

Seminar Series

## **Cultural Power and Corporate Strategy**

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The following are a series of 17 one page articles that appeared in Japan's Nikkei Shimbun in September and October of 2003. The series entitled "Cultural Power and Corporate Strategy" was written by the Director of the Marubeni Research Institute, Mr. Tsutomu Sugiura. These articles have been translated from the originals.

*Global Trends: The 3rd Wave of Japonism*

*Global Trends: "Japan's Domestic Market" (JDM) Sells in the U.S.*

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**Cultural Power and Corporate Strategy**

It is said that "a large river brings forth wisdom". In Japan though, there are no large rivers, nor large trees, nor wide spaces. There are volcanoes. The volcanoes look heroic, but from time to time visit mud, lava and misfortune upon its residents. The moist climate, being temperamental, shifts easily and violently. There are a multitude of trees of a meek and delicate nature. And, the human inhabitants of this land have been harshly endowed with a cruel stuntedness. The Japanese do not at all radiate, they are pitifully distant, even emotionless. Their character is overly sentimental and serious, bordering on the negative. This is a rough translation of an impression of Japan written by the Belgian born poet and painter, Henri Michaux, during his visits before WWII.

Depending on the individual, there are, of course, a wide array of differing perspectives of the Japanese and Japan's culture. However, with the exception of Michaux, whose views in and of themselves are rather the exception, most non-Japanese have had a fairly fond and favorable view of Japanese culture. Following an exhibition of Japanese cultural articles at the Paris Exposition in 1887, ukiyoe (woodblock prints), kimono and sensu (fans), among other traditional Japanese handicrafts, established themselves as being stylish and fashionable and became objects of

A Genealogy of Views on Japan (Culture)	
▽ Emphasis on Virtues	
· Emile Guimet	Strolls Through Japan, Tokyo-Nikko (1880)
· Lafciando Hearn	Glimpses of Unfamiliar Japan (1894)
▽ Emphasis on Universality	
· Earl Miner	The Japanese Tradition in British and American Literature (1958)
▽ Emphasis on Different Nature	
· Basil Chamberlain	Things Japanese (1890)
· Richard Naisbitt	The Geography of Thought (2003)
▽ Emphasis on Peculiarities	
· Pierre Loti	Autumn in Japan (1889)

admiration, and even more flattering, imitation, throughout France. Even the famous painters Claude Monet and Vincent Van Gogh became enchanted with Japan during this period. This was the first wave of "Japonism", or the Japonism movement, to reach foreign shores.

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*Global Trends: The 3rd Wave of Japonism*

Admiration eventually turned nearly to worship as such notables as the French ambassador to Japan before the war, Paul Claudelle (playwright), and France's culture minister after the war, the famous Andre Marlaux (novelist/critic) who had frequented Japan, and in his work "Museum Without Walls" or "Imaginary Museum", were among the many who sang the praises of Japanese culture for its exceptionally high degree of spirituality and inspiring contribution to culture in general. In the 1950s and 60s, Japanese calligraphers, centered around the likes of Yuichi Inoue and Shiryu Morita, began to resonate with, i.e. influence, the modern abstract expressionist movement then taking place in the U.S. and Europe. This marked the arrival of the 2nd wave, or 2nd generation of Japonism abroad.

More presently, the end of the 20th century and beginning of the 21st century is ushering the 3rd wave, or generation, of the Japonism phenomenon. In any event, in the previous waves of Japonism, there were forms of Japanese culture that caught on and became widely recognized, even commonplace overseas, but did not make it into Japan's own mainstream. The difference this time is that popular modern Japanese culture, widely acknowledged by the young generation in Japan, is being enthusiastically accepted by youth overseas, and turning into widely fashionable trends. This could also be a sign that the Japanese economy is coming around the bend or at least turning down a new fork in the road.

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It is not just traditional Japanese culture that is being exported overseas, in recent years there has been a rapid rise in interest in Japanese modern culture as well. This is especially true of modern Japanese animation and video games, which have become common entertainment for children, and by capturing the essence of Japanese character and lifestyle disseminates Japanese culture and Japanese soul to young people the world over. They have become the object of both admiration and imitation. The English home page of the popular video game "Final Fantasy" has been accessed more than 40 million times, an attestation to its appeal and legion of fans.

Just a glance at the home pages of Japanese animation created for overseas fans and the phenomena is very plain to see. It is overflowing with pictures of smiling youngsters appearing in the outfits of characters from animation. In the U.S. during Halloween more and more children can be seen dressed-up in Power Ranger and Sailor Moon outfits as they make their rounds these days.

Global Spread of Japanese Culture	
▽ Basic Data	
· Number of Japanese Going on Overseas Trips (2002)	16,520,000
· Number of Foreigners Entering Japan (2002)	5,240,000
· Number of Japanese Language Proficiency Test Applicants (2002)	286,000
▽ Number of Traditional Culture English Search Sites	
· Zen · Bonsai · Haiku · Chado · Tanka · Noh · Kabuki	4,570,000
▽ Spread of Contemporary Culture	
· Playstation 2 - Total Number Sold Worldwide (2002)	50,000,000
· U.S. Edition of Comic "Shonen Jump" - Copies Sold (as of August 2003)	540,000

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Furthermore, Japanese animation has lately found its way into the music videos of U.S. and European rock groups in a very exertive way. The French group, Daft Punk, have, for some time, been fond of and enlisted the animation of Reiji Matsumoto. And, in the promotion video for their new song "From a Distance", the British group, "The Orb", engaged the Japanese "Doraemon" character.

### ***Global Trends: "Japan's Domestic Market" (JDM) Sells in the U.S.***

In 2002, the Japanese comic book series "Shonen Jump" made its debut in the U.S. selling more than 500,000 copies a month in the process. The English version of "Guin Saga", a popular science fiction series that has sold more than 25 million copies in Japan, went on sale in the U.S. in 2003. Needless to say, there are many in Japan eyeing the outcome of the sales of these publications with more than passing interest.

