

SKILL-BASED DIVERSIFICATION THROUGH CUSTOMER-ORIENTED CROSS-INDUSTRIAL COLLABORATION: SOZAI BUSINESS IN THE CRAFT INDUSTRIES

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Abstract

Technological and product innovations are the two most important factors of continuous business development and economic growth. However, these innovations necessitate significant financial and human resources for research and development (R&D), which small and medium-sized enterprises (SMEs) cannot secure. Small and medium-sized manufacturers are specialized in particular tasks in production networks to work for large firms as their subcontractors, and therefore, not familiar with product markets. In-house R&D for these innovations are not necessarily a realistic growth and survival strategy for SMEs. The case study of Sozai business in the craft industries presents the importance of cross-industrial business-to-business (B2B) collaboration that enables a better use of high skills and techniques accumulated in SMEs through daily learning by producing as a more practical approach to unlocking the potentials of SMEs in non-traditional markets.

Introduction

Incumbent firms confront more challenges that accelerate the maturity of their businesses, while such structural changes are business opportunities for new entrants who bring innovations into the markets dominated by the incumbents. A driver of the structural changes is freer competition intensified by globalization and the rise of China and less developed Asia as world production bases. E-commerce strengthened this international price competition and made more products commoditized and less profitable. The important current factor accelerating market saturation for traditional products and services is the evolutionary development of digital technologies that create new combinations of hardware and software to provide consumers with more attractive alternatives. The international commitment to de-carbonization

is a long-term hard-to-overcome challenge that enforces fossil energy-related product and service industries (e.g., internal-combustion engine manufacturing) to make radical structural changes. An incumbent firm will take various measures to avoid the saturation of its existing products and services, prolong its lives, or boost its growth potentials by cost reduction, geographical market expansion, development of new products and services to its current market, and business diversification into a new market to the firm. These strategies involve innovations. Therefore, more importance is placed on research and development (R&D) and the adoption of new technologies in business survival and growth strategies in the competitive market with uncertainty suggested by studies on the ambidextrous organization (O'Reilly and Tushman, 2004) that exploit existing

capabilities and explore new opportunities simultaneously.

However, R&D investment is a heavy burden for small and medium-sized enterprises (SMEs), so that many cannot develop organizations or personnel dedicated to R&D activities. It is a reality that firms have achieved innovations without R&D or non-R&D innovations (Tsuji, et al., 2018). As the above-exemplified countermeasures against market saturation suggest, firms can take a different approach to innovations, which do not necessarily require significant technological developments but involve non-technological and managerial attempts.

The Sozai business, which this article introduces, is one of the methods for firms to achieve non-R&D product innovations by combining their unique manufacturing techniques and external knowledge through cross-industry collaborations. The Sozai business is an innovative approach, promoted initially by the traditional craft industries in Kyoto, to reactivate the long-term low performance of the Japanese traditional craft industries. However, the concept of Sozai will help understand the importance of non-R&D-based non-technological innovations for business diversification and sustainability across different industries.

Decline of Japanese traditional craft businesses

Since a long time, Japan has been providing support to the traditional craft industries to promote and preserve them. The government enacted the Act on the Promotion of Traditional Craft Industries in 1974. The Act defines traditional craft products as articles used mainly in daily life, manufactured mainly by hand, manufactured using traditional craftsmanship

or techniques, made of traditionally used raw materials, and produced on a certain scale in a particular locality. The Ministry of Economy, Trade and Industry (METI) designates traditional craft products according to these criteria. Since the designation of the 11 craft products on February 17, 1975, more craft industries have become eligible for policy supports developed under the Act. As of March 18, 2022, 237 products are recognized as traditional crafts.

