

ON FACTORS IN DOMAIN CHANGE FOR BUSINESS SUCCESSION- A CONSIDERATION FROM A STUDY ON A CONSTRUCTION COMPANY IN KOCHI-

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ABSTRACT: Business succession is crucial for an enterprise's sustainability, for which domain change/expansion is sometimes required. The case explores how a construction company changed/expanded their business domain, and how it made possible to start a tea business, with analyses on factors as well as their business background. Kunitomo Shoji K.K., that has been doing a construction business since 1971, is located in a mountainous area, and started a tea business, under the recession of construction industry, and also explores "Yama-gyo" business. This paper, based on a series of research works on long-standing companies, discusses how it became possible

KEYWORDS: Sustainability, Business succession, Domain change

1. INTRODUCTION

The database of The Teikoku Databank holds some 1.3 million companies outline information. (Maekawa and Suekane, 2011) Based on this database, the average life span of companies excluding temples/shrines, schools and medical organizations are 40.5 years (The Teikoku Databank, 2009). As new companies established and existing companies continue and grow their business, this average goes up. On the other hand, The Nikkei Business magazine reported that the average life span of companies is 30 years (The Nikkei Business, 2009). Also, the number of bankruptcy in 2010 was 11,658 based on The Teikoku Databank (The Teikoku Databank, 2009), which is some 1,000 per month. It can be said, as far as these data are concerned, continuation/growth of company is difficult. On the other hand, there are many long standing companies in Japan despite the above-mentioned severe data.

They are;

More than 100 years:	20,304
More than 200 years:	1,241
More than 300 years:	582
More than 400 years:	154
More than 500 years:	34

Data on the average life span of companies and the number of bankruptcy tell that continuation of company is very difficult. We should, however, note that there are many long standing companies that survived for years despite of various kinds of difficulties such as changes of inner/outer environment, issues in organization and so forth. For example, suppose a company with 300- year history, which was the time of Tokugawa Ienobu, the 6th Shogun. Since then, there were so many waves in political, economic and social changes such as Meiji Revolution, WW I , WW II 、 Oil shocks, the recent Lehman shock gave huge influences to the company

operation and management. Long standing companies have survived anyway, and therefore those companies have carried over a lot of wisdom and secrets to next generation management.

The case in this paper is not a company with hundreds of history, but the company is very successful in continuing the business with a change and expansion of business domain, despite huge environmental changes happened in the past 20 years of time. There must be various secrets for business continuation, but there can be found lots of learning from this case in terms of business strategy the company has been taking.

2. Factors of Long standing Companies

A research group, to which the author belongs, for long standing companies conducted a quantitative research in order to identify factors of long standing for companies with more than 300-year history. When the research was conducted, the universe was 393 companies, and 74 questionnaires were collected, which was 20% of the universe. This low redemption rate may have some statistical bias, but it could be said that there might be lots of learning. With the factor analysis taken from the 30 questions with 5-point scale, 7 key factors were identified.

The following is the factors with % contribution:

- 1) Networking and supply-chain oriented: 9.3%
- 2) Modernization oriented: 8.4%
- 3) Enhancing own core competence oriented: 7.7%
- 4) Keeping own tradition oriented: 7.6%
- 5) Thorough customer respect oriented: 7.6%
- 6) The founder's instruction oriented: 7.2%
- 7) Keeping the original area oriented: 6.6%

With the varimax rotation, however, the sum of top 7 factors in terms of contribution ratios was 54.4% only, ranging from 9.3% to 6.6% from the biggest one to the smallest one among the 7. There found no major factors. Quite often, the sum of the

top 3-4 factors with the factor analysis give us 30-40% or sometimes 50% in terms of the contribution ratio, and the biggest factor would be 20-30%. The case indicates that there are several but not so strong factors in identifying the conditions for long standing.