The boom in Japanese culture is reflected in U.S. youth's current penchant for original Japanese products, or anything, especially popular, that comes out of the so-called "Japanese domestic market" (JDM). This creates a whole new twist by adding a second pattern in the choice of Japanese products for overseas consumers. The automobile and other major Japanese consumer industries can now join the "JDM" upsurge by riding on the coattails of the current Japanese culture boom taking place worldwide, with the result being a boost to overseas sales.

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For signs that indicate a third wave of Japonism has appeared as a worldwide phenomenon one need look no further than the U.S. writer Douglas McGray, who has written that Japan, from the viewpoint of culture, became the world's new superpower during the 1990s. He coined the term "gross national cool" or GNC, a takeoff on the term gross national product or GNP, as way to explain Japan's cultural power. Cool basically means hip, or for lack of a better word, attractive, and GNC can be thought of as the degree of a country's hip appeal or to put it another way, the extent of its cultural power.

It would be very difficult though to measure the cultural power inherent in GNC in the same fashion as GNP (production power) is measured. In order to do a thorough comparison, statistics would have to be garnered completely from scratch and would be a most time consuming undertaking. Therefore, for the sake of simple comparison, let's try to estimate the scale of GNC by assuming that GNC is made up of mostly culture-related industries.

Japan's Leisure Market (\$ billions)

	1992	1997	2002
Sports Sector	61.0	56.0	46.0
Hobby/Novelty Sector	107.0	119.0	116.0
Amusement Sector	570.0	599.0	559.0
Tourism/Resort Sector	125.0	119.0	109.0
Leisure Industry Total	862.0	893.0	830.0
as % of GDP	17.9%	17.1%	16.6%

Source: Free Time Design Association/Japan Productivity Center for Socio-Economic Development, (Leisure White Paper), Cabinet Office

First, domestically, one industry that is plainly an integral part of the culture market is the leisure industry. The Japan Productivity Center for Socio-Economic Development has estimated that the scale of Japan's leisure industry was some \$830 billion in 2002. Broken down by sector amusement and entertainment was a \$559 billion market, tourism \$100.9 billion, the hobby and novelty business was worth \$116 billion, and sports \$46 billion.

### ***GNC (Gross National Cool): "Domestic Leisure Market the Pillar"***

According to industry related data, other industries that might be considered to be in the domain of culture are education and research, a \$340 million market, information and consulting services at \$100 million, legal, financial and accounting services, and engineering, architecture and design services, both of which are included in the \$230 billion "other business services category", the \$80 billion advertising and \$30 billion broadcasting industries, and the character goods market which is a \$30 billion industry, among other, which together make up the culture market or overall culture industry and is estimated to be \$1.4 trillion in scale. Newspapers, publishing, music, animation, video games, and so on and so forth, actually all generically fall within the contents(information contents) industry, but could, for all practical purposes, be included as part of the leisure industry.

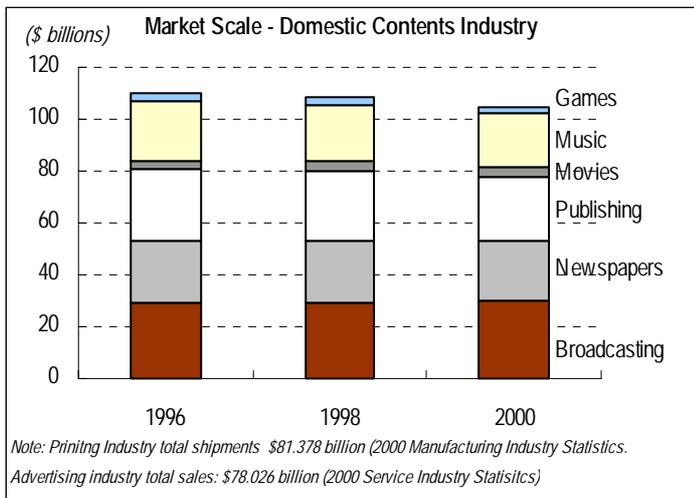
Unfortunately, due to Japan's continued economic stagnation though, Japan's domestic culture-related industry has, as a whole, failed to achieve growth in recent years. From 1997 to 2001, Japan's GDP on a nominal basis shrank 4.4% (\$5.236 trillion to \$5 trillion), while private final consumption expenditure (personal consumption) fell about 1% (\$2.89 trillion to \$2.88 trillion). Reflecting this poor economic situation, Japan's leisure industry, the mainstay of Japan's culture-related industries, saw its market shrink by 7% compared with 5 years before.

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The culture industry includes the worlds of movies, music, publishing, newspapers, video games and animation, among others, that can also be classified within the realm of content, or more specifically the information content industry. This industry, laden with copyrights and broadcasting rights, is intellectual property right intensive.

As in the leisure market, Japan's content industry has been somewhat stagnate in recent years, tending toward flat growth. According to METI, in 2000 the market scale of the broadcasting industry in Japan was approximately \$30 billion, newspapers \$25 billion, publishing \$24 billion, music \$17 billion, movies \$6 billion and video games \$4 billion. The total for the entire content market was around \$106 billion, a slight falloff compared to 5 years before. While broadcasting and movies showed growth during this time, the publishing, music, and video game markets all shrank and the newspaper industry roughly maintained its market size.



In looking at the scale of exports, game software led the industry with \$2.848 billion in foreign sales. In animation it is estimated that 60% of total worldwide exports of broadcasted animation is Japanese. This combined with Japanese movies and other types of broadcasting brought total exports to \$181 million (movies and broadcasting). Publishing exports were \$179 million followed by music with an overseas market of \$34 million. It was approximated that just the income from animation, comics, games and other Japanese character related licensed products in the U.S. alone came to \$150 million.

### ***Market Scale: Content a \$110 Billion Market***

Although the contents industry market has been flat, technological developments and the advance of broadband is creating demand for new content and high expectations for growth in the market.

For example, the U.S. company Teleportec is aiming to establish an international standard for use of its digital teleportation (instant image transmission) technology. This technology is different than that used for the current generation of televised meetings. It would allow for life-like face-to-face meetings where both individual conversation and group discussion can take place in a three-dimensional environment. In the near future, three-dimensional broadcasts of regional sporting events will make it feel as if you are actually at the event and could eventually extend to musicals, concerts and other events from different parts of the world. The day may not be too far away when this type of digital virtual reality is recreated in movies and animation we can view right in our homes.

