

# Japanese Companies Forge New Business Relationships

## — The Nissay Business Conditions Survey

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### Introduction

Japan has long been known for business practices typified by keiretsu relationships and rebates to favored customers. But foreign criticism of the lack of transparency, coupled with a shifting industrial structure have pushed Japanese companies to revise business practices and relationships with a growing sense of urgency. One of the key factors in this transformation has been information technology and the growth of electronic commerce, providing a new framework for business-to-business transactions.

The latest Nissay Business Conditions Survey (conducted in August jointly by Nippon Life Insurance Company and the NLI Research Institute, with 3,627 responses from companies nationwide), focuses on recent changes in business-to-business (B2B) transactions.

The survey finds that many companies are increasing their number of business partners across all types of transactions from procurement to sales and financial transactions. Factors playing a role in this trend include an increase in multiple small-lot transactions, and shortening of delivery times.

Factors determining the choice of business partners are shifting from an emphasis on perpetuating existing business ties, to seeking partners who can provide business solutions and planning capabilities, and after-sales service.

Companies are introducing e-commerce at a steady pace, and expect its growth to lead to lower procurement costs, shorter delivery times, and more intense competition.

### 1. Increase in Business Ties

With regard to procurement, most companies (68.4%) report no change in the number of vendors over

the past two or three years, while 23.0% report an increase, and 6.3% a decrease (Figure 1).

By industry, vendors increased most in information services (43.6%), restaurant (38.3%), and electric machinery (35.2%) industries, and decreased in general & precision machinery (10.7%) and nonferrous metal & metal products. By company size, we note a relatively large proportion of large companies (9.2%) reporting a decrease.

**Figure 1 Change in Number of Vendors (Procurement)**

(%)

	Increased	Decreased	No change	No transactions
<b>All industries</b>	<b>23.0</b>	<b>6.3</b>	<b>68.4</b>	<b>0.5</b>
<b>Selected industries</b>				
Nonferrous/metal products	22.4	9.6	67.3	0.0
General/precision machinery	29.5	<b>10.7</b>	58.5	0.4
Electric machinery	<b>35.2</b>	9.0	53.8	0.0
Transport/warehousing	13.2	4.1	81.9	0.8
Wholesale	24.5	6.5	68.2	0.2
Restaurant	<b>38.3</b>	4.3	51.1	0.0
Information services	<b>43.6</b>	1.3	52.6	0.0
Finance	19.4	9.7	54.8	0.0
<b>Company size</b>				
Large	19.6	<b>9.2</b>	69.6	0.4
2nd tier	25.5	5.9	66.6	0.4
Small & medium	22.4	6.3	69.1	0.6

Note: Figures may not add up to 100 due to incomplete responses.

On the sales side, most companies (55.4%) report no change in the number of customers, while 29.4% report an increase, and 8.9% a decrease (Figure 2). By industry, customers increased most in information services (53.8%) and electric machinery (41.9%), and decreased in wholesale trade (14.4%) and finance (16.1%). By company size, we note a relatively large proportion of small & mid-sized companies reporting a decrease.

**Figure 2 Change in Number of Customers (Sales)**

(%)

	Increased	Decreased	No change	No transactions
<b>All industries</b>	<b>29.4</b>	<b>8.9</b>	<b>55.4</b>	<b>3.0</b>
<b>Selected industries</b>				
Nonferrous/metal products	33.3	5.8	59.6	0.0
General/precision machinery	34.8	6.3	55.4	0.4
Electric machinery	<b>41.9</b>	6.7	48.6	0.5
Transport/warehousing	21.4	11.1	63.4	2.9
Wholesale	32.9	<b>14.4</b>	50.5	0.2
Restaurant	19.1	4.3	40.4	25.5
Information services	<b>53.8</b>	3.8	39.7	1.3
Finance	35.5	<b>16.1</b>	32.3	3.2
<b>Company size</b>				
Large	28.8	3.8	56.2	5.8
2nd tier	29.9	7.8	55.3	4.3
Small & medium	29.4	<b>10.0</b>	55.3	2.3

Note: Figures may not add up to 100 due to incomplete responses.

