating in reverse innovation as well. If we look at innovation paradigm, innovation has happened in developed countries. New products are made in industrialized countries and then are sold to developing countries. Reverse innovation is opposite of this process. Nowadays,

many multinational companies are engaged in this process. One good example is Nestle, a consumer good giant, which is converting itself as a Health and Wellness Company. It made a low-fat noodle called Maggie in India and Pakistan. It not only created a huge market in countries like India, Pakistan and Nepal but also in developed countries. A cheaper and affordable car, Nano, made by Tata Motors Limited, India, which costs only 2000 USD, is another good example.

Important point here is the process that has begun in developing countries. The opportunity that developing countries provide to multinational companies to innovate according to the necessity of their market makes these countries a holy ground of innovation. And this innovation is creating new markets in developed countries as well.

Shosha should be aware of this opportunity and make a move to benefit from it. The recession of 2008/ 09 has fundamentally reset this world. Growth has shifted from developed countries to developing countries. Shosha should make its strategy according to this trend. Future growth of world economy will be based on the emerging economy and reverse innovation will be oxygen for this.

Different aspect of this phenomenon will be discussed in the **Market research and development** section.

### **1.3 Business Model Innovation**

Apple is a good example of business model innovation. By creating the iPod and associating it with iTunes, an online music download service, Apple introduced a radical innovation of its business model. Rather than just growing by simply bringing innovative new hardware to the market, Apple transformed its business model to encompass an ongoing relationship with its customers. In this way, Apple expanded the locus of its innovation from the product space to the business model — and its profit and stock price have reflected that successful business model innovation.

Shosha also should think about this. Adding a new dimension to already existing business may help in growth and give competitive edge. To remain successful in this competitive environment, shosha will need to scrutinize their business model on a regular basis and redefine it, if necessary.

## **2. Creating Value and Benefits**

Creating value is the essence of any business. Productivity is a part of value creation. As shosha moves in to various kinds of business ventures, it should strive to create a unique value for itself which will not be easy for others to copy. While creation of value might take a shape of creation of new businesses, creating new value out of already existing business is also equally important. As

renowned economist Michael Porter puts it, "Business should be unique, not the best". Thinking out of box is necessary for that.

Value isn't some vague concept. Value is simply being of service. Something has value as long as it is able to serve. In this sense, value is the potential to serve. It is quintessential for long term health and success of business. Exploring the untouched and unexploited or little exploited sector and creating business out of it is really important.

Business model innovation we talked in first section is also a good example of value creation.

## **2.1 Shared Value**

Creation of value, however, shouldn't be limited to business, but for broad social purpose. As problems like food, environment, water resources, and energy are coming in the fore-front; these problems have created immense business opportunity as well. However, traditional way of doing business might not be helpful. Just monetary benefits shouldn't be the motive. Shosha should design products and services to address societal needs like environmental impact, safety and health.

Adding the social dimension to their value proposition, shosha can not only contribute to the society but also can design a more sustainable business model.

## **2.2 Not Just Business: Think About World Peace**

Ongoing conflict in many parts of world is a major reason for slow economic growth. Peace will bring not only political stability, but also new opportunity for business in many parts of the world. Shosha should try to bring peace in many parts of the world which have been infested by the continuous violence. Mainly Africa is showing signs of economic development even after facing many problems. If Japanese shosha can help to bring peace in these regions, it might open new gates of opportunities. Though it might sound out of box job for shosha, by taking these kinds of actions, it will not only help to bring stability in those regions, but also open new avenues of business and trade. It will also help to increase income of people in those regions.

Finding new opportunities, opening up new threshold, exploring untouched areas, and innovation is the key to creating value.

Through overall value creation, not only shosha but its entire customer will also get benefits. This will surely help shosha to increase its trustworthiness and make good image. Creation of value will offer new chances for differentiation, growth, and innovation. For the significant role in the

competitive business world of present time, shosha should be engaged in creation of value with business practices.

### **3. Market Research and Development**

Japanese shosha are present in many big markets in the world. However, the potential of many markets has not been fully utilized. So shosha should search for such markets and invest to develop such markets.

#### **3.1 Penetrating New Markets**

Amid the dynamic changes in the global economy, the emerging markets led by China and other parts of Asia outside Japan are expected to continue playing the main role in world economic growth, given their diversity and high growth rates. Africa is also emerging as promising market for future. It is estimated that 1 billion people will move to middle class in Africa by 2050. One can imagine the vastness of the opportunity that will be available therein. Accepting the significance of the African market, developing as well as developed countries are moving inroads of Africa. Japanese shosha shouldn't be left behind.