Japan's comics, animation and other content have already made deep inroads into the markets of the world. It will be interesting to see though, if technological innovations can bring to life past creations in new form, prolong both the life and size of the market in the process.

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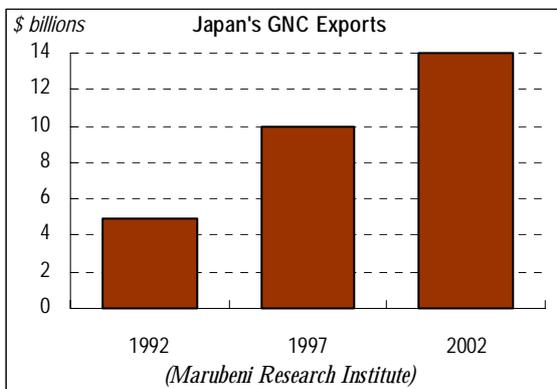
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## Cultural Power and Corporate Strategy

Let's take a look at the growth in Japan's "cultural power", including the contents (information contents) industry, overseas.

We have already proffered a rough formula for calculating Japan's national power through GNC (gross national cool; more or less a country's aggregate cultural power), or the amount of economic value-added gained from culture. Here, by using merchandise and service trade statistics from the industries that make up that GNC formula, we will attempt to measure Japan's cultural power overseas. These exports cover such products (merchandise) as recorded tapes and records, books, magazines, newspapers, paintings/picture books and other publications, exposed and developed plate and film (photos/illustrations, etc.), exposed and developed film for movies, art and handicrafts, collector's items and curios, as well as such service-related trade as patent royalties and income from culture and entertainment (performances/events), among others worthy of note.

Export amounts and income from these culture-related products and services tripled from a combined total of \$5 billion in



1992 to a combined total of nearly \$15 billion by 2002. During same timeframe Japan's total merchandise trade grew by only around 21%, from \$430 billion to \$520 billion. So, by simple comparison, Japan's culture related export growth was much greater

Of these culture-related exports patent fees rose 3.4 times to reach \$13 billion, plate and film already used for photos, etc., increased 12.1 times to \$372 million and overseas income from culture related performances and events jumped 3.2 times reaching \$393 million.

### *Exports: Services Show Substantial Growth*

The categories of recorded movies, and books, magazines, newspapers and other publications fared less well with exports having seen a combined rise of less than 1 times (0.7). Likewise, total exports for art and handicrafts, and collector's items and curios rose 1.6 times, and recorded tapes and records 1.5 times between 1992 and 2002. In fact, it might even be inferred here that "hard" merchandise related cultural exports of film, publications, art works and tapes are moving over in favor of "soft" service related exports of knowledge rights, performances, etc.

In support of this theory, according to the Survey of Research and Development put out by the Ministry of Home Affairs, Public Management and Telecommunications, over the past 10 years Japan's total technology exports grew 3.3 times, substantially exceeding the increase in technology imports of 1.7 times. These were also greater than the U.S. rise in technology exports of 2 times over the same period. Conversely, U.S. imports of technology jumped by 3.8 times. As a result, the U.S. technology export to import ratio (exports divided by imports) fell from 4.4 in 1991 to 2.4 by 2001, while Japan's ratio showed a rise from 0.47 to 0.94.

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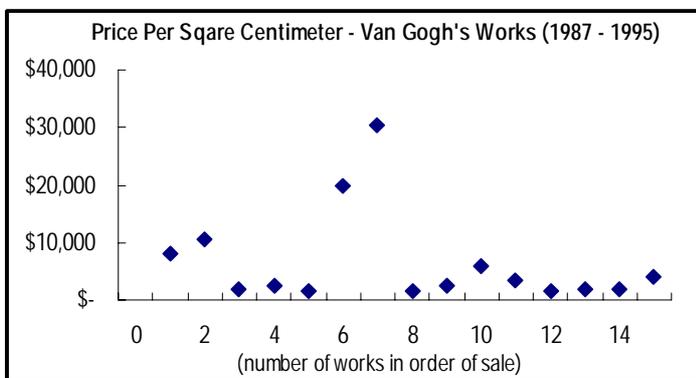
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Cultural products can be divided into singular products like paintings that are highly valued for their originality and uniqueness, and those like novels, comics and music that are highly valued for their mass appeal in which copies can be sold many times over. Of course it is also possible to sell copies of paintings en masse, and is often done, however, these do not fall under either of the above categories in this instance.

From the viewpoint of culture as value, what is most valued, the degree of amalgamation or the degree of concentration? Although there is some resistance to the idea of converting art into money, here, just for comparison's sake, I would like use an example of a painting and a novel.

The record for highest priced painting goes to the well-known Vincent Van Gogh painting, "Portrait of Dr. Gachet". In 1990 it was purchased at auction for \$75 million (sales commission not included). In terms of surface area, this painting sold for about \$30,000 per square centimeter.



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However, in the case of paintings, prices are often uneven with no apparent trend. During Japan's bubble economy and just after, from 1987 to around 1995, competitive bidding for works by Van Gogh in Japan averaged \$7,200 per square centimeter of canvas. By comparison one square centimeter of land in Ginza was appraised at "only" \$10 per one square centimeter. From this perspective Van Gogh's paintings seem extraordinary.

### *Value Creation: The Two Patterns of Painters and Authors*

On the other hand, JK Rowlings, author of the best selling novel series of all time, "Harry Potter", had accumulated \$325 million in royalties as of the end of 2002. If we assume that royalties are 10% of sales, then this book series has achieved sales of about \$3.25 billion. There are no signs the series popularity has waned, so these numbers will rise even further.

These are relatively special examples, but there are other examples, in particular diamonds, where the cultural clearly produces economic value while providing spiritual value as well.

For the most part though, paintings are not highly appraised (valued) before the artist gains a reputation, which usually means not within the artist's lifetime. Paintings are generally in the hands of their owners, rather than their creators, when the price finally bears fruit. In contrast novels are usually published before the author passes on, so the author or the author's family, are able, for the most part, to reap the harvest of their work. For paintings though, it takes but one person taking an interest to make the cultural economics work. In contrast, for novels a show of mass interest must be shown for it to pay economic dividends.

