

# **Service Sector Innovation and Policy Issues in Japan**

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- The weight of service industries has been increasing.
- Hopes are being pinned on the service industries to become a key player in the rehabilitation of the Japanese economy.
- The service industries have failed to achieve demonstrative increases in productivity through innovation.



**“Service innovation” based on the development and adoption of technology and know-how**

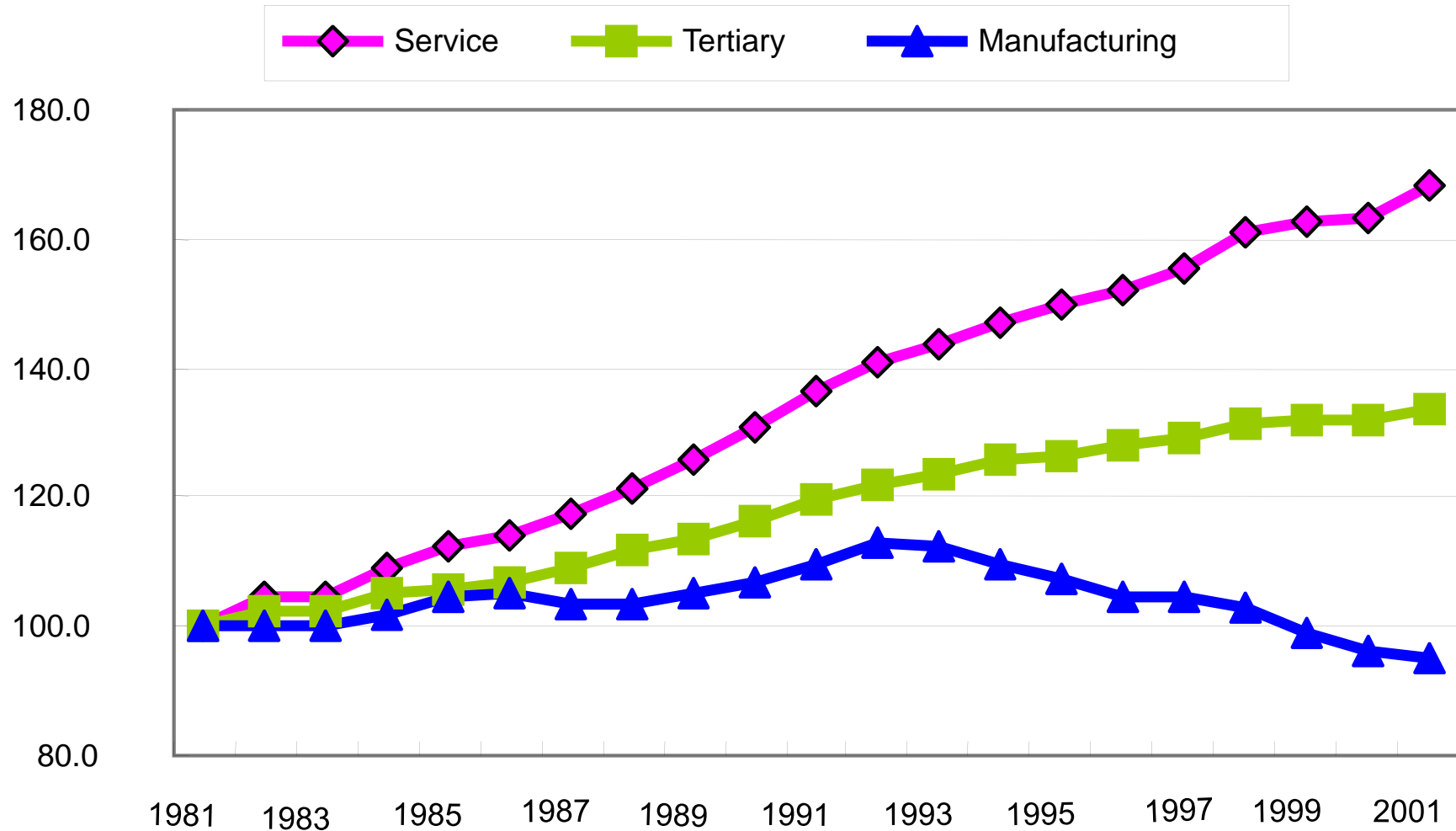
## Change in Japan's Industrial Structure (% of GDP)