Finally, with regard to ties with financial institutions, a large proportion of companies (74.0%) reports no change, while 14.3% report an increase, and 10.0% a decrease (Figure 3). Only 1.0% of all companies changed their main bank.

By industry, ties with financial institutions increased most in communications (22.0%), information services (21.8%), and retail trade (19.7%), and decreased in steel (19.6%) and chemical (13.2%) industries. The proportion of companies changing main banks is highest in the textile & apparel (4.1%) and steel (3.9%) industries.

By company size, the decrease in ties with financial institutions is most pronounced among large companies (16.9%), indicating that they are most active in limiting business ties with financial institutions.

**Figure 3 Changes in Transactions with Financial Institutions**

(%)

	Increased	Decreased	Changed main bank	No change
<b>All industries</b>	<b>14.3</b>	<b>10.0</b>	<b>1.0</b>	<b>74.0</b>
<b>Selected industries</b>				
Textile / apparel	14.3	4.1	<b>4.1</b>	77.6
Steel	5.9	<b>19.6</b>	<b>3.9</b>	70.6
Chemical	8.4	<b>13.2</b>	1.1	77.4
Communications	<b>22.0</b>	4.9	2.4	70.7
Retail	<b>19.7</b>	12.8	1.1	65.6
Information services	<b>21.8</b>	6.4	0.0	70.5
<b>Company size</b>				
Large	11.9	<b>16.9</b>	1.5	69.2
2nd tier	14.3	12.2	0.9	71.9
Small & med.	<b>14.6</b>	8.5	1.0	75.5

Note: Numbers may not add up to 100 due to multiple responses.

## 2. More Small-Lot Transactions, Shorter Delivery Times

Two-thirds of the companies report that the characteristics of B2B transactions have changed recently. The most commonly cited change is an increase in multiple small-lot transactions (31.5%; Figure 4). Other changes include shorter delivery times (26.1%), increase in cash settlements (12.1%), increase in additional services (11.9%), and decrease in transactions with other keiretsu affiliates (7.2%).

By industry, an increase in multiple small-lot transactions and shorter delivery times are most pronounced in textile & apparel and food products. Keiretsu-related transactions have decreased most in the transport equipment industry, which includes automobiles (15.8%). Rebates have decreased most in wholesale trade (17.6%), while cash settlements have increased most in textile & apparel (22.4%) and wholesale trade (20.5%), and additional services in transportation & warehousing (27.6%).

By company size, small and mid-sized companies tend to cite an increase in multiple small-lot transactions (32.7%) and decrease in rebates (7.6%), while large companies are relatively more affected by a decrease in keiretsu-related transactions (8.1%).

**Figure 4 Significant Changes in the Characteristics of B2B Transactions**

(%)

	Fewer keiretsu transactions	More of frequent small-lot transactions	Fewer rebates	Fewer product returns	More cash settlements	Shorter delivery times	More additional services	No change
<b>All industries</b>	<b>7.2</b>	<b>31.5</b>	<b>7.0</b>	<b>1.2</b>	<b>12.1</b>	<b>26.1</b>	<b>11.9</b>	<b>35.6</b>
<b>Selected industries</b>								
Textile/apparel	8.2	<b>59.2</b>	2.0	2.0	<b>22.4</b>	<b>44.9</b>	0.0	16.3
Foods	4.0	<b>54.0</b>	2.9	2.3	9.2	<b>25.9</b>	13.8	25.9
Transport equipment	<b>15.8</b>	25.7	6.6	1.3	3.9	25.0	3.3	48.0
Transport./warehous.	9.5	30.9	2.5	0.4	4.5	11.9	<b>27.6</b>	40.7
Wholesale	5.7	41.2	<b>17.6</b>	1.4	<b>20.5</b>	20.9	13.2	24.5
<b>Company size</b>								
Large	8.1	24.2	1.9	1.9	11.9	28.1	11.9	39.2
2nd tier	6.4	30.4	6.9	1.2	13.2	28.4	12.2	36.2
Small & medium	7.4	<b>32.7</b>	<b>7.6</b>	1.1	11.7	24.9	11.8	35.1
<b>No. of vendors</b>								
Increased	9.5	<b>43.5</b>	7.8	1.3	<b>17.1</b>	<b>33.5</b>	12.9	23.0
No change	5.9	27.4	6.6	0.7	11.0	23.1	11.6	41.6
Decreased	<b>13.5</b>	<b>40.0</b>	8.3	3.9	10.4	<b>37.0</b>	13.9	21.7
<b>No. of customers</b>								
Increased	9.4	<b>42.2</b>	6.5	0.7	<b>16.1</b>	<b>35.2</b>	14.7	23.3
No change	5.2	27.3	6.7	0.9	10.8	22.4	10.7	43.4
Decreased	<b>14.5</b>	<b>34.6</b>	<b>12.3</b>	2.2	12.7	<b>27.5</b>	15.1	22.5