Which business model is better, painters or novelists? This should provide interesting food for thought for corporations in pursuit of business strategy.

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According to the *Analysis of All Industrial Activities* put out by Japan's Ministry of Economy, Trade and Industry, the multiplier effect (the ripple effect of total direct and indirect economic impacts) of all industries in Japan for a one unit increase in final demand in 1995 was 1.96, but fell to 1.90 in 2001, a drop of .06 in 6 years.

In all likelihood, due to the growth of services across industry and the shift to increased intermediate material and part imports by Japanese industry, the intermediate input ratio (total production amount divided by the total amount of all raw materials, fuel and other intermediate inputs employed in production) in Japan's domestic industrial sectors has gone down.

Degree of Contribution to GDP (Value-Added Multiple)

	1995 (%)	2001 (%)
Consumption	66.0%	68.1%
Private Consumption Expenditure	49.2%	50.5%
Government Consumption Expenditure	13.3%	14.2%
Investment	25.5%	22.2%
Public Fixed Capital Formation	7.4%	6.4%
Private Fixed Capital Formation	17.8%	15.8%
Exports	8.5%	9.7%
Total Final Demand	100.0%	100.0%

Source: Ministry of Economy, Trade and Industry (2001 *Analysis of All Industrial Activities Supplement*)

What is noteworthy in this situation is the extent to which economic output is reliant on consumption (degree to which such individual final demand items as consumption [private and public] investment [fixed capital formation] contribute to total production).

According to statistics from the same ministry, between 1995 and 2001, the contribution of private consumption expenditure to total value-added production rose 1.3% from 49.2% to 50.5%, while government consumption expenditure rose from 13.3% to 14.2%, an increase of nearly 1% in its share of total production.

### *Economic Impacts: Intellectual Property/Culture Key*

Conversely, on the investment side, during the same time frame, private fixed capital formation's contribution to total industry output slipped from 17.8% to 15.8%, a 2% decrease, and public fixed capital formation went from 7.4% to 6.4%, a slide of 1%.

This expanding consumption has become increasingly important in activating Japan's economy.

And, of further significance is the extent to which intellectual property and culture-related industries have expanded their contribution to economic output.

For example, the consulting and information services multiplier increased from 1.60 in 1995 to 1.62 by 2001. Legal, financial and accounting services, engineering and architecture, employment services, and design, all lumped together under "other business services", had a combined multiplier that gained a slight .01, from 1.89 to 1.90 during the same 6 year period.

It seems the multiplier effects from knowledge, information and culture assets are making steady gains within Japan's industrial structure and will continue to do so.

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The importance of consumption to the Japanese economy is being much more widely recognized, but begs the question of what really triggers consumption. In a word, it is products and services that are attractively priced and are of premium quality.

However, with the rise of China, among other economies, Japan's prices have become less and less competitive vis-à-vis imports. Japan's ability to win or lose this economic game though, will be determined more and more by product quality, by product design and by product service rather than other factors. More exactly, it is strong consumer trust in these elements, a symbol of a good brand, which will make all the difference. While the Report of the Committee on Brand Evaluation sponsored by Japan's Ministry of Economy, Trade and Industry has come out with a very detailed formula for the valuation of brand value, it is still basic trust, in product quality, design and service, and in a wider context, trust in CSR (Corporate Social Responsibility) that brand prestige and brand power is fundamentally built on.

So what is most needed to create brand power? Here we would like to emphasize the importance of research and

2003 Ranking of the World's Most Valuable Brands

	Company	Country	Brand Value
1	Coca-Cola	US	\$70.45 billion
2	Microsoft	US	65.17
3	IBM	US	51.77
4	GE	US	42.34
11	Toyota	Japan	20.78
18	Honda	Japan	15.63
20	Sony	Japan	13.15

Source: Interbrand (Business Week, August 8, 2003)

development and advertising (including public relations) in the development of brand prestige. And, needless to say, cultural power is deeply related to all of these. It could be said that research and development costs, that is, the expenditures used in the development of new products and/or new technology, are central to creating high quality goods and services and are thus a starting point or source of brand power. Advertising expenses are used to disseminate the message of high quality products and services to a wide audience bearing in mind all along the company's culture and acting as a catalyst for brand power as a result.

### *Brand Power: R&D and Advertising the Source*

Interbrand, the well-known British brand consultant company, employing a method that measures 7 basic brand-related factors; a brand's marketability, its ability to endure (stability), its leadership in the market, its direction (trend), the effectiveness of the brand's investment (support), the brand's ability to cross boundaries (geography), and its legal strength (protection), calculates the added value brands produces for their companies; basically what the brand's future earnings are worth to the company today. Interbrand then uses these figures to compile an annual global ranking of the world's most valuable brands. In 2003, 62 U.S. companies were ranked in the top 100 of the world's most valuable brands. Japan and France each had 7 companies, while Germany and the UK had 6 apiece. All in all, these 5 advanced countries comprised 88% of the world's most profitable brands.

The 7 Japanese companies that appear on this prominent list (Toyota, Honda, Sony, Nintendo, Canon, Matsushita, and Nissan) are all leading spenders on both research and development and on advertising. For those interested in strengthening their brand power it seems, from the evidence, they best begin by effectively engaging both of these expenditure items.

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## Cultural Power and Corporate Strategy

How can "cultural power", or for lack of a better word, "degree of cultural inclination", be measured when taking into account businesses or industry.

From the perspective of generating demand in culture-related industries, we can surmise that research and development and advertising budgets, client entertainment expenditures, meeting and conference expenses, costs for written material (reports, newspapers, magazines, etc) and corporate philanthropy, are all culture-related expense items. For example,

Cultural Propensity Index of Japanese Industry  
(annual average 1991-1995)

Against Total Sales	Cultural Inclination Ratio	Operating Profit Ratio
All Industry	2.3%	2.2%
Manufacturing	3.4%	3.1%
Food Processing	3.6%	3.3%
Oils/Soap/Cosmetics	10.5%	6.0%
Pharmaceuticals	14.3%	14.1%
Iron & Steel	1.6%	1.3%
Automobile	1.3%	2.1%
Non-Manufacturing	1.6%	1.6%
Wholesale/Retail	0.4%	0.6%

Source: Marubeni Research Institute based on the Bank of Japan's Research and Statistics Department's "Analysis of Leading Companies" (listed companies with paid-in-capital of more than \$10 million and leading non-listed companies, 651 total)

research and development costs are completely within the realm of the intellectual property market, while advertising expenses make their way into the broadcasting, publishing, movie and music world contributing to the growth of these industries. In regards to advertising outlays, the brand valuation firm Interbrand, introduced in the previous article, notes that advertising costs can be greatly minimized by raising the value of a brand. On the other hand, it should be recognized that good quality advertising can raise both the brand value of Japanese companies and Japan's overall cultural brand power.

