

Investing in Japan

By Richard P. GREENFIELD



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When we read about foreign direct investment it is usually in large numbers: hundreds of millions or billions (if in dollars or euros), thousands of square meters (offices, factories), and tens of thousands or hundreds of thousands of widgets (production targets).

In fact, reading an announcement like that is not entirely dissimilar to watching the full credits at the end of a large Hollywood movie, a cast and crew of thousands, when all are counted.

Just as those large releases from Hollywood get most of the coverage and public attention, so, too, large scale FDI grabs headlines and attention. And it does this despite widespread agreement among economists and policymakers that real job creation, consistent and sustained, is mostly a product of growth and new ventures in the small to medium-sized business segment. It is true for every advanced economy and true across industries. By the time most start-ups are making headlines, they have long passed the milestone of being small to medium-sized enterprises.

Where to look then for the best examples of small-medium FDI? In a city like Tokyo, it is hard to walk a single block without passing a multitude of restaurants. Restaurants: eliminate chains and franchises (some may be the product of FDI, but their numbers and methods of doing business would differentiate them from the type of very direct hands-on FDI being considered here).

All restaurants are stages, with scenery (décor), props, necessary tools (crockery and flatware) and furniture (chairs and tables). The stage setting can be minimalist or ornate, but it is always a reflection of the vision of the owner(s) and management. And one goes to a restaurant not merely to eat, but to partake in a ritual (hence some of the earliest critiques of fast food were not about its nutritious content, but about its lack of soul, of any human connection).

Restaurants are not merely stages, they are also factories of a kind, where raw materials are turned into end products to be consumed on the premises or taken out. Unlike factories that produce one kind of component that is shipped on to a final assembly plant that can be thousands of miles away, a restaurant is, by definition, the most local of businesses. What it produces might travel well for a short distance, if carried by a food specialty delivery service, but it will be hard to find any restaurants in Tokyo making deliveries in Paris, or London, or New York. The end product of the raw material is the production of food, much of it locally sourced, for local consumption.

Thus restaurants which must hire locally, obtain durable goods locally (with some outstanding exceptions), and use local products for local consumption are, in many ways, the perfect paradigm of FDI whose benefits accrue to the local community in many different, tangible ways.

Craig White, the owner/manager of White Smoke, a new restaurant in Tokyo's Azabu-Juban district, is a good example of this. He had long experience in Japan, working for several different large companies, as well as an unusual educational background before starting his career as a restaurateur.

White first came to Japan on a student exchange program in 1994 at the Kanagawa Institute of Technology. After college he returned, working for several companies including NTT and Samsung. Back in the US he went to Harvard for both his MBA and a degree in Public Administration from the Kennedy School of Government. He returned to Japan again for Corning's glass business and then he was transferred back to Corning headquarters, in Corning, New York.

"I had been coming in and out of Japan for 18 years, different companies, different projects, but they were not my own." White sat down with another friend, and at first, in a restaurant on Harvard Square, "we did a back-of-the-napkins idea of what it would

Photo: Craig White



The interior of White Smoke in Azabu-Juban

take to start a business in Japan, one we could own and run and that had not been done before.”

It did not happen immediately, but after a year his friend asked him what had happened to the idea they had discussed.

White is from San Antonio, Texas, and Texas barbeque is one of the interesting fusion foods in the US. American food writers battle constantly over which state or city or town or roadside shack has the best barbeque, sometimes along lines that resemble nothing so much as the Civil War between the Union and the Confederacy. But Texas has the added element of influence from Mexico, so barbeque there is, by nature, a fusion of techniques from both countries.

Barbeque, or smoking meat, is one of the oldest ways of preparing food (next to salting) and there are variations found on every single continent. None are exactly the same, and whether it is the heat of the flame, the fuel, the spices or marinades used, all have been influenced by the cultures that they have passed through.

Although Mexican food has been popular in Japan for quite some time, there was nothing like Texas Style Bar-b-cue, so White applied his MBA training and his knowledge of Japan to put together a plan of what it would take to open an authentic Texas Style Bar-b-cue restaurant in Tokyo.

He was sure from the outset, and remains sure, six months past the opening, that it will work.

“Japan is a country of opportunity,” he explains. “Whatever problems exist, Tokyo is still a huge metropolis and has a population that is sophisticated in its tastes and that is interested in what other places have to offer that is authentic.”

Authenticity was and is a key element to White’s philosophy. His knowledge of Japan gave him a huge advantage, and with an MBA he understood exactly how he would have to operate within the budget he had. But although he was born in Texas, he had never operated a barbeque restaurant and he needed to be trained in the techniques (Texas barbeque is famed for being cooked “low and slow”), so he apprenticed himself to a barbeque master, and then ordered his own smoker built to his own specifications from one of the best known names in the barbeque industry.

The smoker itself is 12 feet long, 6 feet high, and 3 feet deep and



Learning the art of barbeque

alone weighs 2 tons. It took three weeks for it to arrive by ship from the US.

The smoker was the centerpiece of White’s conception of the restaurant, not because of size, but because it was what the entire conception of White Smoke revolved around. “The most popular food in Japan is simple,” White explains. “Sushi, sashimi and other dishes, the foreign foods that are popular, such as Italian, are simple. When Japanese eat meat, they like *wagyu*, which is fatty and tender, but good barbeque produces exactly the same texture. This was one of the key points we thought of in the initial conception. The other was that Japanese consumers spend differently than consumers in the US.”