Note: Numbers may not add up to 100 due to multiple responses.

### 3. New Priority: Business Solutions & Planning Capability

With regard to procurement patterns, past business ties are losing ground to a growing emphasis on business solutions and planning capability.

Looking at the past, priorities centered around price (61.3%), quality (55.5%), and past business ties (39.9%). Less importance was placed on business solutions and planning capability (9.8%), after-sales service (5.7%), reputation (3.2%), and service at the time of sale (2.8%), and product lineup (2.5%; Figure 5).

By industry, the three central factors of price, quality, and past business ties were strongly emphasized in the steel, chemical and transport equipment industries. In contrast, business solutions and planning capability was emphasized by textile & apparel (20.4%), wholesale trade (17.6%), and retail trade

(13.4%), and after-sales service by retail trade (10.4%) and finance (16.1%).

Looking to the future, price (60.6%) and quality (59.1%) will continue to be important (Figure 5). In particular, the quality factor increases 3.6 percentage points in the future, indicating a strong stance to further upgrade quality. On the other hand, companies expect past business ties to decline in importance, as seen by its 28.1 percentage-point plunge to 11.8% (Figure 6). In addition, reputation will also decline by 2 percentage-points. These will be replaced by business solutions and planning capability, which surges 23.9 percentage points to 33.7%, and after-sales service, which rises 8.9 percentage points to 13.8%.

By industry, quality will grow in importance in the steel (+15.7 points), retail (+8.7 points), and chemical (+7.9 points) industries. Business solutions and planning capability will grow in priority in the textile & apparel (+34.7 points), wholesale (+32.1 points), and transport equipment (+31.6 points) industries. After-sales service is a growing priority for finance (+16.2 points), wholesale (+10.1 points), and retail (+9.5 points), while product lineup will be emphasized the chemical industry (+5.2 points). On the other hand, past business ties will be downplayed most in the transport equipment (-36.2 points) and chemical (-32.1 points) industries.

By company size, the emphasis on price, quality, and business solutions and planning capability increases with company size. On the other hand, past business ties, service at sales, after-sales service, and product lineup are increasingly emphasized as company size decreases (Figure 5).

**Figure 5 Future Priorities**

	Reputa- tion	Past business ties	Price	Quality	Solution/ planning ability	Service at sale	Service after sale	Merchan- dise lineup
<b>All industries</b>	<b>1.2</b>	<b>11.8</b>	<b>60.6</b>	<b>59.1</b>	<b>33.7</b>	<b>2.2</b>	<b>13.8</b>	<b>4.4</b>
Selected industries								
Textile/apparel	2.0	8.2	53.1	53.1	<b>55.1</b>	2.0	4.1	8.2
Steel	0.0	<b>19.6</b>	70.6	<b>76.5</b>	11.8	2.0	2.0	3.9
Chemical	1.1	13.2	67.9	72.1	26.3	1.1	7.9	6.3
Transport equipment	1.3	7.2	<b>72.4</b>	65.8	35.5	0.0	6.6	2.0
Wholesale	2.2	12.0	50.1	43.6	<b>49.7</b>	3.4	16.2	9.1
Retail	1.4	13.9	54.4	47.8	38.3	4.9	<b>19.9</b>	5.7
Finance	3.2	<b>16.1</b>	35.5	25.8	19.4	3.2	<b>32.3</b>	0.0
<b>Company size</b>								
Large	0.8	9.6	<b>66.5</b>	63.8	<b>37.7</b>	0.4	10.0	2.3
2nd tier	0.8	10.7	65.1	63.7	33.4	1.6	12.3	2.9
Small & medium	1.4	<b>12.3</b>	58.2	56.9	33.4	2.5	<b>14.9</b>	5.3