By selecting from the Bank of Japan's official industry statistics three balance sheet items; the aforementioned R&D expenses and advertising costs as well as intangible assets, and totaling them against sales, we can arrive at an industry's degree of cultural inclination by way of a "cultural propensity index". As for intangible assets, companies are constantly purchasing and developing such intangible assets as sales rights, patent rights, trademark rights, business model rights, leasing rights and design rights.

### Cultural Propensity Index: Mutually Related to Profits

Looking at the result of the computations, the industries with the highest degree of cultural inclination (the chart shows the annual average between 1991 and 1995) in manufacturing, which averaged 3.4% in total, are the pharmaceutical industry, leading with 14.3%, followed by the oils, soap and cosmetics industry (and the office equipment and household appliance industry). The non-manufacturing sector's average was 1.6%, led by telecommunications and utilities, with both industries exceeding 7%.

What is interesting is that industries with high degrees of cultural inclination, or propensity, also have high operating profit to sales ratios. Before tax earnings in pharmaceutical companies comes in at an average of 14.1% of sales and in the oils, soap and cosmetics industry returns run at more than 5%. It seems those industries with superior degrees of cultural inclination are also lining up at the top of industry's profit rankings.

From this data we see a correlative relationship between cultural propensity and the ratio of ordinary profit to sales. We could proffer the theory that industries that have high levels of cultural proclivity will also tend to have higher profit returns.

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According to industry related reports, in 2001 the domestic production of passenger vehicles reached \$130 billion. If the production of all motor vehicles is included the total comes to \$380 billion. With a multiplier (co-efficient) of 2.66 for every extra one unit of production, the multiplier effect the motor vehicle industry has on the domestic economy is quite large.

In looking at the motor vehicle's degree of cultural inclination in the first half of the 1990s (cultural propensity index = R&D expenses + advertising costs + intangible assets divided by total sales), we find that it was about 1.3%. Operating profit to total sales was about 2.1%, which means both figures were in the lower range and compared with other industries was not very high.

U.S. Auto Market - Buyer's Average Age

	Buyer's Average Age	Percent Women
Scion	39	40.8%
VW	41	47.0%
Mitsubishi	41	46.7%
Pontiac	44	44.2%
Honda	44	43.0%
Ford	45	28.9%
Chevrolet	45	30.2%

Source: Power Information Network: *The Asian Wall Street Journal*, July 31, 2003 Note: Classified by entire brand or model name

Nevertheless, it can be aid that spending on advertising by the motor vehicle industry, at \$22 billion, is rather high. In this regard the industry is a strong sponsor of culture-related enterprise through TV commercials and other forms of advertising including posters that help cultivate cultural industries and at the same time improve all important brand power. In addition, R&D expenditure in Japan's motor vehicle industry is substantial. In fiscal 1991, R&D (personnel costs included) in the transportation machinery industry as a percent of total sales was 3.3%, by fiscal 2001 it had risen to 4.2%. As a result, technology exports in the transportation machinery industry over the last 10 years have climbed 6.6 times.

### *Motor Vehicles: Riding the Japan Boom in the U.S.*

On the other hand, as giant as Japan's motor vehicle industry is, even it has benefited from Japan's "cultural power". Toyota Motors, through its U.S. subsidiary, began sales of its new "Scion" model in California in June of 2003. By August they had already sold nearly 5,000 and now plan to expand sales to the rest of the U.S.

We can't overlook though, that more than just the usual price considerations are at work here. The healthy sales of this model, aimed at young consumers (mainly the children of the baby boomers, or generation Y as they are known), have also been triggered by the adoration of Japanese animation and a multitude of other contemporary products in Japan's domestic market (JDM)

As far as strategy goes in the motor vehicle industry, it is recognizing that, more than ever, careful attention must be paid to both overseas and domestic cultural trends. Furthermore, from the perspective of organization and factory productivity, to realize higher profit ratios in the already highly competitive Japanese auto industry, the strengthening of one's degree of cultural propensity seems to be a necessity.

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## **Cultural Power and Corporate Strategy**

In 2001, according to an industry-related announcement, domestic production of chemical products amounted to \$264 billion, with a multiplier effect of 2.07 for every one unit increase in production. Although lower than the automobile industry's multiplier of 2.66, the ripple effect the chemical industry has on the economy is none too small.

What we call chemical products here encompass basic chemicals, synthetic resins, pharmaceuticals, plastics and final products. Sales of all these chemical products are increasingly benefiting the advertising industry and making their way favorably into what are considered creative or culture related industries.

Cultural Propensity Index - Chemical Industry

(% of total sales)	R&D	Advertising
All Industry	1.0%	0.5%
Manufacturing	2.3%	0.8%
Chemicals	5.0%	1.6%
Oils/Soap/Cosmetics	3.1%	6.6%
Pharmaceuticals	11.4%	2.5%

*Note: % of average total yearly sales from 1991 - 1995*

*Source: Marubeni Research Institute based on Bank of Japan data*

The degree of cultural propensity (inclination) in the entire chemical industry (R&D expenses plus advertising costs plus intangible assets as a percent of total sales) is 7.1% and as for the operating profit to total sales ratio it is about 5.8%. The ratios for the R&D and advertising categories are particularly high. For example, R&D expenses associated with the manufacture of pharmaceuticals came to 11.4% of total sales. At the same time, advertising costs in the oils, soap and cosmetics industry were comparatively high at 6.6% of sales.

