

Bandai: Making Toys in China

By Takashi Iwamura

The main plant of China Fuman (Fujian) Toys Co. is located in Fuzhou City in Fujian Province, facing Taiwan across the Taiwan Strait. The two-story structure boasts 8,800 square meters of floor space, with 10 assembly lines and 20 molding machines. Today the plant with its 400 employees is operating at full capacity, cranking out clockwork toys and plastic models. It is an affiliate of Bandai Co., one of Japan's largest toy makers.

Total production of the Bandai affiliate in 1988 reached 11.45 million yuan, up nearly 50% over the previous year, as the company finally recovered its initial investments and went into the black.

It was in early 1984 that Bandai resolved to relocate production to China. Toys have relatively low value-added, and Japanese toymakers were already subcontracting work out to firms in Hong Kong, Taiwan and other NIEs. Bandai itself established Bandai (H.K.) Co. in Hong Kong in 1977 to manufacture toys for export to the U.S. and European markets and proceeded to establish a constellation of local factories to cooperate with it.

Bandai's decision to advance into China was motivated by the aggressive moves of manufacturers in Hong Kong to relocate their plants to Shanghai and Shenzhen. But Bandai's move was also motivated by high expectations for the growth potential of the Chinese domestic market. It is said in the toy industry that in any country, 30% of the total population will always need toys. In China's case, that means 300 million. With income levels bound to rise in China, however gradually, Bandai can well be said to have bought a stake in China's future.

Bandai's hopes for China's domestic demand were well reflected in the way it launched its business in China. In the first place, it deliberately avoided such special economic zones as Shenzhen, where the infrastructure for export-oriented industries is already well developed. Instead, it

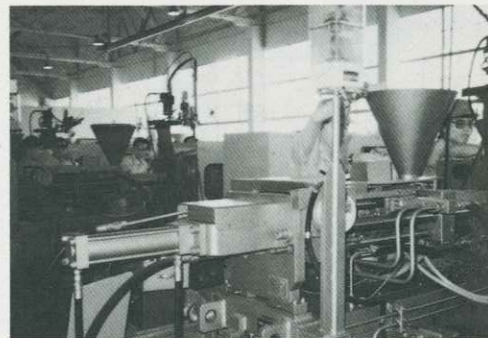
chose Fuzhou, an "open" city. Why? Because Fuzhou is conveniently located geographically for shipping goods to all parts of China, and has an edge on the special economic zones in terms of labor cost and labor availability. Needless to say, Fujian Province's fervent courtship—the provincial government wanted a prominent light industrial firm to complement Fujian Hitachi Television's high-tech plant—was another powerful factor.

It took Bandai a lot of investment to establish a venture in Fujian Province. It was a big gamble, and one which the company could not afford to lose. The Japanese toy industry was being battered by increasingly intense competition from local Hong Kong toy makers. Bandai, which had retreated from the U.S. market after the oil crisis of 1973, reentered it in 1978, only to meet cutthroat competition. At home in Japan, it was exposed to the threat from products imported from the Asian NIEs.

Prudent approach

Clearly a decision to advance into China was, under the circumstances, bold indeed. Yet it was pursued very prudently, and the focus, as with all Bandai operations, was on "human resources."

The procurement and training of human resources was the first task confronting Bandai in this new venture. The company's initial step, then, was to recruit Komei Sumi, an expert on China who was working for the general trading company Toyo Menka Kaisha. Sumi had long experience in energy and raw materials trading, but knew little about the toy industry. Bandai, however, prized his skills in negotiating with overseas companies and his knowledge of China, gained through importing fluorite, a raw material used in steel production, from China. Sumi believed that unless he expressed himself straightforwardly he would not be understood by the Chinese, and had a reputation for occasionally being outspoken.



The main plant of China Fuman Toys Co., an affiliate of Bandai Co.

Take, for example, the problem of export ratios, a long-pending issue. The Chinese side's top priority was the acquisition of foreign currencies, and it requested that the export ratio should be stated clearly in the joint venture contract. Bandai, however, wary of the many unknowns involved, not least of them the question of how quickly production could get on track, did not want to be tied down by rigid figures.

Bandai was placing its hopes ultimately on Chinese domestic demand. But the Chinese side was adamant. Sumi, who headed Bandai's negotiating team of manufacturing division executives, felt it time to clear the air. Sitting at the negotiating table, he declared: "If we were setting up in China to promote exports, we wouldn't have chosen Fuzhou. The port and harbor facilities here are inferior to those in Shenzhen and other special economic zones." In the end, the Chinese agreed to having the export ratio mentioned in the feasibility study attached to the contract as reference, rather than in the contract itself. Once production began, the actual export ratio turned out to be more than 70%.