Although the number of traditional craft products has increased, traditional craft industries reached maturity at the beginning of the 1980s. In 1974, when the Act was developed, 33,909 firms with about 280,000 employees produced a value of 384.4 billion Japanese yen. The industries reached their peaks at 34,043 firms and 288,000 employees in 1979 and a production value of 540.6 billion Japanese yen in 1983. Since then, these figures were declined to 18,187 firms, 115,000 employees, and 278.4 billion Japanese yen in 1998. The traditional craft industries have not been able to get out of the declining trend until recently (Ueki and Kamiesu, 2019). Some prefectural and city governments also define traditional craft industries and provide policy support to the traditional craft businesses that fall outside the scope of the central or prefectural supporting policies. But the results of their policies have not been enough to revitalize the industries as observed in the national policy.

The lack of appropriate customer orientation is just one of several elements that make Japan's policy for traditional craft industries unsatisfactory. The promotion of traditional crafts under the sales copy of "Made in Japan" is a typical case. Made in Japan is a convenient phrase to appeal high product quality Japanese products to consumers. Japanese producers tend to believe that consumers buy high-quality products. This belief has actually led to the quality enhancement of products made in Japan and the confidence of consumers in Japanese products. However, high quality is not a sufficient condition for consumers to buy a product. High-quality products do not always meet consumer needs;

therefore supplying good-quality products is not enough to encourage consumers to purchase. Traditional craft products may be the typical case.

The example of the Kimono, a traditional Japanese garment, helps us understand this problem easily. Kimono has several characteristics that attract the interest of people, including the use of high-quality silk and sophisticated woven patterns. These advantages had been nurtured in the traditional lifestyle where the Kimono used to be an article of daily use. However, current citizens rarely have occasions to wear Kimono, while some consumers still pay a premium price for Kimono, especially those produced in well-known production areas such as Kyoto as authorized local brand products. Due to the mismatch between Kimono's traditional design and the current westernized lifestyle in Japan, the Kimono market has been shrinking. This problem of mismatch will make it much more difficult to sell a significant volume of a traditional craft product continuously as it is in foreign markets on a commercial basis, even though Kimono is well recognized as a Japanese cultural and premium article.

The observations suggest that Japan's supporting measures for the traditional craft industries, which simultaneously seek two substantial goals of commercial promotion and cultural preservation, might be designed without facing up to the business reality seriously and had not worked effectively to maintain the production size enough for preserving the traditional manufacturing. How to revitalize traditional craft businesses, and maintain them as premium producers of an authorized local brand product has been a policy challenge.

Sozai business: A proposal to reactivate craft businesses from Kyoto

A strategy to overcome this challenge is the "Sozai" business, which was initiated for traditional craft industries in Kyoto by Mr. Junya Kitagawara, a Japanese interior and lifestyle producer. Sozai is a Japanese

word meaning materials. This business strategy uses traditional raw materials and techniques to develop new markets for the traditional craft industries. The traditional raw materials and techniques are inherent to traditional craft products. These elements are important sources of their value and brand identity. On the other hand, the traditional way of using them has been binding the Japanese traditional craft industries to their traditional markets.

The Sozai business is a proposal to break this constraint to explore non-traditional market. This new business concept was created to make use of Japanese craft materials and traditional techniques to develop new products suitable to westernized lifestyles and marketable in western markets through collaborations for customer-oriented design-driven product innovation. The Sozai business depends mostly on whether craft producers can identify designers and corporate customers who share interests in promoting inter-sectoral collaborations. Participation in trade fairs is the initial step for craft producers to meet designers from different industries who will be interested in making commercial use of traditional raw materials and skills in different ways for different corporate customers from those for traditional craft articles. By demonstrating Sozai (e.g., fabric) instead of final products (e.g., cloth) in the form of a wall panel, craft producers can attract designers or architects who can come up with exciting ideas far beyond the traditional ideas from existing corporate customers to their booths to initiate talks about possible collaborations for business development.