### ***Chemicals: Contributing to Commercials/Advertising Material***

Taking the case of cosmetics, where numerous samples of thriving creativity and aesthetic quality can be found in posters, magazine advertising, television commercials and other like medium, we see a good example of an industry that raises the level of culture, i.e. artistic consciousness. Various advertising posters designed for Shiseido, for example by Makoto Nakamura, have gained international notoriety for their high level of aesthetic excellence. In fact, Shiseido has had long standing relations (from the early 20th century) with a host of artists including such famous painters as Riichiro Kawashima, who studied in France and was greatly influenced by friend Henri Matisse. In addition, cosmetic jars and containers are often of beautiful design. I understand that design work for many of the cosmetic cases and bottles are consigned out to companies like Raison Pure of France, with a cadre of foreign and domestic designers alike applying their skills to their design. The periphery of the cosmetics industry seems to be full of talented creative people and artists.

What's more, over the past ten years technological exports in the chemical industry have nearly tripled having climbed 2.7 times. Precisely, R&D expenditures in the pharmaceutical industry have been a major source of contribution to science and technology development in Japan. Even so, R&D expenditures (including personnel costs) as a percent of total sales in pharmaceuticals slipped from 8.7% in 1991 to 8.5% in 2001.

U.S. and European pharmaceutical companies, through mergers and acquisitions, have invariably boosted their scale, in part to gain the critical mass needed to accelerate new drug development. This puts Japan's pharmaceutical companies at a disadvantage in terms of the ability to bear the enormous resource burdens accompanying speedier drug commercialization. The need for new strategic measures in Japan's drug industry seemed to be the order of the day.

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Domestic production in the electric machinery industry is around \$573 billion (according to 2001 industry related reports), and for every increase in one unit of production the multiplier effect from this industry on the economy is 1.95. While the multiplier for this industry is not very high, its influence on the culture industry is.

We have found the degree of cultural orientation (cultural propensity index = R&D expenses + advertising costs + intangible assets as a percent of total sales) of the electric machinery manufacturing industry at about 5.7% is higher than the operating profit to total sales ratio of 2.6%, meaning its impact on cultural activity is none too small. Broken down we see that expenditure on R&D in the industry comes to 4.5% of total sales, while advertising costs take up 1.0%. The actual amount the electric industry spends on R&D is more than double that of the chemical industry. In fact, technology exports in the electric machinery manufacturing industry over the last ten years have risen by about 230%.

The audio-visual sector (AV) of this industry makes a significant contribution to the promotion of culture through the

Cultural Propensity Index - Electric Machinery Industry

(% of total sales)	R&D	Advertising	Culture Index
All Industry	1.0%	0.5%	2.3%
Manufacturing	2.3%	0.8%	3.4%
Electric Machinery	4.5%	1.0%	5.7%
Non-Defense Electric Machinery	1.4%	1.3%	3.1%
Telecom/Electronic Devices	8.9%	0.9%	9.9%
Electronic Parts	1.8%	0.6%	2.8%

Note: % of average total yearly sales from 1991 - 1995

Source: Marubeni Research Institute based on Bank of Japan data

manufacture of mediums that deliver music and images to people. The reality is that change from past mediums of artistic expression conveyed through canvas and other two dimensional art forms to digital art and robotics has brought greater diversity and function to the means of expression. It could be said that Japan's game software and animation have prospered through development of game hardware and graphic software and vice-versa. It seems a mutual symbiosis of sorts has been created from the development and marketing of hardware and software.

### *Electric Machinery: Hardware Sustains AV Culture*

For example, in computer-led entertainment, more than 60 million game consoles of the Play Station 2 have been shipped worldwide (as of September 2003) since it first appeared in March of 2000, and as of January of 2003 there were more than 1,500 game-related software titles with 300 million of these having been sold globally.

If three dimensional monitor and depiction technology currently under development are able to reproduce surroundings and human characters so real that they actually seem to exist, or virtual reality, the means by which we will be able to express ourselves will have no bounds. The previously technologically impossible virtual movie novel now becomes a possibility.

In his book, "Art & Physics", the artistically well-versed U.S. physician Leonard Shlain shows how visionary artists have acted as the major stimulus for new discoveries by scientific genius down through the ages. The possibility that fine art will play a major role in the development of machines should be taken seriously given the major role art has already played in new scientific discoveries

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In industrial circles, the overall food product industry contributes a great deal to culture related business through the medium of advertising. The degree of cultural inclination (cultural propensity index = R&D expenses + advertising costs + intangible assets as a percent of total sales) in food processing is 3.6%, while operating profit versus total sales is just about average. Advertising costs makes up the bulk of the index at 2.6%, with R&D at just 0.5%. In particular, advertising costs in the beer and alcoholic beverage sector are relatively high at 3.5% of total sales.

From the cultural standpoint, the most distinguishing feature of the food product industry is that the sales of food products using character goods make up a large percentage of total turnover in the industry.

For example, in 1999 Furuta Confectioneries, in cooperation with the large scale toy maker Kaiyodo, came out with the very successful candy, toy and character combination

Cultural Propensity Index - Food Product Industry

(% of total sales)	R&D	Advertising	Propensity
All Industry	1.0%	0.5%	2.3%
Manufacturing	2.3%	0.8%	3.4%
Food Products	0.5%	2.6%	3.6%
Confectionery/Dairy Products	0.3%	2.1%	2.5%
Beer/Alcoholic Beverages	0.8%	3.5%	4.8%

Note: % of average total yearly sales from 1991 - 1995

Source: Marubeni Research Institute based on Bank of Japan data

"Choco Egg" series (150 million sold). After this prosperous release, toy makers began to enter this market with their confectionery counterparts in rapid succession. In fiscal 1994, the confectionery with toy (and character) market was worth about \$338 million, but has expanded in scale to about \$800 million in recent years (Yano Economic Research Institute estimate). While the confectionery and candy market has in general been rather stagnant, the confectionery

with toy market has enjoyed accelerated growth, much of it on the back of character-related goods.

### *Food Products: Making Use of Characters*

Additionally, a good example of the mutual dependence of food products and art and culture can be gleaned from the pop art of Andy Warhol. Using such food and drink brands as Coca-Cola, among others, as a theme, he created a brand image that strongly appealed to consumers.