In the interests of localization, Bandai has kept to a minimum the number of personnel it dispatches to China from Japan. Five executives are currently seconded to China Fuman Toys Co. from the Japanese headquarters, including Vice President Toshiyuki Mutsuura. All five volunteered to go to China. They are taking Chinese language lessons three times a week, and one has even married a Chinese woman. Bandai's full support for the

project is behind Bandai employees' positive attitude toward secondment to China Fuman Toys Co.

It was a challenge pulling together a qualified labor force, however. Fuzhou is relatively blessed with labor, both in quality and quantity, but unlike workers in Shanghai, those in Fuzhou have little experience with the toy business. Bandai has solved this by training and educating its Chinese workers in Japan.

In February 1985, the first group of 12 Chinese workers began training at Bandai's Tochigi plant. The training period was six months, relatively long for workers in a light industry. The manufacturing process for toys is neither particularly sophisticated nor complicated, but it does involve small-lot production of a great variety of products. It was essential to drill Chinese workers in the Japanese-style operation of a sophisticated manufacturing plant.

Training methods

During the course of training, Bandai found itself in the combined role of watch dog and mother hen. Bandai shouldered the workers' training fees, but also set restrictions on how they used their pocket money, and asked them to produce receipts for everything they bought. To most Chinese, training in Japan is a golden opportunity to purchase electrical appliances and other durable consumer goods. According to Sumi, in extreme cases Chinese workers who come to Japan for training will even go without meals to buy more goods unavailable

back home. If that had happened, the values of the company's Chinese trainees would have become distorted, Bandai believed.

The new company was established with capital provided equally by Bandai and the Chinese. The president was selected from among the Chinese, despite the request of the Chinese side that Bandai provide the chief executive. It would have been much easier for Bandai to have its opinions reflected in the management of the joint venture if it had dispatched a president to the new company as originally requested. But the company reasoned that it would have been rash to take responsibility for managing a joint venture in China when it still lacked a clear picture of the country. Instead, Bandai provided the vice president.

Bandai did, however, take care to have each side's duties spelled out clearly in the joint venture contract. Under the contract, Bandai is in charge of improving the production setup, technical guidance and business related to exports. The Chinese side, meanwhile, is in charge of setting up the company, domestic sales and labor management. Although the venture is technically its affiliate, Bandai agreed to give the Chinese partner full rein in conducting business it considered best entrusted to the Chinese side. Even so, Bandai appears to have secured all the rights it needed. It has reaped real rewards in the form of management support, rather than by merely filling the post of president.

It was in March 1985 that negotiations delayed by the rough sledding over the

export ratio, finally reached agreement and the contract was signed. At Bandai's suggestion, it included a provision that a temporary plant would be constructed first. The aim of this was to start manufacturing toys on a small scale before the main factory was completed. The main reason was caution about getting involved in full-scale production from the first. Concern that the "enthusiasm" might fade before the completion of a full-fledged plant prompted Bandai to build a temporary plant to get things moving as quickly as possible.

It was a wise move. In the end, the main plant was not finished until June 1987, more than two years after the joint venture contract was officially approved in May 1985. One can easily imagine the enthusiasm shown in this joint venture project by both parties evaporating had not the temporary plant been in operation already. In this sense, morale has played an important part in the progress of this successful joint venture.

Thanks to Bandai's close attention to detail, China Fuman Toys Co. has so far enjoyed smooth sailing. Yet Sumi still takes a prudent attitude. He is especially cautious about domestic sales.

Fuman's high export ratio contributes greatly to China's acquisition of foreign exchange, but domestic sales barely reaching 30% of total sales is far from satisfactory from the standpoint of Bandai's own long-range business strategy. For the future, there is also always the possibility that Fuman's operations could be affected by external factors, such as a change in the host country's policies.

Bandai also faces problems of recruiting follow-on personnel to be stationed in China. Such employees will likely have to leave their families behind when they go to China. This dilemma will be an important one for Bandai to resolve over the coming years until the management and operation of China Fuman Toys Co. can be entrusted completely to its Chinese staff.



Visitors watch inspectors at work in the Chinese plant.

Takashi Iwamura is a staff writer in the Business News Department of the leading economic daily Nihon Keizai Shimbun.