White’s knowledge of Japanese consumer spending and habits, which he had acquired in both his professional life and observations made in the time he lived in Japan, not only helped him put together a business plan, and a spreadsheet that forecast revenue and outlay, but also helped him with other crucial details such as choosing a location. “When I looked around, I saw there are many areas of Tokyo that have changed, radically, over the years. In some areas restaurants have all you can eat buffets, or specials on certain days or certain items. Chains and franchises can afford that, but as an entrepreneur with certain fixed costs, I cannot. I lived in Azabu-Juban previously, and I noticed that the restaurants here do not do that. Whether it is people who live in the

Photo: Craig White

neighborhood, or visitors, when they come to Azabu they are looking for something different. Those are the people I want to reach.”

To reach them, though, was not an easy path. 2011 was certainly not the easiest time to be opening any kind of new business in Tokyo, and White Smoke opened on Nov. 11, 2011, or 11-11-11, exactly eight months to the day after the Great East Japan Earthquake.

“I was actually asleep when the news first broke in the US,” he explained. “A relative in Alaska saw the news first, and relayed it to another relative who called me with the somewhat dramatic news that ‘Japan is burning.’” The ongoing crisis certainly would have been reason enough to pause or to question whether it was the right moment to move ahead.

“Tokyo was not destroyed,” White explained. “There was no general evacuation of the city and even some of the foreign companies that did send people out for a while brought them back, or brought in replacements. If anything, one of the things I thought was that the timing might even be better because other ventures might pause, and, at the same time, we might have an extra window by getting in and launched at that time.”

That proved to be correct but it was a near thing. “There was a lot of negotiating with our decorators, with various tradesmen. We needed certain specific things done for the décor, we needed the smoker to be in a certain spot and the counter to be around it. So there were things that had to be done and things where we had to rethink whether they were then immediately necessary.”

“That is the kind of work that has to be done, in any smaller scale business, particularly a restaurant, and it is an example of how smaller entrepreneurs are more vested in their projects than large companies are. When people read about large companies, the big numbers featured are always jobs, but large companies are in the position to demand many kinds of concessions, tax holidays, infrastructure improvements, even subsidies for training and for certain kinds of hiring, yet they can divest very rapidly, far more so than a smaller venture like mine can,” White points out, as a veteran of several large companies and large scale projects.

“A venture like mine I could have set up in Seoul, or Hong Kong, or Singapore, or Seattle. Certainly, as an American, setting up in an American city would be easier. But I felt that Tokyo had and still has something, an energy, a vibrancy, a willingness to embrace new things that would make the concept even more viable here.”

As someone who had lived in Japan, and had friends here, White knew his way around and did not have to rely on others to do much of the work. But he says, “There are a lot of ways to make Japan more friendly to foreign entrepreneurs (and thus FDI).” One of the biggest, White points out, is to modify or change “the sponsorship culture”. “I had lived here before, I had people who knew me and had done business with me, so there were many obstacles that I could avoid or go around that someone coming here for the first time could not. Most of the basic documentation and business work for a new business has to be done quickly: establishing an address, a bank account, being able to deal with clients and customers and service providers. Without a

bank account, that is impossible, and each day waiting is a day of a certain cash outlay with no possibility of return. That puts inherent limitations on smaller businesses and entrepreneurs who need to move quickly to establish themselves and their businesses.”

For White, one of the interesting things is how close the project came to his initial conception, in execution and in costs. “It is surprising, really, because a business plan is, of course, a projection,” White comments, “and a projection can be wrong or right or partly right, but particularly when I look at the cost projections they were about 90 percent right.” White attributes this to the fact that the food at White Smoke is not trendy, it is simple. Meat, however prepared, is meat, bread is bread, a potato is a potato (though White Smoke serves smoked potato).

“Like any start-up, it is not easy,” White says, speaking of his average 16-hour-a-day schedule at the restaurant or out on restaurant-related business (such as visiting suppliers).

Although White Smoke will have just passed its six-month anniversary when this article comes out, it is already very much a part of the Tokyo restaurant scene, and still the only one of its kind.

In the future, White muses, “There are other kinds of meat that can be smoked, there are other kinds of vegetables, and this is Japan and people are interested in new tastes, there are no rules that say you cannot smoke fruit, too.” As long as no one tells them that back in Texas. **JS**

Author's Note

METI has proposed steps to deal with some of these issues. A new law would simplify the legal procedures for FDI ventures to set up in Japan and would offer preferential treatment on corporate and income tax. In addition, there would be subsidies for FDI ventures that have a greater impact on local economies (through hiring, using local materials, etc). Another new program will improve English translations of administrative guidelines. If these new measures are adopted they would cover various industries including IT services, medical products and services, solar panel manufacturing and deployment, helicopter production (possibly to include next-generation drone production which is the subject of ongoing discussions between Japan and the US), and LCD displays (as well as all associated technologies). Obviously there would have to be changes to existing laws and regulations as well as the promulgation of new laws and regulations to make these changes real. One of the most interesting debates in this area is whether or not change can or should be managed (and FDI always implies an amount of change) or whether or not the process of change is one that should be allowed to unfold or one that should be directed. That is a societal question that is larger than FDI but there is no way of approaching FDI without also considering the changes that come with it. Put differently, no society remains untouched by the world around it – Japan under the Shogunate was an exception that could only have existed in a time when location was not key, and there were no known resources to make the country worth what forced contact would have meant – but the moment that changed, Japan itself changed radically.

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