The small markets should also get opportunity to develop and shosha can help in the development of resources available there. Countries like Nepal cannot be considered as big markets, but availability of natural resources makes them important. For example, Nepal is second richest country for inland water resources after Brazil. Potential of hydropower in this small country is immense. Theoretical hydropower potential of this country is estimated to be 83,000 megawatts and technically and economically viable potential is 40,000 megawatts. And nature itself had made it easier for hydropower generation in Nepal as Nepal is a mountainous country with natural slopes that are important for hydro electricity generation.

Question may arise: will it be a good decision investing in small market like Nepal? It might sound unattractive if one looks only at Nepal. But one should not forget that heavyweights, China and India, are neighbors of Nepal. And as these countries are developing swiftly, one can imagine the amount of power these country will need in near future. And if we add to that the growing consciousness about the hazards of nuclear power, hydropower will surely be a big investment opportunity in this part of the world. This will definitely put Nepal in center of action. Japanese shosha should consider the potential of this small country in perspective of two giants standing beside Nepal. This certainly is a good business opportunity, if not better. And investing in Nepal will be helpful in the process of the development of country itself. Again Nepal is in the middle of two big countries whose massive market size is attracting the attention of whole world. Land of Nepal can be used as production

zones for consumers of these evolving giant nations.

Nepal is just an example. There are other countries in the world which by size is not a big market. But availability of natural resources and geographical location of these nations make them special. With the resources shosha hold, it can definitely make difference in the development process of these countries. Shosha should look for these kinds of opportunities that had not been well exploited so far. In that way, shosha will also be helping in creation of new market for different products and services. As the income level increases in these countries, consumption will also increase.

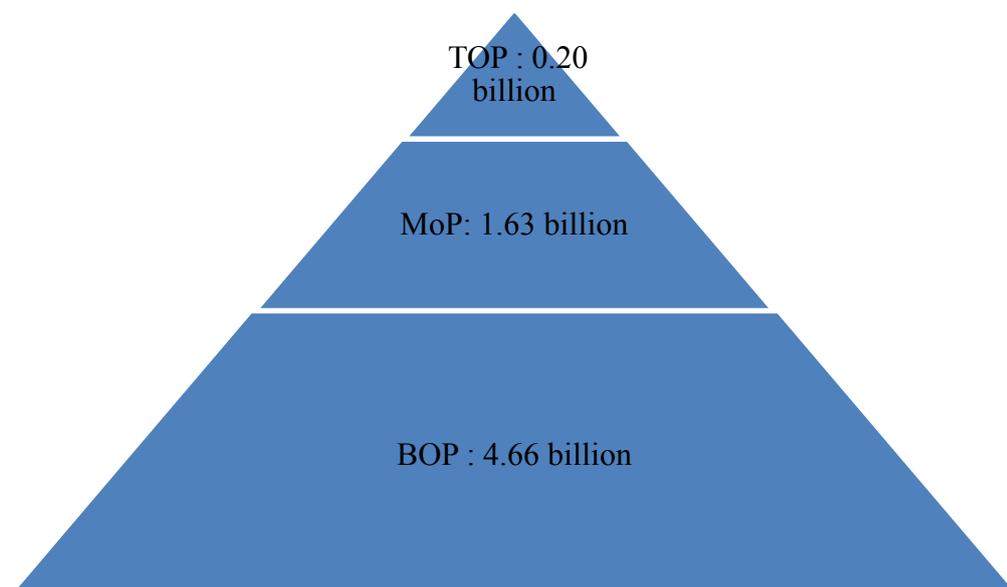
### 3.2 Turning Non-consumers into Consumers: BOP Business

World's biggest multinationals have so far served only the rich consumers. But largest number of people who are often categorized as poor are still not coming in to their business radar. And thus multinational companies are missing a huge business opportunity.

When a multinational company moves into an emerging market they generally look for small consumer base that looks similar to the consumer back in their country like America or Western Europe or Japan. That means namely upper class and middle class. But the bulk of opportunity lies in the majority of those non-consumers.

Bottom of pyramid business or popularly known as BOP business holds a great challenge and opportunity as well. This concept was made popular by CK Prahalad and Stuart L. Hart. It is time for shosha to look its global strategy through the lens of inclusive capitalism. 4.7 billion People and 5 trillion USD is a huge market opportunity (Watanabe et al, 2012).

**Fig. 2 Bottom of Pyramid population structure**



Source: Watanabe et al, 2012

How shosha can turn non-consumers into consumers is a significant opportunity for shosha. Here, the innovation we talked in section 1 will be helpful. The products targeted for high and middle income class will not be useful for the 4.7 billion consumers at the bottom of the pyramid. To meet their necessity, shosha will need to innovate accordingly and also build new business model. So this will help shosha in three fold. First, it will be test of shosha's capability to innovate according to various needs of diversified market. (Acquiring this capability will be biggest asset for shosha). Second, BOP business holds such a huge potential that in future it will certainly help to increase the transaction and profit as well. Third, by believing in the inclusive economy and serving the consumers at bottom of economic layer, shosha will help to bring these poor consumers in to the main frame economics that had been so far left for charity and governments to take care of. This will be a great change and shosha can play the role of the main actor behind this change. Needless to say, it will help in reducing the poverty.