It is interesting to know that there are some questions in the questionnaire that have low standard deviation and some with high standard deviation. (SD hereafter)

This simple analysis with SD score rank grouping indicates that there are kinds of common views and various views in identifying conditions for long standing. The statements in the low SD score group can be considered as "must" conditions for long standing. On the other hand, statements with high SD score group can then be various views among long standing companies in identifying the conditions for long standing, which is also verified with the factor analysis. It is worthwhile to note the statements grouped in low SD scores e.g., "must" conditions. They are:

- We try to be sensitive to social and economic changes.
- We are eager to succeed and brush-up our own technology/services.
- We treasure our resources such as location, materials, invention, and discovery etc. from the time the business was started.
- We treasure our specialty and originality in our own business operation systems and products/services.
- We are always trying to find new customers as well as new channels.
- We think that continuation of business is much more important than expansion.
- We treasure our brand imagery and reliability featured in the brand.
- We try our customers' voice to reach our top management.

- We believe that prompt actions when complaints come are crucial to maintain the business.

These findings indicate that there are various factors for business succession and wisdom and secrets fostered to-date among long standing companies.

3. A Case of A Construction Company in Kochi Prefecture

3-1. Kunitomo Shoji and the industry

A case in this paper is on a construction company based in Ino area in Kochi prefecture. The company, that has been facing serious issues such as recession of construction industry due to a huge budget cut of the local public sector, is successful in an entirely new business, which is tea business. The company is Kunitomo Shoji K.K.(Kunitomo hereafter), which was established back in 1971, is located in typical mountainous area.



Figure 1 Kochi Prefecture

The company has only 40-year history. This company is not a typical long standing one. But, according to The Teikoku Databank and Nikkei’s data mentioned above, this company is already over the average life span of companies in Japan. Not only Kunitomo, but also other construction companies, companies in construction industry are in very serious situation. The table below indicates the severeness of such business.

公共事業の現状

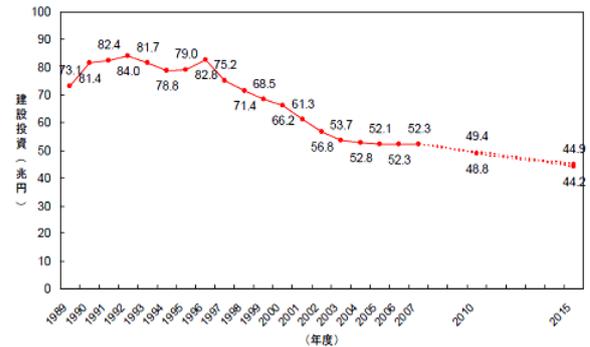


Table 1 Trend of budget of public construction

The construction industry has been depending on public sectors historically, who give orders. Due to a regulation change done in 2005, small/medium class companies in construction industry got substantial disadvantages. Annual sales of Kunitomo became one third from ¥1.2billion to ¥0.4 billion, and number of employees became 30 from 50. The company started a tea business under such situation in order to avoid much more serious situation, and succeeded in launching a tea brand, which was “Riguri Yama-cha”.

3-2. Insight of 10 years ago

The present president of the company is the second president, who graduated from a college majoring pharmacy and went to another school to study apparel design. She joined an apparel company in Kobe and worked there for several years. Kunitomo was established in 1971 in Ino area, Kochi Prefecture aiming at contribution to the local community by providing good products and services with new technology. Actually, the company went on wheels and established a good position as a medium class construction company. But, the present president was requested by her father, the former president, to come back to Kochi. Her father got serious ill and asked to succeed the company. That