Note: Numbers may not add up to 100 due to multiple responses.

**(For reference) Priorities in the past**

<b>All industries</b>	<b>3.2</b>	<b>39.9</b>	<b>61.3</b>	<b>55.5</b>	<b>9.8</b>	<b>2.8</b>	<b>5.7</b>	<b>2.5</b>
<b>Company size</b>								
Large	2.7	31.9	69.2	63.8	11.9	1.5	3.1	0.8
2nd tier	2.3	40.1	63.8	60.4	8.3	3.1	4.6	2.3
Small & medium	3.6	40.8	59.6	52.8	10.3	2.8	6.5	2.8

**Figure 6 Change in Priorities (Future Minus Past)**

(Percentage points)

	Reputa- tion	Past business ties	Price	Quality	Solution/ planning ability	Service at sale	Service after sale	Product lineup
<b>All industries</b>	<b>-2.0</b>	<b>-28.1</b>	<b>-0.7</b>	<b>3.6</b>	<b>23.9</b>	<b>-0.6</b>	<b>8.1</b>	<b>1.9</b>
<b>Selected industries</b>								
Textile/apparel	-2.1	-16.3	-8.1	0.0	<b>34.7</b>	2.0	2.1	-2.0
Steel	-2.0	-23.5	-3.9	<b>15.7</b>	5.9	2.0	2.0	1.9
Chemical	0.0	<b>-32.1</b>	2.6	<b>7.9</b>	20.0	0.0	5.8	<b>5.2</b>
Transport equipment	-0.7	<b>-36.2</b>	2.0	1.3	<b>31.6</b>	0.0	3.3	2.0
Wholesale	-3.1	-28.0	-5.7	0.0	<b>32.1</b>	-1.9	<b>10.1</b>	3.0
Retail	-3.2	-27.9	-1.3	<b>8.7</b>	24.9	-3.6	<b>9.5</b>	1.6
Finance	-3.3	-16.2	-3.2	-9.7	12.9	0.0	<b>16.2</b>	0.0
<b>Company size</b>								
Large	-1.9	-22.3	-2.7	0.0	25.8	-1.1	6.9	1.5
2nd tier	-1.5	-29.4	1.3	3.3	25.1	-1.5	7.7	0.6
Small & medium	-2.2	-28.5	-1.4	4.1	23.1	-0.3	8.4	2.5

#### 4. Progress in E-Commerce

E-commerce (commercial transactions conducted over the Internet) has been implemented by 12.8% of companies, and another 30.7% are the process of implementation, for a total of 43.5% who are involved in e-commerce (Figure 7).

When we asked the same question in February of this year, 12.4% reported being e-commerce ready and 20.6% in the process, for a total of 33.0%. Thus e-commerce appears to have made steady progress in the past half year.

By industry, the e-commerce adoption rate is highest in information services (32.1%) and personal services (28.6%). Furthermore, the status of adoption is correlated with company size.