	1978	1988	1998
Agriculture, forestry and fisheries	3.7	2.6	1.8
Mining	0.5	0.2	0.2
Manufacturing	24.9	26.2	25.9
Construction	11.1	9.3	7.8
Total for secondary industries	36.5	35.8	33.9
Electric power, city gas and water supply	2.4	2.5	2.9
Wholesale and retail	11.2	12.6	12.2
Finance and insurance	4.1	5.6	5.0
Real estate	10.8	10.8	11.9
Transportation and communications	6.4	6.2	6.3
<b>Services</b>	<b>13.2</b>	<b>13.9</b>	<b>16.4</b>
Government service providers	9.7	8.0	7.2
Private non-profit service providers to	2.0	2.0	2.3
Total for tertiary industries	59.8	61.6	64.3

# Sectoral Trends in Employment

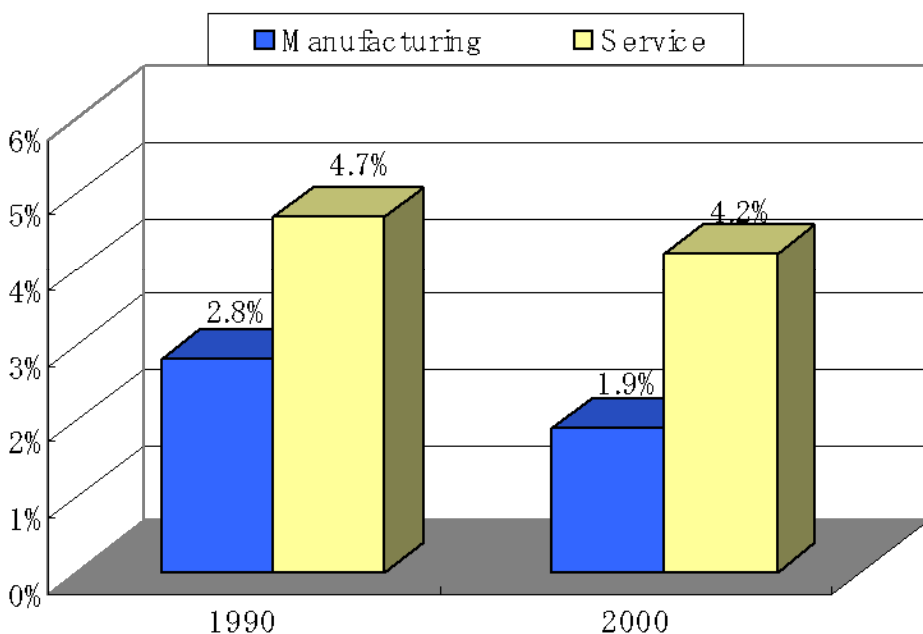
## 1981-2001

(1981 = 100)