time, the company was in a very good shape in terms of sales and profit, since the construction business was not in a severe situation yet. The former president asked his daughter, which was something like an order, to start a tea business in Spring. “It was a kind of my father’s insight .” The present president looks back. It might be somewhat strange to start a tea business as a construction company, but the former president told that the sales in Spring might be small, and therefore tea business might be the best to keep the employees we had. We do not have to fire our employees if the tea business goes well. In fact, there may be no construction companies that expand their business domain to a totally different area. Most of such construction companies, under a severe situation, took an M&A strategy, went to a housing business, or started import business of housing material such as marbles. There can be seen 2 environmental factors in the case of Kunitomo. The first one is that there is a timing difference between the construction business which start is June, and tea business, which peak season is April-May. The second one is a utilization of the existing labor force. Most of the employees are doing agriculture at their living area. They are working for Kunitomo as construction job workers while doing agriculture. They are available when the company obtains small/little order of construction business. In this sense, “do a tea business in Spring” can be said as a good insight. But, it is not easy for the company running construction business to start an entirely new business e.g. tea business. What made it possible?

The former president acquired some forests and mountains while the construction business was in a good situation. Currently, the company owns some 600 hectares including president’s privately owned areas, in which tea bushes are growing. Tea bushes in their forests and mountains are 100% natural, needless to mention, which means all organic, no

inorganic chemistry used. The scene of tea bushes growing is very different from ones seen in Uji, Kyoto, and Shizuoka, which are famous tea growing areas in Japan.



Figure 2 A view from mountains of Kunitomo

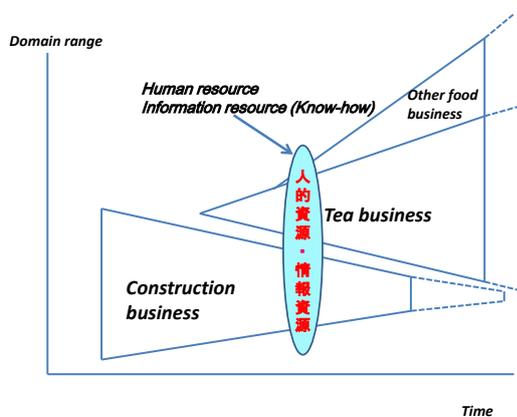
Teas from these forests and mountains are “Yama-cha”, which means “naturally grown tea in forests and mountains. “Yama-cha” has very unique aroma and flavors. There are some conditions that grow good tea i.e., lots of rainfalls, but good drainage, lots of sunshine, but fog that produce ultra violet...these conditions give tender tea leaves for good aroma. Kochi Prefecture has many mountainous areas with these conditions



Figure 3 Tea bushes of Kunitomo

Teas produced in Kochi Prefecture are usually transported to other tea producing areas for blending. There are few Kochi brands available in the market to-date.

Tea business requires its own techniques and know-how. Nobody can easily do this business. How was the Kunitomo's case? The answer to this question is the second environmental factor. As mentioned above, people living in this area are doing agriculture for years, and some of them are growing tea and have know-how about tea. Luckily, one of the employees of the company was an expert in tea growing, producing, and processing. When the company made a decision to start the tea business, there were already labor force, raw material and know-how available.



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Figure 4 Image of domain change of Kunitomo

3-3. Branding

The brand of Kunitomo's tea products is "Riguri Yama-cha". "Riguri" or "Riguru" is a dialect in Kochi Prefecture. The meaning of this dialect is;

- 1) Elaborate
- 2) Argumentative

The connotation from this word is that the tea of Kunitomo is carefully grown, carefully produced and therefore distinct in its aroma and flavor.

Our interest is how it is made elaborately? Some answers to this question lead to the marketing strategy that enables the company successful.

It should be noted that there are so many tea companies with tradition and also that ready-to-drink teas available in the market. Younger generation prefers ready-to-drink tea to the conventional leaf