**Figure 7 Status of E-Commerce Adoption**

	This survey				Previous survey (Feb. 2000)			
	In use- (A)	Under study (B)	Not Planned	(A+B)	In use- (A)	Under study (B)	Not Planned	(A+B)
<b>All industries</b>	<b>12.8</b>	<b>30.7</b>	<b>55.1</b>	<b>43.5</b>	<b>12.4</b>	<b>20.6</b>	<b>65.4</b>	<b>33.0</b>
<b>Selected industries</b>								
General/precision machinery	17.0	32.6	48.2	49.6	14.9	19.1	65.5	34.0
Publishing/printing	24.6	28.1	45.6	52.7	29.8	17.5	50.9	47.3
Retail	20.2	34.7	42.6	54.9	13.8	28.7	55.3	42.5
Information services	<b>32.1</b>	33.3	34.6	<b>65.4</b>	27.0	35.7	33.9	62.7
Specialized services	18.5	22.2	59.3	40.7	20.4	18.4	55.1	38.8
Personal services	<b>28.6</b>	35.7	31.4	<b>64.3</b>	22.2	27.2	48.1	49.4
Finance	19.4	19.4	58.1	38.8	19.2	3.8	76.9	23.0
<b>Company size</b>								
Large	<b>22.3</b>	37.7	39.2	<b>60.0</b>	21.9	23.7	51.6	45.6
2nd tier	13.8	34.8	49.9	48.6	15.3	23.4	60.0	38.7
Small & medium	11.4	28.4	59.0	39.8	10.3	19.1	69.0	29.4

Note: Numbers may not add up to 100 due to incomplete responses.

## 5. Lower Input Prices, Increased Competition Expected

Companies expect e-commerce to impact the procurement of products and services most in the following areas: lower prices (31.8%), shorter delivery time (27.7%), finding good business partners (21.1%), and increasing the number of business partners (16.3%; Figure 8). The benefits of e-commerce are expected to come from eliminating middlemen and improving access to information on companies and transactions.

By industry, lower prices are anticipated most in information services (44.9%) and steel (37.3%), and shorter delivery times in electric equipment (42.4%) and general & precision machinery (39.7%). The expectation of finding good business partners is highest in general & precision machinery (33.0%), while more business partners are expected in information services (28.2%) and electric machinery (22.4%). Increased transparency of transactions is expected in printing & publishing (12.3%), while the diversification of transactions is expected in wholesale (17.4%) and chemical (15.3%) industries.

By company size, expectations for lower prices and shorter delivery times tend to increase with company size, indicating a stance to use their purchasing power to win better procurement terms. In contrast, expectations of an increase in business partners, greater transparency of transactions, and no change in particular are inversely correlated to company size.

**Figure 8 Expected Effects of E-Commerce (Procurement)**

(%)

	More vendors	Less vendors	Lower prices	Better vendors	More transparency	Faster delivery	More competition	More diverse transactions	No major effect	Don't know
<b>All industries</b>	<b>16.3</b>	<b>1.5</b>	<b>31.8</b>	<b>21.1</b>	<b>7.7</b>	<b>27.7</b>	<b>7.6</b>	<b>13.2</b>	<b>14.1</b>	<b>10.8</b>
<b>Selected industries</b>										
Steel	17.6	0.0	<b>37.3</b>	23.5	2.0	23.5	7.8	7.8	11.8	17.6
Chemical	15.8	1.1	36.3	17.4	7.9	33.7	10.0	<b>15.3</b>	14.2	8.9
Gen./prec. machin.	18.3	1.8	37.1	33.0	5.8	<b>39.7</b>	5.4	9.4	5.8	8.5
Electric machinery	22.4	1.9	34.3	23.3	9.0	<b>42.4</b>	9.5	9.0	6.2	8.6
Publishing/printing	8.8	3.5	36.8	19.3	<b>12.3</b>	38.6	7.0	14.0	5.3	10.5
Wholesale	18.7	2.2	28.2	17.0	8.1	24.3	7.5	<b>17.4</b>	16.6	9.9
Information serv.	28.2	1.3	<b>44.9</b>	16.7	11.5	30.8	9.0	14.1	3.8	5.1
<b>Company size</b>										
Large	13.1	2.3	<b>42.3</b>	22.7	5.8	<b>35.0</b>	7.7	13.5	9.2	8.8
2nd tier	16.1	1.4	33.1	24.1	7.4	32.4	7.3	14.2	12.3	8.6
Small & medium	<b>16.7</b>	1.5	30.2	19.7	<b>8.0</b>	25.1	7.7	12.8	15.4	11.9

Note: Numbers may not add up to 100 due to multiple responses.