Recently, brand awareness has been rising in other areas of the food product industry besides just beverages. Domestic Japanese farmers have been tying up with retailers in the industry to create distinct and original brands for their produce. In negotiations in the new round of the World Trade Organization (WTO), arguments over "Geographical Indications" are turning toward the application of intellectual property rights, not only on wine and distilled spirits, but also on various agricultural products and foodstuffs based on unique local or regional traits as a way to differentiate agricultural products.

Japan's agricultural and food product industry too, will find it possible to improve earnings by raising their brand power through higher levels of R&D and advertising spending, with the potential to turn itself into a vital export industry in the future.

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The degree of cultural inclination of the textile industry in Japan (cultural propensity index = R&D expenses + advertising costs + intangible assets as a percentage of total sales) is a comparatively high 4.1%. R&D spending at a formidable 3.1% of total sales is somewhat exceptional. Conversely, advertising costs come to a fairly paltry 0.8%.

Though the threesome of improved material quality, enhanced design and more advanced processing capability has led to higher value added in the apparel and personal goods sector of the textile industry, such intangible assets as brand power are still indispensable requisites in the industry.

Recently, brands like Hermes and Cartier have opened new stores in the Ginza district of Tokyo and Louis Vuitton launched rather large outlets in the fashionable Omotesando and Roppongi areas. These firms handle high priced luxury accessories, bags and other personal products that have sold extremely well even during the economic downturn, with sales continuing to grow.

The key to success for companies dealing in luxury items is cultural power. For example, the Louis Vuitton Moet Hennessy Group (LVMH), whose over 40 different luxury brand products generated \$15.24 billion worldwide in sales in

Cultural Propensity Index - Textile Industry

(% of total sales)	R&D	Advertising	Propensity
All Industry	1.0%	0.5%	2.3%
Manufacturing	2.3%	0.8%	3.4%
Textile Industry	3.1%	0.8%	4.1%

Note: % of average total yearly sales from 1991 - 1995

Source: Marubeni Research Institute based on Bank of Japan data

2002, with \$1.4 billion of that coming in Japan, enlisted the likes of Jun Aoki, Rick Carlson and Aurelio Clementi (world renown architects/designers) to design their new Roppongi flagship store; a menagerie of glass tubes aimed at showcasing LVMH's coterie of products for maximum impact. It creates a microcosm of illusion bordering on the theatrical (theatre-type atmosphere), offering a glimpse of cityscapes of the future.

### *Textiles: Artists and the Three Legs of Textiles*

In addition, LVMH drew upon the talents of famous artist Takashi Murakami to produce animation specifically to promote its products. LVMH does not rely solely on the brand power of its own products. It has sought the collaboration of an array of famous architects, designers and artists to leverage its own brand and sales power. So it should come as no surprise that the famous French art auction house Tajan falls underneath the LVMH umbrella of companies.

As a result of such efforts, sales of the leather goods division of Louis Vuitton Fashion climbed from roughly \$3.72 billion in 2000 to around \$5 billion in 2002, a jump of 31% in just two years. The same division's total sales to (operating) profit ratio was an eminent 31%. And, in Japan, the leather goods division now holds nearly a 40% share of LVMH's total domestic sales of all its luxury goods.

On the other hand, Uniqlo is an example of a company that has pursued a business model based on the mass sales of low priced clothing that makes use of China to exploit cost - price gaps. In questioning the proposition of cultural value-added, each firm faces the problem of choosing a strategy - will it be that of painters or that of writers, the question posed in article number 6.

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In recent years Tokyo has seen an upsurge in the design of unique ultra-modern buildings, many of which are at the vanguard of structural design and exude showroom type atmospheres, by internationally-acclaimed foreign architects. These include the new Dentsu (advertising agency) headquarters designed by the French architect Jean Nouvel, the Tokyo International Forum from Uruguayan-born architect Rafael Vinoly, British Norman Foster's Century Tower, Italian Mario Bellini's Tokyo Design Center, and the new Prada Aoyama store designed by the Swiss architects Jacques Herzog and Pierre de Meuron, just to name a few. This is providing an excellent opportunity for such foreigners to add some cool to Japan's already rich culture.

The construction industry's degree of cultural inclination (cultural propensity index = R&D expenses + advertising costs + intangible assets as a percentage of total sales) is 0.6% and the real estate industry's is 5.9%. The sales of the construction industry are 6 times that of the real estate industry so the combined degree of cultural inclination for the two industries is 1.4%. The real estate industry's is high due to a large amount of intangible assets. The combined degree of cultural inclination for the industries for advertising costs, at 0.4% and R&D expenditure, at 0.1%, is quite low.

Cultural Propensity Index - Construction/Real-Estate Industry

(% of total sales)	Intangibles	Advertising	Propensity
All Industry	0.7%	0.5%	2.3%
Manufacturing	0.2%	0.8%	3.4%
Construction Industry	0.2%	0.3%	0.6%
Real Estate Industry	4.3%	1.6%	5.9%
Construction/Real Estate Total	0.8%	0.4%	1.4%

Note: % of average total yearly sales from 1991 - 1995

Source: Marubeni Research Institute based on Bank of Japan data

### *Construction/Real Estate: Backing-Up World Renown Architects*

Sales for the construction industry and related remodeling industry are about \$390 billion (2001 Analysis of All Industry Activities). With the need for nursing home and barrier free construction due to Japan's rapidly aging society, as well as environmental, alternative energy, and IT infrastructure, there are a high degree of culture related needs to fill. Based on this, the government's new construction market assessment committee (set up in 2000) has predicted that the maintenance and remodeling market will enjoy fairly consistent growth, on average 2.2% a year, until 2010.

In the case of construction, for every one unit (one building - size averaged) of production (construction) 6.3% of the total input, a relatively high ratio, is generated by architectural and interior design and other related services. What this means is that a number of closely related periphery industries have developed around the construction industry.

At the end of fiscal 2002 there were 982,000 registered architects in Japan (Japan Architectural Education and Information Center) a 13.5% increase from 5 years before. However, as the demand for architecture is slack, competition for orders is extremely acute. Through this intense competition though, Japan may continue to spawn world renowned architects like Tadao Ando, Arata Isozaki, Toyoo Ito, Kengo Kuma, Kisho Kurokawa, Kenzo Tange, Itsuko Hasegawa and Fumihiko Maki.