This novel approach to diversification was designed based on unsuccessful experiences in new product development promoted by the policy support for the traditional craft businesses in Kyoto. What makes the policy measures difficult to succeed is the fragmented supply chain of the traditional craft industry unique to Kyoto, which comprises craft persons who are mostly specialized in a particular production process and do not have direct contact with markets of the final products.

New product development trials made by producers with policy support tend to be implemented without identifying or correctly understanding target customers. The Sozai business does not seek to improve producers' knowledge of product development. The strategy creates opportunities for artisans to meet their (current and potential) consumers and understand their needs and enables them to be dedicated to their strongest point of productive activities through collaborations with designers. Designers specialized in different business fields can act as a bridge between craft producers and customers in non-traditional markets for traditional craft industries. The Sozai business expects that this type of producer-designer collaboration will be more likely to bring business to new market development projects than independent attempts by producers or designers without customer orientation.

Since 2005, the Kyoto traditional craft industries have been pursuing the concept of Sozai business through "Kyoto Connection" in cooperation with the Kyoto Chamber of Commerce and other industry and administrative organizations (Kamiesu, 2019). Craft firms in Kyoto capable of international business have been participating in the world's top interior and design-related trade fairs like Maison et Objet in Paris since 2007 to encounter western designers looking for new materials and techniques. Those who are domestic market-oriented have been participating in LIFE × DESIGN Exhibition at the Tokyo International Gift Show since 2017 for the same purpose. Some traditional craft firms from Kyoto have succeeded in achieving concrete results from these efforts. For example, Kaji Orimono and Hosoo developed projects with western companies to use traditional Japanese textiles for interior purposes after participating in Maison et Objet.

Transfer of the Sozai business to Lao PDR and Thailand

Two organizations have made efforts to transfer the concept of Sozai business, as a method already ascertained its efficacy

by the traditional craft industries in Kyoto, to Southeast Asia.

The first organization is the Institute of Developing Economies (IDE)/Japan External Trade Organization (JETRO). The IDE launched the research project on the Sozai business in 2018 to transfer the knowledge of the Sozai business to Lao PDR in collaboration with the Lao Handicraft Association (LHA) and JETRO Vientiane. Mr. Kigawara, as the research project member, gave a lecture to the members of the LHA in the workshop held in September 2018 at the Lao National Chamber of Commerce and Industry (LNCCI) to introduce the Sozai concept and Sozai Contest plan. JETRO Vientiane, in cooperation with LHA, organized the Sozai Contest as a part of the Lao Handicraft Festival in October 2018. The award winners of the Sozai Contest participated in the LIFE × DESIGN Exhibition/Tokyo International Gift Show in February 2019. Since this experimental activity, some of the LHA members have been continuing the effort to develop the Sozai business as a private initiative. On the other hand, the research projects shifted their focus to assessing the potential of Sozai business from the viewpoint of handicraft user industries. The study team conducted interviews with Lao interior designers, architects, and hotel consultants to confirm their interest in using Lao materials for interior decorations and discuss necessary actions to promote the new business idea. The research project also conducted questionnaire surveys of handicraft SMEs in the Japanese fiscal year (FY) 2018 (Ueki, 2019) and hotels in FY2020 (Ueki, 2021), respectively.

The second organization is the Department of International Trade Promotion (DITP), Ministry of Commerce of Thailand. Independently of the JETRO's collaboration with the LHA, the DITP hired Mr. Kitagawara on their own budget to introduce the Sozai business to the Thai craft industries. Similar to the JETRO's project for the Lao handicraft industries, the participants in the project received technical assistance from Mr. Kitagawara and demonstrated their materials at the LIFE × DESIGN Exhibition in Tokyo since 2019.

