

Kameyama Candle: Need to Diversify

By Yasuhiro Honma

Candle manufacturing, the traditional industry of Kameyama City in Mie Prefecture, is thriving. Kameyama is located 60 km west of Nagoya, the fourth-largest city in Japan. Kameyama Candle Co., which takes its name from the city where it is located, has built up a dominant position in the candle industry, which is conservative and closed, by developing decorative candles to distinguish its products from those of other makers.

"Our company has developed more than 10,000 kinds of artistic candles," said Seishi Tanigawa, president of Kameyama Candle. Artistic candle creations, such as colorful dolls and animals, as well as mood candles in colorful red, blue and green glass containers cram the company's warehouse. The warehouse looks like an art museum. Candles to be burned at family Shinto and Buddhist altars account for 55% of Kameyama's sales. By comparison, 80% of the industry's total production is candles for religious use, so one can appreciate the significance of Kameyama's diversification of its products and its efforts to enhance their added value.

Overseas contrast

There are nearly 60 candle makers in Japan, most of them cottage industries. In sharp contrast, Kameyama has five domestic plants and two overseas. It sells its products extensively throughout Japan as well as in Europe and the United States. The company's sales in fiscal 1988 amounted to approximately ¥5.9 billion. The annual turnover of Japan's second-largest candle maker is less than ¥1 billion, so Kameyama far surpasses its rivals in scale. Tanigawa says proudly, "The size of the Japanese candle market is about ¥12 billion (\$82.7 million at the rate of ¥145/\$) on a factory shipment basis, and our company accounts for about 50% of that."

How did Kameyama, which used to be

a subsistence-level local candle maker, grow into what it is today? The company owes its prosperity solely to the outstanding leadership and entrepreneurial spirit of Tanigawa's father, Masashi, who was the second president of the company and who died in 1978.

Kameyama Candle was established in 1927 by Tanigawa's grandfather, who started making candles for religious use while working as a carpenter specializing in the building of Shinto shrine structures. Masashi, who took over the business from his father, the company founder, demonstrated his vigorous entrepreneurial spirit by his innovatory development in 1937 of spiral-shaped candles for dinner table use and exporting them to the U.S. Thus, under his guidance the company began to grow from its beginnings as a cottage industry.

After World War II, Kameyama's business quickly grew. He used the postwar household demand for candles as a lighting source as well as the special procurement demand from U.S. forces for candles for use at bivouacs during the Korean War as a springboard for growth. The business grew tremendously, thanks also to the emergence of new religions.

The company's business sailed along smoothly until the first oil crisis. Hit hard by skyrocketing raw material costs, the candle industry had to turn its eyes to the domestic market. In the 1960s, 70% of its production had gone for export. In order to survive, Masashi took a drastic step: he advanced overseas. He acted with alacrity, constructing a plant in Malaysia in 1975 even before the yen's appreciation became a cause for serious concern. The Kameyama plant in Malaysia now produces 140 tons of candles a month and has a work force of 230.

Tanigawa played a major role in Kameyama's move overseas, on which the company staked its survival. He was ordered by his father to work in various U.S. firms including a toy importing company and a warehousing company in San Francisco.



Seishi Tanigawa—diversifying the candle business.

In this way, he received a six-year grounding in the fundamentals of heading a company. When the company established its plant in Malaysia, Tanigawa demonstrated the ability he had gained and polished in the U.S. He took command of the operations to acquire land, to recruit local workers, and to negotiate with the Malaysian government. He laid the foundations for the plant to post a profit within three years of its establishment.

Dream pursued

As soon as he assumed the post of president on his father's death in 1978, he began working to realize his long-cherished dream of setting up a product base in the U.S., a major consumer. He established a representative office in Boston in 1979, and constructed a plant in its suburbs in 1985. Today, with its state-of-the-art equipment, the Kameyama U.S.A. Inc. plant in the suburbs of Boston employs 60 workers and produces about 100 tons of candles monthly.

In order to sell Kameyama candles, Tanigawa combed the region east of the Rockies and succeeded in concluding agency contracts with about 40 U.S. wholesalers. His policy is to promote local production and sales in the U.S. Planning of the construction of a factory in North Carolina is already under way. He has acquired land on the West Coast and is now waiting for the right time to construct a

plant there. "The size of the U.S. market is ¥240 billion-¥250 billion (nearly \$1.7 billion) annually and it is about 20 times larger than the Japanese market," he says. This is his reason for expanding the company's production network in the U.S.

