

Sanrio: Cute Products Spell Success

By Ryoichi Higurashi

Sanrio Co., Ltd. is an unusual company that has achieved rapid growth by mass-producing products based on numerous "cute" characters, representative of which is the famous white kitten called "Kitty."

Sanrio began as the Yamanashi Silk Center, established in 1960. The company started its character business in earnest during the first half of the 1960s with its "strawberry" character products—a variety of goods bearing strawberry designs. Above all, however, the character which assured the company's solid and enduring growth was "Hello Kitty," the appealing white kitten introduced in 1974. Ever since "Kitty" character goods entered the market, the company has enjoyed continued good business and rapid growth.

To match the success of Walt Disney Productions is the corporate target of Sanrio President Shintaro Tsuji—a target he is ceaselessly striving to achieve. Walt Disney Productions has undertaken a vast array of business endeavors, including the creation of a host of characters such as the world-famous Mickey Mouse, and ranging from film production and publishing to Disneyland amusement parks and Disney World. It even conceived the idea of constructing a prototype "future city" (EPCOT). Sanrio at present is following exactly in the footsteps of Walt Disney Productions.

"In 1960, when Japan was still suffering from an acute shortage of real goods, I tried to sell 'merchandise' that was not goods," Tsuji boasts. "When I told my friends I wanted to sell friendship and heart, I was resoundingly berated. Today, no home with a young girl in it is without Sanrio products."

Whereas Disney characters originally started as the heroes and heroines of cartoons, and were then licensed out, Sanrio sold its characters by sticking them on merchandise from the very beginning.



Shintaro Tsuji, president of Sanrio Co., Ltd.

From the outset, Sanrio was a merchandising company for goods bearing original characters of its own creation.

The rapid growth which Sanrio achieved from the second half of the 1960s through the first half of the 1970s was attributable partly to the fact that it started as a merchandising company. Sanrio today has 124 direct sales outlets called "Gift Gate." In addition, it wholesales its products to department stores and supermarkets which have set up some 2,700 Sanrio corners on their premises. This extensive sales network is unparalleled in the character products industry, enabling Sanrio to take a bullish posture and never sell its products at a discount.

Success of 'Hello Kitty'

Another factor which has helped Sanrio attain its amazing growth is the great variety of hit characters it has created. Sanrio presently has about 50 characters, including the all-time hit "Hello Kitty" and the popular "Little Twin Stars," "The Vaudeville Duo" and "My Melody." Al-

most all Sanrio characters earn more than ¥1 billion (about \$6.9 million at the rate of ¥145/\$) each, annually. But, as Tsuji lamented, uncertainty is always present in the character business. "It often happens that even if we develop 60 characters in one year, none of them becomes a hit," he says. "On average, one out of 100 characters enjoys popularity lasting for five years, and only one out of 300 seven years." Accordingly, diversification has always been the company's most important management aim. Yet various forays into film production, publishing and the vast United States market—all of which Sanrio has attempted in its tenacious drive to become the Walt Disney of Japan—have ended in failure.

Sanrio started motion picture production in 1973. It produced 24 motion pictures altogether, including *Who Are the Devolts? And Where Did They Get Nineteen Kids?* (*Ai-no Family*), *The Fox* (*Kita-kitsune Monogatari*) and *Sea Prince and the Fire Child* (*Sirius-no Densetsu*). However, *The Fox* was the only box-office success to bring the company profit from distribution. Likewise, Sanrio started publishing Silhouette Romance books under license from Simon and Schuster in 1981. But the series was suspended in April 1985 after the copyright of Silhouette Romance was bought out—ironically, by Harlequin Enterprise, rival of Simon & Schuster in the romance novel field. On this venture alone Sanrio posted an extraordinary loss of ¥1 billion, including all related expenses.

As for its advance into the United States, Sanrio Inc., a character products marketing company (capitalized at \$8 million), went into the red following the failure of an American toy company in which it had invested capital in July 1985. In the business year ending in July 1986 Sanrio had to post an assessment loss of half of Sanrio Inc.'s stock, which it held.

Around that time, the market for its mainline character goods also contracted due not only to intensifying competition, but also to a rapid drop in the age of consumers of character goods. This drop was caused, according to trade sources, by a simple chain reaction. Junior high school students imitate senior high school students who wear or carry character goods, which in turn drives the senior high school students away from the products. This chain reaction spreads to primary school pupils, who similarly buy character goods in imitation of the junior high school students, thus causing their role models to abandon them.