type Japanese tea. The conventional Japanese tea market has been shrinking. Then, the president of Kunitomo tried to explore unique positioning and product with original tea character. The differentiation from the existing teas must be the key. One of the devices was to focus on organic teas, no inorganic materials used. Also, picking weeds by hands, which require intensive works, but necessary in order to induce original and proper tea aroma and flavor. Another device of "Riguri Yama-cha" is its processing. 95% of green tea in Japan is made by means of steaming method to stop the enzyme working. On the other hand, Chinese green tea is made by means of pan roasting method, which gives unique and pleasant aroma to tea. When the president visited China to investigate various kinds of teas there, she encountered a mountain that resembled the mountain of Kunitomo owned in terms of shape and atmosphere. She then knew that the mountain in China was the famous Mt. Wuyi. Mt. Wuyi is also famous Wuyi Guwan-cha. The processing method of Wuyi Guan-cha is pan roasting. She made a decision to employ this processing method to "Riguri Yama-cha". The aroma and flavor from this method are very unique that goes through mouth and nose remaining special pleasant feeling.

The next step in marketing strategy was communication. She, with little communication budget, developed a unique package design and logo with a help of her mother, who was an expert of traditional brush writing. The package expresses the brand concept very well.



Figure 5 The Package

4. A Change of Business Domain

In the case of Kunitomo Shoji, the company succeeded in an entirely new business i.e., tea business, in order to maintain the company and keep the employees under the recession of industry that their original business was in i.e., construction business that was facing to a very severe situation. This flow looks smooth and natural, but we should recognize that the business domain change cannot be made by just giving necessary and available resources to a new domain area, which gives us much more important issues for business continuation and succession.

Abel(1980) discussed on the definition of business and re-definition, and the following 3 dimensions should be noted:

- 1) Scope of business,
 - 2) Differentiation of products the company is providing,
 - 3) Differentiation of products from competition
- And also, for scope and differentiation, the following should be discussed:

- a) Customer/consumer segment(s),
- b) Customer/consumer needs,
- c) Technology

He emphasizes that the management is all the time facing an issue of business definition when his/her company aims to enter a new business (Abel, 1980). The meaning of this comment is thoughtful. In the process of business succession,

and aiming at a new business area, the management should confirm the existing domain and reconsider in the relation of the new domain. With the case in this paper, it can be understood that the new scope was given to food business from the construction business. What made it possible are, as mentioned above, utilization of labor force already available in the company, and timing gap between the existing business and the new business.

When an interview to the president of Kunitomo was carried out, she mentioned there was a strong opposite opinions from the employees against the new tea business. The reason to this opposite opinion was understandable. The employees worked for extra income to make their life easier. It was not good enough just with their agriculture income. It was hard to understand for employees why the company went into the agriculture business. Despite a lot of issues facing so far, the company made the tea business successful, which gave the employees a new good scope and hope as well as a confidence in the new area. Pan roasted tea has been highly evaluated, which clearly differentiated from the existing competitors' products, and made it possible to set a premium pricing. In terms of the consumer segment, the brand is strongly supported by the tea connoisseurs with its original and unique aroma and flavor. From a viewpoint of marketing, the brand is successful in terms of differentiation and targeting. The president of Kunitomo mentions;

“It is a kind of aroma therapy with a cup of tea that provides the tea lovers with fresh air and atmosphere in forests and mountains that Kochi prefecture is proud of. This kind of fresh air and atmosphere cannot be experienced in cities and urban areas. I would like to provide the tea that takes tea lovers to this kind of world.”

We gather that there is a confidence and passion in the words given.

5. Succession of Business

As mentioned already, the present president was asked to succeed the business by the former president, her father, when he became in a serious ill. Although she was born in Kochi and grew up there, her life until that time had not been linked with the construction business. In fact, she faced a lot of difficulties and issues. She recalls that her father left hundreds of tips and expertise with her and all of them are useful to maintain the business. The former president ordered his daughter to start the tea business aiming the continuation of company and the business, which must be the “raison d’être” as a company running the business in a local community. This idea is also needed to keep the employees who have been the partners for years since he established the company.

The former president mentioned that the construction business in the future might be in a severe situation, which forecast was made some 5 years earlier than other construction companies realized. When the tea business was kicked off, there were no concerns in terms of finance because of the assets already owned.