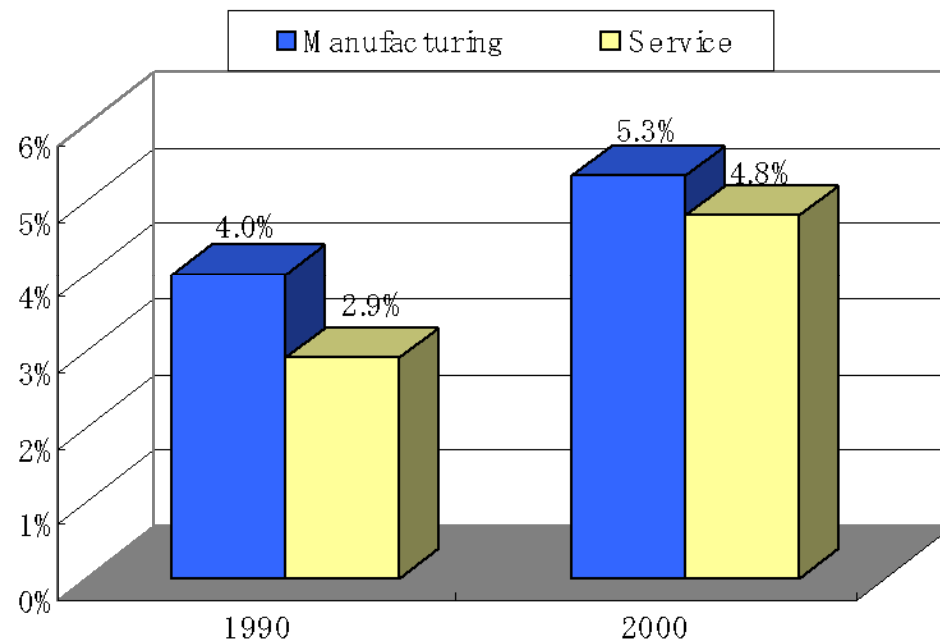


# Business-opening and Business-closing Ratios in the Manufacturing and Service Industries

## Business-Opening Ratio

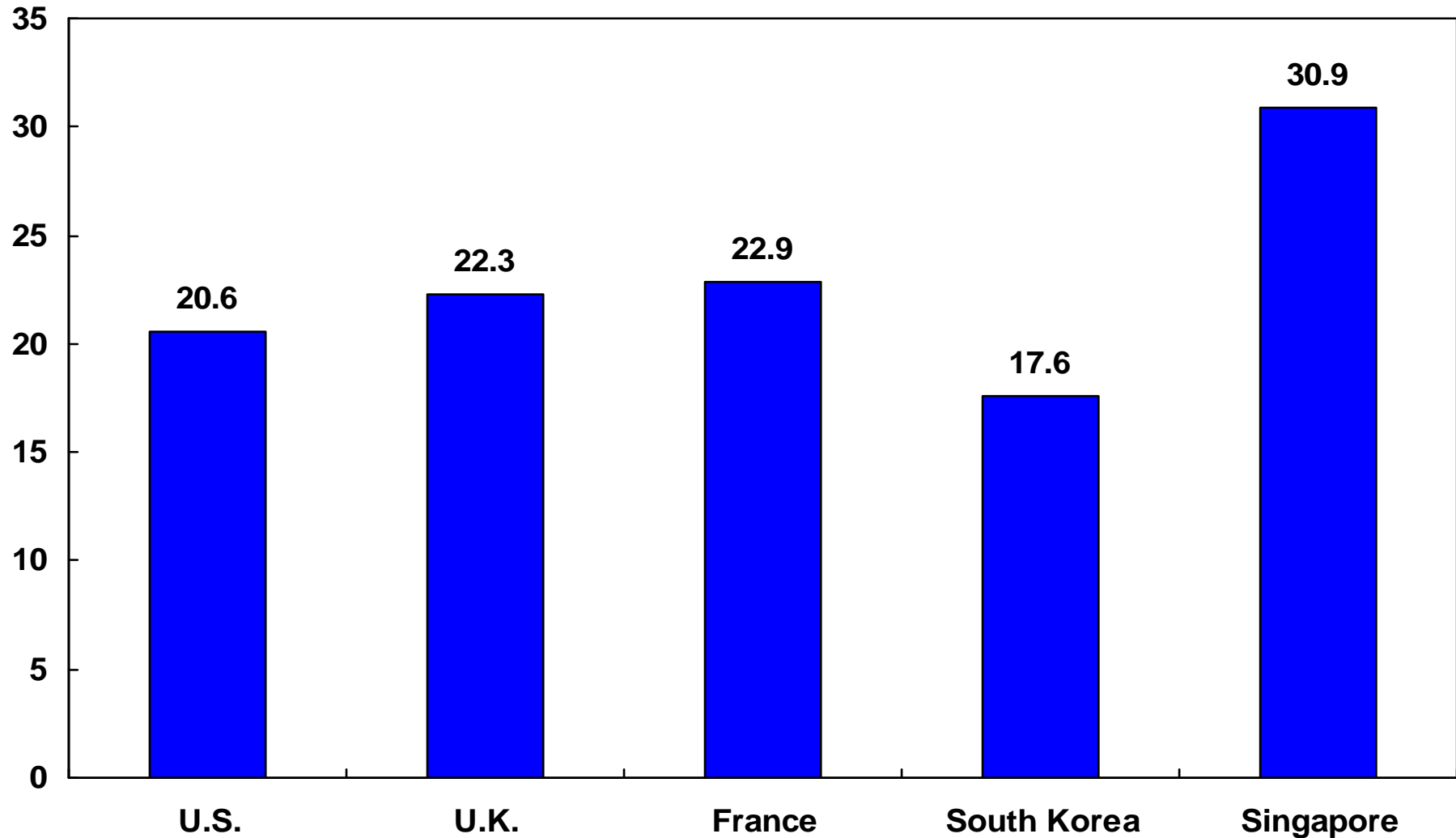


## Business-Closing Ratio



# Ratio of Business Services to the Total Economy in Selected Countries

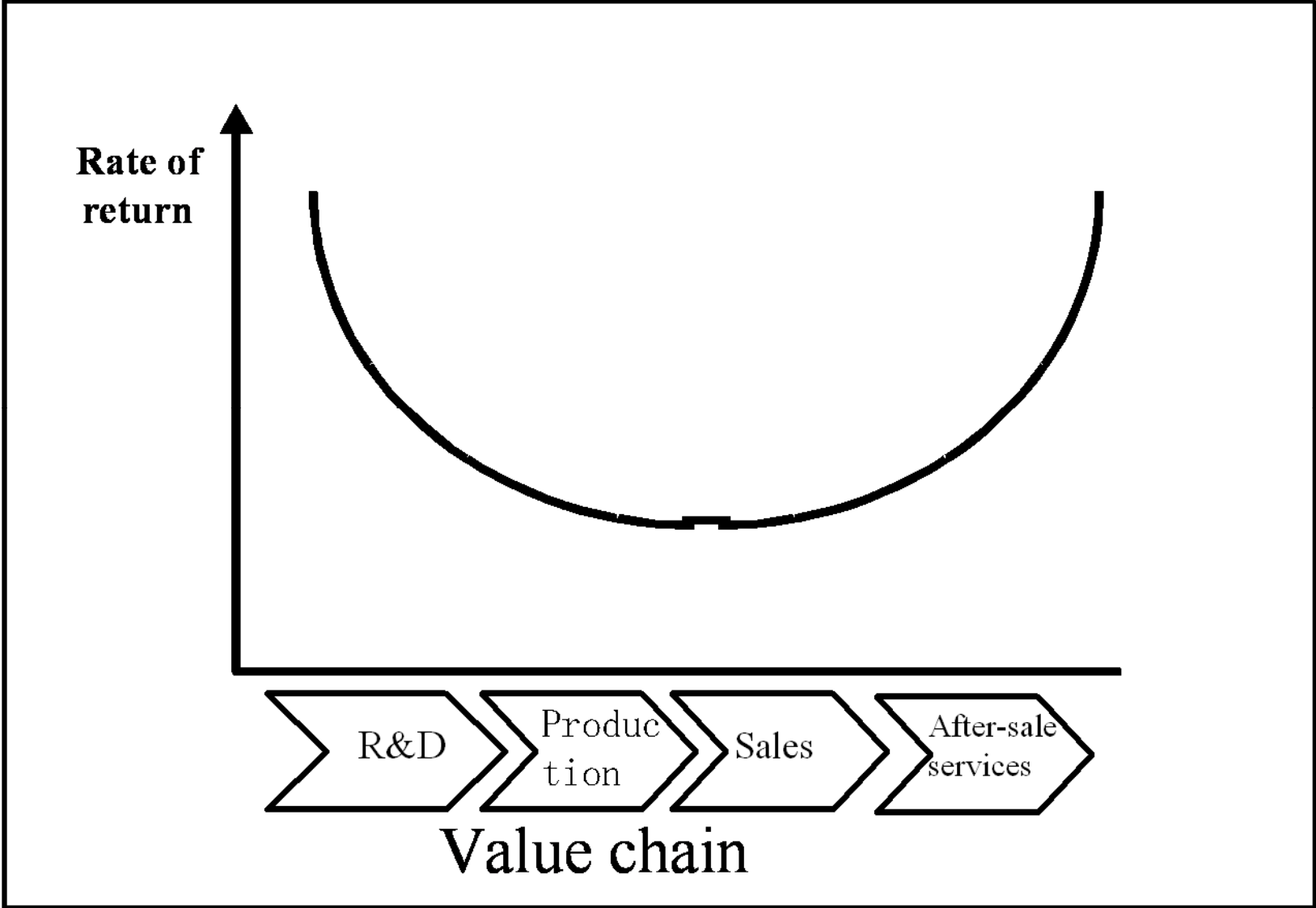
Percent of GDP



# Growth Sectors of the Service Industry (1989-99)

Business	Amount of output	Number of employees	Number of establishment
Laundry, barbers and public bath	82.5%	18.7%	2.8%