Snoopy to the rescue

At about the same time, Sanrio's original hit characters also lost their appeal, forcing Sanrio to enlist the aid of such American standbys as Snoopy and Felix the Cat. Beset with troubles both at home and abroad, Sanrio's business performance could not exactly be described as stable over the past several years.

The primary factor saving Sanrio from its plight has been the aggressive fund procurement conducted since the company went public in April 1982, and the profits obtained from managing those funds. Roughly estimated, Sanrio has raised as much as ¥66.2 billion from six financing operations between a public subscription issue of 2.95 million shares in April 1982 and the issue of domestic convertible bonds in April this year.

The amount of funds managed and entered in the balance sheet increased sharply from ¥14.3 billion in its 1982 business year to ¥81.8 billion in its 1986 business year. Moreover, the nonoperating loss of ¥700 million posted in the 1982 term had been replaced by ¥3.4 billion in gross profits by the end of the 1986 business year. In other words, Sanrio absorbed losses from film production and publishing, and the loss incurred by its American subsidiary, by playing the "zai-tech" money game. There is a hidden downside to the company's miraculous

growth, however. As a result of its ballooning capital, per-share net profit was almost halved from ¥97 in the year ending July 1982 to ¥44 in the 1986 term.

Sanrio used to make it a rule not to purchase land when it opened new stores. However, the company has changed this burden-free management policy. It now buys land when it sets up a large store to make sure of a space for events. One major motivation was that with consumer interest in its mainline character goods sagging, the company adopted a new policy of sponsoring "events" in a bid to turn business upward. Sanrio has been sponsoring such seasonal events as parties celebrating Christmas, Valentine's Day, Halloween and Mother's Day at its outlets throughout Japan, and event-holding has become a vital component of its business know-how. The company also holds regular "Strawberry Parties," inviting subscribers to Sanrio's *Strawberry Newspaper*, with a circulation estimated at 150,000, and once a year stages a "Sanrio Festival" through a tie-up with Isetan Department Store and other major department stores.

Amusement and study

The ability of these events to attract participants has improved steadily; children seem more than willing to attend. Sanrio has even decided to revamp its standardized store layout into one capable of holding events all year round, a policy that has become increasingly pronounced since it opened its Kokura Store in the 1985 business term. The floor space of Sanrio stores has expanded considerably; by the end of November, in the 2-chome section of Tokyo's Ginza district, the company will open its largest store ever—one capable of holding events all the time. Consisting of two levels, the store will have a total floor space of 726 square meters. One floor will be a conventional Sanrio store, centering around the display and sale of Sanrio character goods. The second floor will be an event space. This will be followed in the spring



of 1988 by a major event hall with a total floor space of 2,310 square meters in a mammoth shopping center in Funabashi City, Chiba Prefecture.

In addition to such innovative efforts in stores, the company is staking its corporate future on the construction of the Sanrio version of Disneyland. Sanrio Communication World (SCW) will be built on a 21,000-square-meter site in front of Tama Center Station in the suburbs of Tokyo purchased from the Housing and Urban Development Corporation. When completed in the spring of 1989, SCW will have nine domed theaters in a large compound. According to Tsuji, the difference between SCW and Disneyland is that "Disneyland offers only amusement and play. We are planning to devote 20% of our facilities to study, and 80% to play. Amusement will be provided in the nine theaters, where we will create worlds of science and fantasy audio-visually. Meanwhile, we will demonstrate paper-making and automobile assembly processes in the compound with the cooperation of those industries to give our visitors opportunities for study."

A project of this scale would be difficult for Sanrio to undertake single-handedly. It has already enlisted the cooperation of Landmark Co., the planners of Disneyland in the U.S., Toppin Printing Co. and movie-maker Toho Co. Sanrio anticipates an annual turnout of about 1.2 million people, far smaller than Tokyo Disneyland's 10 million. Tsuji doesn't mind the difference. "That's enough," he says.

These days, event halls of all types are packed to capacity, and long queues form up at their doors. In order to spare visitors the inconvenience of standing in long lines at each SCW pavilion, Sanrio is studying a personalized service system for the theme park which, if successful, will be implemented nationwide. The total cost of Sanrio Communication World is estimated at a formidable ¥35 billion. Tsuji has taken on the challenge of starting up new businesses many times in the past, but SCW will be his last such challenge.