As a result of its efforts to manufacture candles locally, Kameyama's candle exports to the U.S. are almost zero today. Kameyama has firmly established the division of labor to "supply the U.S. market with products manufactured there and to supply the Japanese market with products manufactured in Japan." Tanigawa, having successfully survived the two oil crises and the yen's appreciation, reminisces, "If we had stayed in Japan, I would have had to be satisfied with being a small, provincial lord and our company might have gone bankrupt a long time ago."

Tanigawa pays just as much attention to the company's domestic strategy. First, he tackled the automation of manufacturing processes to cut costs. All the candle manufacturing machines which Kameyama Candle now uses were developed by the company independently. Revised and improved subsequently, the machines are the most advanced of their kind in Japan today.

He has also devoted himself to the development domestic of sales channels. First, he tapped stores selling Buddhist altar fittings. Most Japanese families have a Buddhist altar in their home dedicated to their ancestors. Buddhist altar fittings are accessories and decorations that are indispensable to these altars, and candles are burned at the altar every day. By holding these stores firmly under its control, Kameyama Candle is stepping up its sales of candles in a package with Buddhist altar fittings. In addition, the company has developed through department stores, supermarkets and fresh flower wholesalers a demand for decorative "mood" candles for use at hotels and restaurants.

The company is also keen to develop new products. The "smokeless candle" and "insect-repellent candles" that the company has developed have proved to be great hits. The latter in particular has been a major success. It is said that more than 400,000 insect-repellent candles are

sold annually in the U.S., which has a large camping population.

Despite the tremendous efforts made by Kameyama Candle, the future of the candle industry is far from bright. Recently, the demand for candles for use at parties has begun to show signs of expanding, but the candle market in Japan has been shrinking constantly since the end of the war. The annual consumption of candles today is 18,000 tons, which is only one-fifth of prewar consumption. Once there were 300 candle makers, today there are about 60. Many have closed or changed their businesses. Even if Kameyama Candle has the exceptional ability to develop innovative products, it is evident that the company cannot expect further growth if it concentrates solely on candles.

Slim profits

Moreover, the profit margin in the candle business is extremely small. The ratio of recurring profit to sales is 1.3% (in fiscal 1988) in the case of Kameyama. This is about the same ratio as that of all other candle makers. Tanigawa believes the industry is facing a crisis because it is suffering from a vicious cycle of unprofitability, low wages and labor shortages.

In order to escape from this predicament, Tanigawa has been doing his utmost to diversify his company's business and develop major earners besides candles. Of the new businesses, incense, which is just as essential to Buddhist rituals as the candle, is considered the most promising, "Not only are the sales routes and purpose of use of the incense and the candle similar, but the profit ratio of the incense is several times larger than that of the candle, so how can we ignore the incense business?" says Tanigawa. In fact, the ratio of recurring profit to sales of Nippon Kodo Inc., the top incense maker in Japan, is a high 8%.

In 1987, Kameyama Candle started production of incense in a corner of its head office plant and started marketing its own brand of incense. Early this year, the company developed its own automatic incense manufacturing machines. It is now constructing an incense manufactur-



These insect-repellent candles developed by Kameyama have been a big hit.

ing plant which is scheduled to go into operation in 1991. The company is trying to develop new incense products, and has a sales target of ¥300 million in the initial year and of ¥1 billion in three years.

Another thing Tanigawa is trying to develop into a major earner is fragrance products, such as bottled floral petals and incense fragrance. He plans to sell copies of famous-brand perfumes, such as Christian Dior and Ralph Lauren. He estimates initial year sales of all fragrance products at ¥100 million.

There is no end to the long list of Kameyama's newly developed businesses. It has established a trading firm in Hong Kong and started marketing artificial flowers and candle stands imported from Hong Kong. The company has also started marketing a green tea set, a special product native to Kameyama, and opened a lingerie store in a shopping center. Tanigawa is cautious in discussing the success of the strategy of diversifying his company's business, and says, "I would be satisfied if one out of 100 attempts hits the mark."

This may sound paradoxical, but his composure comes from the candle business. The candle business undoubtedly has poor profitability and slim growth potential, but it is steady because there is a constant demand for candles for religious use at Shinto and Buddhist rituals. Therefore, a candle maker can estimate in advance the size of profit it can earn. As long as the company earns steady income from the candle business and invests the profits in new businesses, as Tanigawa says, its survival, at least, is assured. ■

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