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In terms of "cultural power" one industry stands out a bit from the rest. That industry is tourism.

Tourism, fashioned around travel, food and lodging, as well as entertainment and hospitality, and of course the local scenery of the destination, forms a broad spectrum of cultural businesses that encompass nearly all aspects of culture. In 2001, according to the *Analysis of All Industrial Activities*, the direct impact of tourism on the Japanese domestic economy was \$210 billion. However, the multiplier effect on the economy from tourism was quite huge. The total economic effect of tourism from all multipliers came to \$490 billion. And, based on the employment multiplier, tourism was estimated to have created 3.93 million jobs domestically in Japan.

Be as this may, in comparing international tourism revenue by country we find that the U.S. came in on top with \$72.3 billion followed by Spain with \$32.9 billion and France at \$29.6 billion. Italy had international tourist revenue of \$25.9 billion, and even China had revenue of \$12.8 billion. Japan's was a mere \$3.7 billion. The paltry 5.24 million tourists that visited Japan in 2001 placed it a lowly 35th in the world. Even in Asia Japan was only 9th in tourists from overseas, just behind Korea.

Japan's Tourism		
	Inbound (Foreigners Visiting Japan)	Outbound (Japanese Going Overseas)
1970	854,000	663,000
1980	1,317,000	3,909,000
1990	3,236,000	10,997,000
2000	4,757,000	17,819,000
2001	4,772,000	16,216,000
2002	5,239,000	16,523,000

Source: Japan Tourism White Paper

The dire straits of international tourism in Japan drove the government to begin to grapple with the situation through a "country built on tourism" crusade. In order to make this a reality, an action plan was drawn up in August of 2003. The plan calls for an ambitious doubling of the number people visiting Japan from overseas to 10 million by 2010.

### *Tourism: Need to Redefine Japan's Appeal*

Calling for an increasing number of tourists is one thing, attracting them is an altogether different thing. Just summoning travel agencies, hotels and inns, airlines, transportation companies and other tourist related industries to take pains to attract overseas tourists isn't going to make it. As previously mentioned, beginning with the scenery, it is the overall attractiveness of a destination which attracts visitors. In the case of a country I wonder if it isn't its broad allure, its fascination, or more exactly, its "cultural power".

The meaning is that the plan is lacking in certain areas. There must be an attempt to assay the opinions and aesthetic sense of the people who are aspiring to visit Japan from other countries. Beyond just a "country built on tourism", the essence of what makes Japan attractive needs to be drawn out and defined. This could be accomplished by garnering a range of thought on Japan from a wide collection of people from different countries and Japan; through essays and computer graphics competition by both foreigners and Japanese based on what Japan's cityscapes and countryside should be and look like 30 to 50 years down the road. This in itself would fit well within the framework of Japan's cultural tradition of adopting from different outside cultures.

To be very suggestive let's refer here to the words of French artist Felix Regamey from "Japan (1903)" composed during a visit to Japan in 1899. "Lovely, beautiful country, Japan, is most suited to be the world's garden, where peaceful encounters of all people of all countries of the earth can transpire."

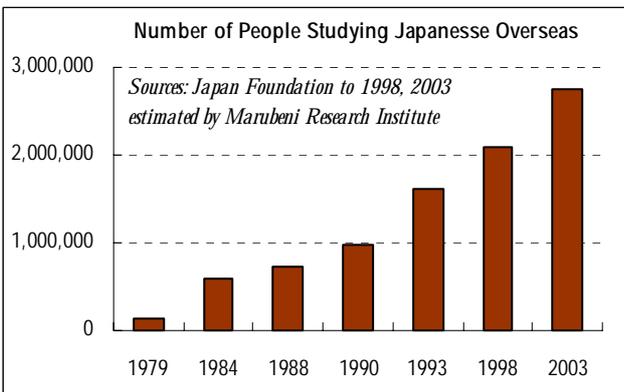
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To start with, there is another side to “cultural power”. Joseph Nye of Harvard University has argued the other side of cultural power is “soft power”. Soft power is power that influences the lifestyles and wins the hearts of average people, the regular public worldwide. Since WWII, it could in all honesty be said that the U.S. has led the world in soft power. Of the people of the world how many haven’t seen a Hollywood movie or had a Coca-Cola from time to time? The concept goes well beyond economic value alone.

Japan has become a soft power heavyweight. Just look at the number of people worldwide who have taken an interest in the Japanese language through the influence of Japanese animation and comics. In 2002 the number of people taking the Japanese language proficiency test reached 286,000 a 5-fold increase since 1991. Including correspondence courses, it is estimated that there are now nearly 3 million people studying the Japanese language overseas.



While Japan has been experiencing a decade long economic slump, it has, over the same 10 year span, witnessed the worldwide permeation of Japanese culture as it walks down the path of a “country built on culture”. High value-added Japanese products and services that have made their way across the globe also reflect Japan’s unique culture and as a result Japan’s cultural appeal is being felt by ever more people. This is the path, the path of soft power, Japan should take.

### *Japan’s Tomorrow: Path to a “Country Built on Culture”*

Of course, trends forever change with the times. Throughout the modern period, “Japonism’s” popularity has been an on again, off again affair. Even though current Japanese animation and comics are considered by many the ultimate of “cool”, it must be remembered that interests are quick to fade and as generations change so do tastes. So, for continuity’s sake, it is also very important for Japan to maintain its traditional culture

It can be said that modern culture has its roots in traditional culture; “the present has its origins in the past” (the new often emerges from traditional culture flowing just below the surface or the phenomenon known as “Kongen-Genjo” after the Zen word). This is to say that traditional culture often remains just behind the scenes, but when outside influences are present it may reappear in different shapes, with the result being new cultural forms. The rise of Japanese animation and comics owe much to traditional Japanese painting and ukiyoe, having crystallized as a contemporary expression of them, and in return accumulate as traditional culture for the next generation. In order to remain at the leading edge of “cool”, it is important for Japanese not to forget their Japanese sensibilities and traditions. Firms too, need to make the most of these traits in their own way and rethink their core competencies.

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