#### **4. Broad Vision on Human Resources**

While targeting all those factors that we have so far discussed, one important factor is required to materialize those targets: capable human resources.

Whether small business or large conglomerate, human resources play an essential role in developing a company's strategy. A renowned economist Michael Porter has argued that strategy is equally important as operational efficiency. In the late 1980s and 1990s, Japan demonstrated in a number of industries that they could produce at low cost and yet raise quality. Their success seemed to owe not to brilliantly thought-out strategies but was more the result of good execution at the process level, using lean production, total quality management, and supply chain concepts. The Japanese success in the 1980s was largely underpinned by being ahead of rivals in operational effectiveness. This was also the reason of stagnation of the economy after 1990s. So shosha will need the talent pool that can make better strategy for the further growth.

The uncertain external business environment presents risks for shosha. But it presents new business opportunities as well. As shosha will move to big projects with high risk and high return, importance of capable team of employee become more crucial and conspicuous. A capable team of managers or workers can understand potential risks and avert it and also turn risks in to business chances. So employees with capability to manage the risk and generate the business will be vital for shosha.

##### **4.1 Think Global Act Local**

As the presence of shosha is global, the requirement of human resources for these organizations will be vivid. Operating business in America and India with the same strategy is not a good idea. They are different countries with different cultural and traditional background. So to be successful in these countries, shosha will need people who understand the requirement of these different markets. And who, else than a native, can understand the uniqueness of local markets. So shosha should employ the capable individuals from local markets.

As the competition becomes tough, employees of shosha should be able to work with creative mind set and act as entrepreneur themselves.

#### **4.2 Targeting the Talent**

Shosha must shift focus while hiring the new employees, not just the new graduates but also specialists and creative professionals. They should create conducive climate for making most out of these talents. Today's shosha workers are generalists who are capable of great versatility. So shosha should make such a working environment in which generalists and specialists can work together. And this should be developed as a new corporate culture.

Any team for new project should include both generalists and specialists. And teams should be treated as autonomous unit having enough authority to operate on their own. For the remuneration, specialists should be rated based on the results.

New generations of workers with unique capabilities are very ambitious. They don't hesitate to take on challenges but they also don't hesitate to search for better options if they are not given their dues. So shosha should have policies for retaining the talented worker like remunerations and/or promotion which will address the self-fulfillment and growth of these workers.

The future need will be human resources who have capabilities to combine disparate elements into something new without being constrained by existing frameworks and turn it into actual business.

#### **Conclusion**

As Japan is trying to break away from the stagnation of economy, shosha have unique opportunity to reclaim its role as driving force of Japanese economic growth. But opportunities are not limited only to that. Because of the globalization spree of 21st century, shosha have boundless opportunities to grow its business and also to contribute to the global economic growth. However, 21st century has brought not only opportunities but challenges as well. To face those challenges and to convert them into opportunities to flourish, shosha need to revolutionize itself. And, it won't be that difficult for

Japanese shosha as “kaizen” (continuous improvement) is and has always been the soul of Japanese companies. Most of the Japanese companies including shosha have incessantly aspired to improvise itself in the course of its evolution.

As new era requires new ideas, shosha should try to re-innovate itself and move toward becoming next generation shosha. And to do that, shosha will need to act on various elements. As described above, acquiring innovative capability to remain competitive business world is of paramount importance.

Importance of developing economy in today’s world is crystal clear. After China and India, now Africa is attracting the companies from developed countries for its growth potential. Shosha should not fall behind to mobilize its resources to help in the development of this continent and benefit from it as well. But shosha should also look out for hidden opportunities that have not come to the fore front of attention. Be it utilizing the natural resources available in small country like Nepal or serving the underserved people of developing countries, shosha should broaden its horizons.

And all these elements are not separate from each other. Value creation is related to innovation. To serve the BOP market, shosha will need new business models.

Last but not the least, shosha will need to improvise its policy on human resources. All the actions mentioned above that shosha need to take, will not materialize without capable and motivated workers. So attracting energetic, dynamic and talented employees and giving them better environment to work is necessary.

With the unique capability to reinvent its role, shosha has sailed across the tides of change in the business world in different periods of time and have been able to hold its position in global supply chain. It will continue to do the same in the future as well, but of course, with a new and more significant role.

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