

# Global Development of Small & Medium Companies: Surviving Towel Industry in Ehime Pref.

By Shigeru SUZUKI

## Globalizing Japanese Economy & Evolving Regional Smaller Firms

The yen's appreciation and the dollar's decline triggered by the Plaza Accord of 1985 have pushed the Japanese economy into full-scale globalization. Not only major companies but also smaller enterprises have been forced to conduct their businesses with an international perspective. Many smaller businesses have established overseas production bases and placed themselves on a new path to development. Needless to say, not all firms have been successful in their overseas businesses. For some, their overseas operations have proved to be an investment burden, squeezing profits.

Ehime Prefecture on Shikoku Island in western Japan is no exception. According to a survey by a think tank attached to a regional bank in the area, 135 businesses in the prefecture were making foreign direct investments and operating 256 overseas plants and offices at the end of 2006. The manufacturing industry accounted for the largest share,

with 85 businesses operating 185 footholds abroad (the latter figure meaning 72.2%). Out of the businesses operating overseas to manufacture (136 cases), a great majority invested in the Asian region (124 cases, 91.2%). By country, China ranked first (91 cases, 66.9%). The towel industry is a typical example.

## Japan's Largest Towel-making Region

The towel industry in Ehime Prefecture is concentrated in Imabari City and its surrounding areas. The prefecture accounted for 58.9% of the total towel production in Japan in 2006 and is the largest towel-producing region in the country. The towels in the Imabari region are luxury products. They are dyed in the wool and woven to show patterns. At their peak in the 1970s, there were more than 500 towel makers. When related industries such as thread plying, dyeing and sewing are included, industrial shipments exceeded ¥100 bil-

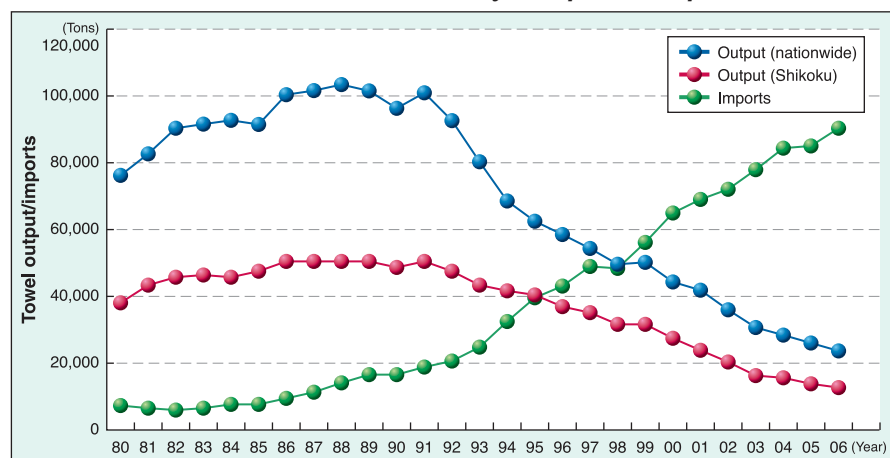
lion. These industries had developed as key regional industries.

Towel manufacturers in Imabari began to operate overseas in the 1990s. In 2004, seven large towel makers in the Imabari region had plants in China (two firms each in Nantong and Tianjin and three in Dalian). Their principal production operations have already been transplanted to China. Their domestic factories operate as "mother plants," which focus on the production of trial products and for special orders, such as those in small lots or those which require short lead time.

## Surging Towel Imports & Shrinking Industry Cluster

The expansion of overseas production has inevitably resulted in a rapid increase in towel imports. In 1980, towel imports were 8,513 tons, or only 10% of domestic demand. However, towel imports have snowballed fast since the 1990s, skyrocketing five-fold from 16,674 tons (14.7% of domestic demand) in 1990 to 84,645 tons (79.3%) in 2006. Now towel imports are 3.5 times larger than domestic production. As a result, domestic towel production plummeted from its peak of 101,317 tons in 1991 to 23,631 tons, or a quarter of the peak level, in 2006. The towel-producing region in and around Imabari has not been able to escape from the impact of the sharp increase in imports. Production in the region fell from the peak of 50,456 tons in 1991 to one quarter, 12,207 tons, in 2006. The number of towel makers in the region declined from 504 in 1976 to 148 in 2006. Similarly, related industries such as thread plying, printing, dyeing and sewing have also declined, and the towel industry cluster is on the verge of a collapse (*Chart*).

Chart Imabari towel industry & impact of imports



Source : Compiled from Shikoku Towel Industrial Association data

Photo: ICHIIRO Co.

As a result, Imabari City has come up with the “Fashion Town” initiative to revive its towel industry. At the same time, it is undertaking the following primarily through the Towel Industrial Association: 1) Establish an “Imabari towel” brand name to represent the region; 2) open antenna shops; 3) establish a certification system for “towel sommeliers,” who understand towel materials as well as key points in the process of towel making so they can select and recommend the towels customers would want to “get and use;” and 4) hold design contests for elementary and middle school pupils. Individual towel makers are also working to establish their own brand names, find new applications for towels and export to the US and European markets.

### Original Brand Names & Sales Channels Combined with Towel Museum

Among successful towel makers is Ichihiro Co., founded in 1971. With paid-in capital of ¥80 million in 2008, 226 employees and annual sales of ¥9 billion, the company has succeeded in enhancing product planning, development and marketing capabilities on the strength of its overseas production coupled with Japan’s first towel museum it has opened. The firm built a plant in Dalian, China, in 1992, where production has been expanding steadily. As of 2008, this operation had paid-in capital of \$15.7 million, 2,600 employees and annual sales of ¥3 billion. In 2005, Ichihiro built a new plant in Vietnam. It had 2008 paid-in capital of \$2.5 million and 100 employees. It has laid the groundwork for spreading the risk that arises from concentrating production facilities in China.

The firm is unique in that it is enhancing its product planning, development and marketing capabilities in addition to strengthening production capacity through overseas operations. The weakness of the towel industry in the Imabari region is that it has depended on wholesalers for product planning and marketing, and has not built its own capabilities for planning, development and marketing.

In 2000, Ichihiro opened Towel Museum ASAKURA (*photo*), the coun-



Towel Museum ASAKURA (courtesy of Towel Museum)

try’s first of its kind, which has been serving as the company’s product planning and development center (with 100 employees). The museum serves to identify consumer needs as well as to develop the company’s original brands. The firm has enhanced its product development functions using the museum as its core, selling prototype products at its museum shop to test the market. Thus, the museum is an antenna shop for the firm’s trial products as well as a model shop for Towel Museum brand products.

Ichihiro also established Towel Museum Co. in 1994 (now with paid-in

capital of ¥60 million, 103 employees and annual sales of ¥700 million) to build sales channels for Towel Museum brand products. In 2008, the new company has 40 outlets in major cities across the country, centering on outlets of department store chains such as Odakyu and Takashimaya. As a result, the firm’s sales increased 1.6-fold from ¥5.6 billion in 1990 to ¥9.0 billion in 2006. **JS**

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