Then, the following can be considered as the key words for business continuation for top management;

- insight for the future,
- ability of forecasting,
- sensitivity about changes of business environment,
- succession of philosophy and belief to the successors

These words lead to the findings from the proceeding research on long standing companies. They are as follows:

We try to be sensitive to social and economic changes.

We think that continuation of business is much more important than expansion.

We should bear in mind these statements as very

important ones. Also, there can be found connotation in the statements that management’s passion to keep the employees, and the existence of the employees who can share the company philosophy.

One more point to be noted is on corporate strategy when a company changes the business domain. Abel mentions that there is already an issue on definition of business when a company launches a new product, withdraws a product from the market, explores a new customer segment to sell existing products, takes a diversification strategy through M&A, or sells an existing business.(Able, 1980)

Is the Kunitomo’s case the domain change for growth strategy or competitive strategy? Sakashita claims that a company’s growth strategy is either diversification or new business development. (Sakashita, 2007) Kunitomo’s case is not a simple one. They utilize the existing in-house resources for growth, but it also aims at continuation of the business and the company themselves. There may be some other cases as such. The domain change of Kunitomo was made under this kind of thoughts and strategy.

Ms. Kunitomo, the present president, following the success of tea business, explores further business opportunities under the concept of “Yama-gyo”. “Yama-gyo” has a unique connotation of mountain/mountainous area related produce and utilization of those products/services. The term was developed by the president herself. Mountains hold various kinds of produce and animals such as citrus fruits, edible wild plants, mountain potatoes, wild boar, paper mulberry and so forth. She has been asked by neighbors, farmers, craft men etc. to develop new products/services. “Yama-gyo” concept can connect these produce and people, which can sit in the center of possible businesses.

6. Possibilities of “Yama-gyo”

As mentioned in the section 5, the domain of“

“Yama-gyo” holds various kinds. For example, citrus fruits can be one of the materials of ice cream/ice candies, edible wild plants go to a traditional Japanese special cooking material, and wild boar meat turns out to be a kind of Chinese style roasted pork and goes well with hamburger buns which are made from rice powder. Mountain potatoes are steamed and well accepted as snacks with its original and sweet taste and texture. This may be sold in a retort pouch. Paper mulberry is a special material for traditional Japanese paper. This industry has been declining these days due to heavy labor works and aging society. Recognizing the original texture of Japanese traditional paper is badly required. These products can be bundled in “Yama-gyo” concept.

With the comments from the interview to Ms. Kunitomo, we can understand the essence of “Yama-gyo” domain. “I was born in this mountainous area, and this area used be my playground for many years when I was a child. Out of this experience, I can feel the power from the ground, mountains, even from air. People may recall in their mind the real calmness, local culture tradition, elegancy, contentment...

Then, we recognize the relationship between people and the community, people and people, people and produce, which are forgotten in the current modern lifestyle. We should keep this kind of basis.”

“Yama-gyo” concept leads us possibilities to the future and gives us a wider scope. Recently, Ms. Kunitomo bought an 140 years old house near her mountains and renovated and named as “Seijinso no Sou” which means “a cottage of blue grass and for people of rural area who love nature”. She mentions, “the sky is quite near, isn’t it? I would like people who are tired and need real relaxation to use and stay.”

“Yama-gyo” concept makes us to understand this kind of possibilities as well.



Figure 6 A view from the cottage



Figure 7 the cottage

7. Consideration

A business domain change and/or expansion is necessary and important for a company to maintain and grow. On the other hand, we know some cases that caused severe crises by not changing the domain, or unnecessary change/expansion. The management should always think and confirm the definition of their business and confirm the appropriateness of the definition, since the business circumstances and environs change. As Levitt mentions in his “Marketing Myopia”, the management is all the time facing this kind of issue. (Levitt, 1960) The business definition can stay as is, or should be changed. If it should be changed, how it should be changed” The importance of this business definition should then be well recognized.

of Kunitomo Shoji K.K. for interviews.

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