Decline of Business Brings Growth Opportunities

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Abstract: Many small and medium-sized enterprises’ managers hesitate to launch new businesses for the diversification or business change. In the case of new business launching by Yamato Industrial and Yamaguchi Kasei, decline of their existing businesses was a threat, and simultaneously, it has become an opportunity for launching new business, just as the saying “tough times bring opportunity.” In addition, the experience of launching a second business, rather than experience at startup, will motivate managers to launch businesses continuously.

Keywords: entrepreneurship, diversification, small and medium-sized enterprises

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1. Introduction

Peterson (1977) pointed out that many small and medium-sized enterprises (SMEs) are turnover firms, and do not last long after they start. Diversification of new businesses is an effective method for the stable growth of firms (Ansoff, 1957), yet the small number of SMEs that aggressively diversify can be noted as a factor in the large number of turnover firms.¹

When a company is founded, managers are expected to have the entrepreneurship required to launch a new business. So why, then, do they not launch second and third businesses after the first? The following factors can be noted.

(1) Managers lose the ambition to start new businesses. Penrose (1959, 1980, 1995, 2009) pointed out that some managers are satisfied² with a certain amount of monetary compensation, and do not have the ambition for further business expansion. In addition, goals are sometimes achieved at the time a company is started when entrepreneurial motives are to work at one’s own discretion or to work regardless of age (Kuratko, Hornsby, & Nffziger, 1997; Tsuchiya, 2016).

(2) Managers become overwhelmed with managing their existing businesses, and lose any capacity to launch a new business. After a company is founded, the company needs management of human resources, finances, and legal aspects to survive as a corporate organization (Lewis & Churchill, 1983). When founders do this work without hiring outside

¹ The Small and Medium Enterprise Agency (2013) used actual data to show that SMEs diversify and undergo business transformation at less frequency compared to large firms.
² Herzberg, Mausner, and Snyderman (1959) noted that monetary compensation is a hygiene factor that suppresses dissatisfaction, and is not a motivating factor.
experts as managers, their existing business takes away their time and energy, making it difficult to deal with launching a new business.

(3) The belief that the current scope of business should be maintained becomes established in managers. If a company has a clear business plan, it is given a consistent direction for product development, which is a factor in promoting the success of a company launch (Delmar & Shane, 2003). However, having a specific target through market analysis and embodying such elements as competencies for one’s firm, limits the scope of subsequent business, and constrains later expansion.³

(4) Many companies have only one line of business at their founding. As a matter of course, experience is succeeded by specializing in a single project accumulated and not by diversification.⁴ From this experience, learning that it should specialize in the existing business, it inhibits diversification.⁵

Due to these factors, many SMEs that once launched a new business do not do so afterward. What is the trigger for SMEs, which are in stable operation of existing businesses, to switch over to a new business launching? This paper introduces the cases of two companies: Yamato Industrial Co., Ltd. (hereinafter YI) and Yamaguchi Kasei Co., Ltd. (hereinafter YK).

³ Levitt (1960) and Sakakibara (1992) noted that recognition and definition of own business by a company constrains development of the business and hinders growth.

⁴ In organizational learning, it has been indicated that there is a phenomenon called success traps, in which exploitation of existing technologies and knowledge is prioritized ahead of exploration to acquire new technologies and knowledge (Levinthal & March, 1993; Sato, 2012).

⁵ Tichy and Devanna (1986), Leonard-Barton (1992), and Takahashi (2015) have noted that the existence of successful business sometimes become an impediment to the development of new business.
2. A Case of YI

This section is about the diversification of YI, based on Kosugi (2014), and first introduces its primary business of control cable-related products, and then the launch of its LED penlight business.

Growth through the control cable business

YI is an SME located in Shizuoka Prefecture that was founded in 1944. In its initial period its primary business was the manufacture and sales of agricultural tools, but at the request of Yamaha Motor Co., Ltd., which had begun to manufacture motorcycles, it became a partner company, and started to manufacture tools and jigs in 1955. YI was highly regarded in its ongoing relationship with Yamaha, and became responsible for assembly of motorcycle control cables starting in 1958. This became its primary business, and the company subsequently began process innovation with control cables.

Expansion outside of control cables began with the company undertaking the manufacture of water tubes for outboard motors in 1963, and the company acquired pipe bending technology. Leveraging this, the company moved into the business of manufacturing metal pipe products for Yamaha’s motorcycles, and then moved forward with customers outside of motorcycles, while taking orders to manufacture rubber hoses for automotive heat pipes and air conditioning using resin molding technology.

With its above business expansion mainly with control cables, the company responded to the requests of customers, primarily Yamaha, to leverage the related metal processing and resin molding technologies it had developed. This can be seen as technology-related or market-related business expansion.
Launch of LED pen light business

YI grew with its control cable business at its core, but after the collapse of the Japanese economic bubble at the start of the 1990s, motorcycle sales decreased, which brought down revenues from control cable sales. The company was also forced to reduce the cost of control cables by 30%, but even with continued production innovation, management predicted that they would eventually reach their limit. There was a growing sense across the company of the need to create YI-branded products to become more than a supplier company. Inspired from the experience that the whole company was excited by coloring the venue with various lights at a celebration party of the company’s 50th anniversary, they started a new product development project with the concept to “make a product that brightens the world and makes people happy.”