With regard to the impact on sales, the most common expectation is for increased competition (30.2%), apparently due to new entrants and tougher terms of transaction (Figure 9). Other expectations include more diverse transactions (22.4%), increase in business partners (20.6%), and shorter delivery times (15.5%).

By industry, increased competition is expected most in steel (41.2%) and wholesale trade (36.1%); diversification of transactions in retail trade (30.1%) and wholesale trade (27.2%); increase of business partners in information services (34.6%) and general & precision machinery (27.7%); faster delivery times in electric machinery (31.4%); and lower prices in steel (29.4%) and information services (23.1%). Expectations of e-commerce effects are most muted in real estate (39.3%).

By company size, expectations of increased competition, diversification of transactions, and price reductions grow stronger as company size increases, while expectations of finding good business partners grow stronger as size decreases.

**Figure 9 Expected Effects of E-Commerce (Sales)**

(%)

	More vendors	Less vendors	Lower prices	Better vendors	More transparency	Faster delivery	More competition	More diverse trans-actions	No major effect	Don't know
<b>All industries</b>	<b>20.6</b>	<b>0.7</b>	<b>14.9</b>	<b>10.7</b>	<b>4.4</b>	<b>15.5</b>	<b>30.2</b>	<b>22.4</b>	<b>14.8</b>	<b>12.8</b>
<b>Selected industries</b>										
Textile/apparel	24.5	0.0	12.2	14.3	2.0	14.3	22.4	22.4	16.3	18.4
Steel	13.7	0.0	<b>29.4</b>	7.8	3.9	19.6	<b>41.2</b>	9.8	3.9	23.5
Gen./prec. machin.	<b>27.7</b>	0.4	12.5	<b>18.8</b>	2.7	21.9	27.7	17.9	11.2	12.1
Electric machinery	16.7	0.0	16.2	8.1	5.2	<b>31.4</b>	30.0	16.7	17.1	9.0
Real estate	14.8	0.0	8.2	3.3	0.0	1.6	16.4	14.8	<b>39.3</b>	16.4
Wholesale	18.7	1.6	16.6	12.8	4.5	14.6	<b>36.1</b>	<b>27.2</b>	12.4	11.0
Retail	19.7	0.5	15.8	7.9	4.6	7.1	35.2	<b>30.1</b>	12.6	10.9
Information serv.	<b>34.6</b>	0.0	<b>23.1</b>	17.9	6.4	20.5	32.1	17.9	6.4	6.4
<b>Company size</b>										
Large	22.3	0.4	<b>17.3</b>	8.8	6.5	16.9	<b>32.7</b>	<b>27.7</b>	9.6	11.5
2nd tier	21.2	0.8	15.1	10.2	3.9	16.8	31.9	23.8	13.9	11.7
Small & medium	20.2	0.8	14.5	<b>11.1</b>	4.5	14.8	29.4	21.3	15.8	13.5

Note: Numbers may not add up to 100 due to multiple responses.

## The Nissay Business Conditions Survey

Survey period: August 2000

No. of valid responses: 3,627 companies

### By company size

	No. of companies	Composition (%)
Large	260	7.2
2nd tier	954	26.3
Small & medium	2,398	66.1
No answer/other	15	0.
Total	3,627	100.0

Note: Large companies have over 1,000 employees; 2nd tier 301-1,000  
small & med. under 300.

### By region

	No. of companies	Composition (%)
Hokkaido	83	2.3
Tohoku	267	7.4
Kanto	956	26.4
Koshinetsu/Hokuriku	279	7.7
Tokai	470	13
Kinki	815	22.5
Chugoku	260	7.2
Shikoku	125	3.4
Kyushu	260	7.2
No answer/other	112	3.1
Total	3,627	100.0