It may be too early to make a quantitative assessment of the impact of these knowledge transfer projects on the craft businesses in Southeast Asia. Still, it is possible to find positive opinions on the effect of these projects. In Lao PDR, Mr. Vannavong Sithammarath, an architect at Tomi Atelier who had been willing to use natural materials of Lao PDR before the IDE's Sozai business project, could actually use local raw materials such as bamboo and wood for interior decorations of Cafe Buratino in Vientiane. The architect told the author in October 2022 that the IDE's project was helpful for identifying potential suppliers of Lao craft materials and facilitating the development of collaboration with the suppliers who had already become aware of the Sozai business concept through the Sozai project. The other interesting anecdote was provided by a Thai participant in an exhibition held in Dubai. According to his observation, Thai firms that demonstrated materials and products could attract more visitors to their booths than those who displayed only products. Although this remark is not directly related to DITP's project to promote the Sozai business, this fact may reflect that more buyers are looking for natural and sustainable materials and products made of such materials and that the project helped Thai firms to increase the awareness of craft material values and the current international market trend.

Implications

As stated by the Japan's Act on the Promotion of Traditional Craft Industries, craft industries use natural materials and unique skills that have been passed down from generation to generation. However, westernization and modernization of lifestyle will saturate or weaken the traditional craft markets. In such a situation, artisans need to consider what they should produce for whom to make their businesses and traditions sustainable, although they could have been dedicated to producing traditional products.

The Sozai business highlights the importance of the strategic use of trade fairs

for diversifying craft end-user markets and invigorating the craft industries. The Sozai business encourages craft producers to participate in trade fairs to meet present and potential customers and understand what they want. Trade fairs can give craft businesses the chance to meet with designers or buyers who might generate ideas for new goods or connect conventional sectors with non-traditional markets, as well as suppliers of new materials and other inputs. The increasing interest in natural and sustainable products in the global market will allow the craft industries to make more effective use of exhibitions to increase their values and brand image locally nurtured through their traditional business activities. By shedding light on craft materials, the Sozai business can lead to a re-expansion of consumer interest in traditional businesses. In other words, the Sozai business will be an enabler for the craft industries to exploit the traditional businesses and explore the potential of craft materials and techniques in the non-traditional market for the craft industries. By learning through the Sozai business, SMEs will be able to understand diversified market needs and acquire the capability of developing their own products and brands without radical technological innovations.

The Sozai business was attempted by the traditional craft industries in Kyoto initially. Their experience was transferred to Lao PDR through international cooperation and Thailand through the national initiative. This knowledge sharing indicates common characteristics to the craft industries in these three countries and the potential of Sozai business as a solution to the common challenges. Nevertheless, this knowledge will not create considerable competition among craft industries in different countries at least in each domestic market due to the different historical, cultural, and product characteristics. This nature of Sozai business for the craft industries will be important to promote international cooperation.

Finally, it should be noted that the experiences in the craft industries can be generalized to provide implications to SMEs in

the modern manufacturing industries. SMEs support many industries as original equipment manufacturers (OEMs) or subcontractors responsible for material processing or assembly for a particular product category. SMEs can exploit the existing market while exploring new markets by participating in trade fairs to encounter buyers from different industries to develop collaborations. SMEs will be able to take advantage of their skills and know-how as their core competence to develop collaborations and realize diversification without significant amount of R&D expenditure for technological innovations (Markides and Williamson, 1994). SMEs will be more likely to achieve product and market diversification by developing connections with diversified partners (Machikita and Ueki, 2011). It will not be easy to find potential partners for such collaborative attempts at online trade fairs. The effective use of trade fairs that involve the movement of businesspersons will increase the importance of businesses and supporting organizations in their COVID-19 exit strategy.

The Sozai business also suggests the necessity for business and trade promotion agencies to understand business realities and bring their promotion approach in closer alignment with buyers' business practices. These organizations should provide policy support for marketing capacity building and participation in trade fairs to SMEs with unique products and material processing skills but do not have sufficient marketing capability. Production and quality management are prerequisites for the Sozai business. Traditional programs for supporting the building of these capabilities will be still useful for SMEs who make steady efforts for continuous improvements.

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