Mr. Ujihara, the head of R&D at YI was put in charge of this project. Upon consulting with the local police department, he got the idea that night-time pedestrians needed a portable light to prevent traffic accidents, and he began working on developing a traffic safety light. Because products using traditional light bulbs were blurry sources of light, much thought was given to various light sources, and ultra-bright red and orange LEDs were chosen for their vivid brightness. Product designs incorporating LED, and the production process, including the manufacture of light-emitting tubes, could be done with the company’s own technologies and equipment, so there were no impediments to ramping up production. But the company had no experience outside of B2B sales, and it had not thought to determine sales volumes and prices through market surveys, or to develop sales channels. Consequently, it ended up manufacturing 10,000 products without doing any marketing, and only afterward developed sales channels, while making it difficult to sell through all of its inventory.
Because of that experience, the company developed its second product while setting sales targets and prices, and also developed a sales network. The company’s objective was to sell its products for use in concerts, parties, and in traffic safety, with a price of 1,000 yen. The product was shaped like a penlight, simple and in line with its low price. At the product development stage, the company got information from a Shizuoka University professor very familiar with LEDs that a blue LED had been invented. Decided to be the first to market with a blue LED product, it negotiated with Nichia Corporation, and entered into an agreement with them. Simultaneous with product development, the company displayed at a tradeshow in Tokyo. In 1996 its products were sold through Tokyu Hands and other retail stores, and sold very well. The company developed new clients after they released the product, and sales expanded through the product’s use as penlight for concerts of popular groups and to simulate candlelight at major amusement parks.

After succeeding in launching the new LED penlight business, YI has moved forward into the new business area of LED-based illumination of homes and business facilities.

3. A Case of YK

This section is about the diversification of YK, based on Hanaoka and Wada (2018), and first introduces its primary business of expanded polystyrene-related products, and then the launch of their mousse tire business using “expanded thermoplastic polyurethane (E-TPU).”

Growth through the expanded polystyrene products business

YK is an SME located in Aich Prefecture that was founded in 1953. At the time of its founding, it manufactured rubber string, and
it shifted to expanded polystyrene manufacturing, where domestic demand was growing rapidly. Later, the company steadily expanded into the business of packaging material, insulation for home appliances automobile parts, floats for fishery and civil engineering work, and bead cushions.

Business expansion in this period can be seen as a technology-related expansion leveraging the technology for molding expanded polystyrene as a core competence.

Launch of mousse tire business

The collapse of the Japanese economic bubble, the appearance of alternative products on the market, and price wars caused firms from newly developing countries all halved the Japanese domestic market for expanded polystyrene, and greatly damaged YK performance. The company took orders from anyone just to maintain revenues. This resulted in the company neglecting profit, which put it in an even worse situation.

YK President Matsukura was forced to change the direction of the company’s business, and in addition to studying marketing-related books, he proactively participated in seminars for creating business plans. Through these activities, he deepened his knowledge of creating a new business, and leveraged the company’s manufacturing technology in small product packaging to develop a cold storage container combining expanded polystyrene with paperware. To promote the product, the company exhibited at a packaging tradeshow, “Tokyo Pack,” in January 2013, and first saw a new material called E-TPU, which was developed and put on display by German chemical manufacturer BASF. Matsukura was taken by the potential of the material, and persistently pursued negotiations with BASF, eventually obtaining permission from them to develop products using E-TPU.

After trying to form the new material using the company’s molds
used for expanded polystyrene, he found the material could be processed without problems. He first asked INOAC Corporation, a company well-regarded for its urethane processing technology, for help, and created a prototype of the mousse tire, a bicycle tire that doesn’t puncture because it is filled with E-TPU rather than air. However, the weight of the bicycle, and heat generated by friction when the bike moved at high speed, created problems with warping. Thus, the company considered uses for a tire in something lighter than a bicycle and which only moves at low speeds. Tires for wheelchairs came to mind. They requested the cooperation of Nissin Medical Industries Co., Ltd., Japan’s top manufacturer of wheelchairs, and partnered with them and INOAC Corporation, beginning development of the mousse tire for wheelchairs in March 2013.

This was the second instance of product development using E-TPU in the world, the first being the soles of Adidas running shoes, and was the first such effort in Japan. Sales of the product began in January 2016. The business plan for the product was entered into the 15th Mikawa Business Plan Contest, and received the top prize in the general division. With that prize in hand, the product was featured in several newspapers, and covered in an NHK program broadcast nationwide. This resulted in a great deal of attention and the product becoming a great hit, which restored YK’s performance.

Even after the success of the mousse tire, President Matsukura is working on ideas for new businesses.

4. Discussion

Core rigidity constrains business development in firms, and is part and parcel with the utility of core capability (Leonard-Barton, 1992; Takahashi, 2015). The decline seen in existing businesses is a clear signal of a drop in the utility of existing core capability, and lowers
core rigidity. Further, the decline of an existing business decreases the allocation of resources to existing businesses, and creating legitimacy for investing resources in the launch of a new business.\(^6\)

As the commonly used expression “tough times bring opportunity” goes, it was the decline of existing businesses at YI and YK, and the simultaneous risk, that brought opportunities to launch new businesses.

In looking at what happened after the successful launches of the new businesses at YI and YK, we can see that YI moved into the illumination business for homes and commerce facilities, while at YK the company president was looking for a business using E-TPU, both changing to ambitiously start new businesses. For a company to continuously launch businesses and enjoy sustainable growth, the experience of launching a second business is perhaps more important than the experience of launching the first.

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\(^6\) Takeishi, Aoshima, and Karube (2012), and Kikuchi (2018) pointed out that legitimacy is required to mobilize resources for new innovations.
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