Parking	96.0%	26.3%	3.1%
Other services related to daily living (Note 1)	62.9%	35.5%	19.1%
Inns and other accommodations	56.5%	18.2%	-13.6%
Entertainment (excluding movie and video production)	80.6%	49.4%	17.3%
Automobile maintenance	45.5%	21.2%	11.3%
Machinery and furniture repairs	150.7%	52.6%	11.9%
Rental of goods	81.6%	33.6%	12.6%
Movie and video production	81.2%	44.0%	51.3%
Broadcasting	63.6%	19.6%	0.7%
Information services and investigation	164.6%	42.3%	44.6%
Advertising	42.0%	7.2%	-3.5%
Professional services	121.1%	44.3%	23.9%
Other services for businesses (Note 2)	133.2%	64.3%	42.2%
Waste disposal	162.3%	60.7%	45.3%
Health care	207.3%	125.2%	29.1%
Public health and hygiene	244.3%	162.9%	88.1%
Social insurance and welfare	135.8%	103.7%	49.2%
Education	44.1%	24.9%	36.6%
Academic research institutions	-5.6%	33.3%	45.0%
Religion	66.0%	8.7%	2.3%
Political, economic or cultural groups	57.0%	21.7%	11.6%
Other services (Note 3)	138.1%	95.0%	56.1%

## Chart. Smile Curve

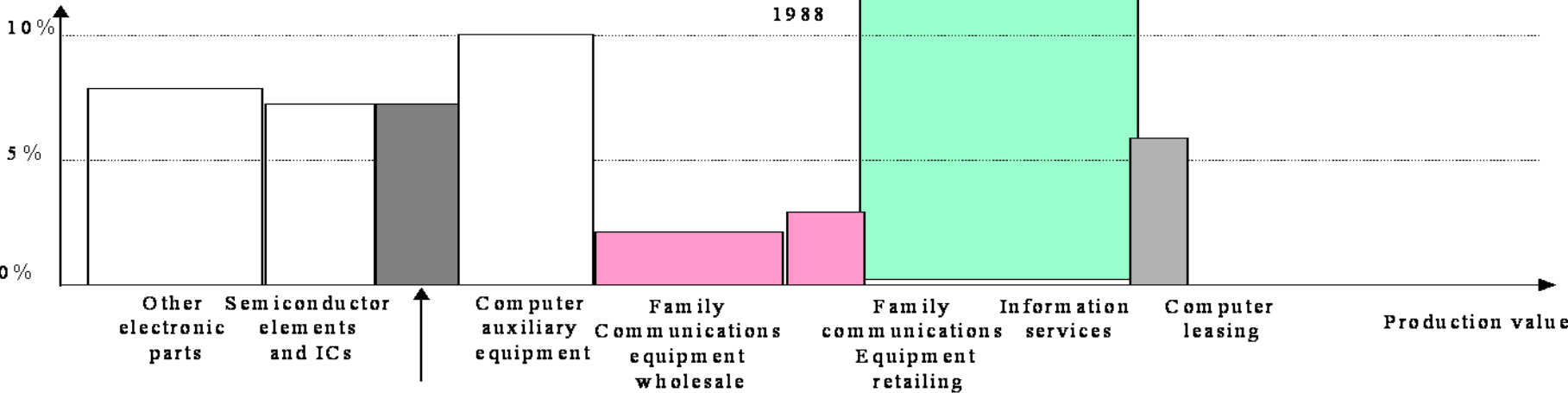
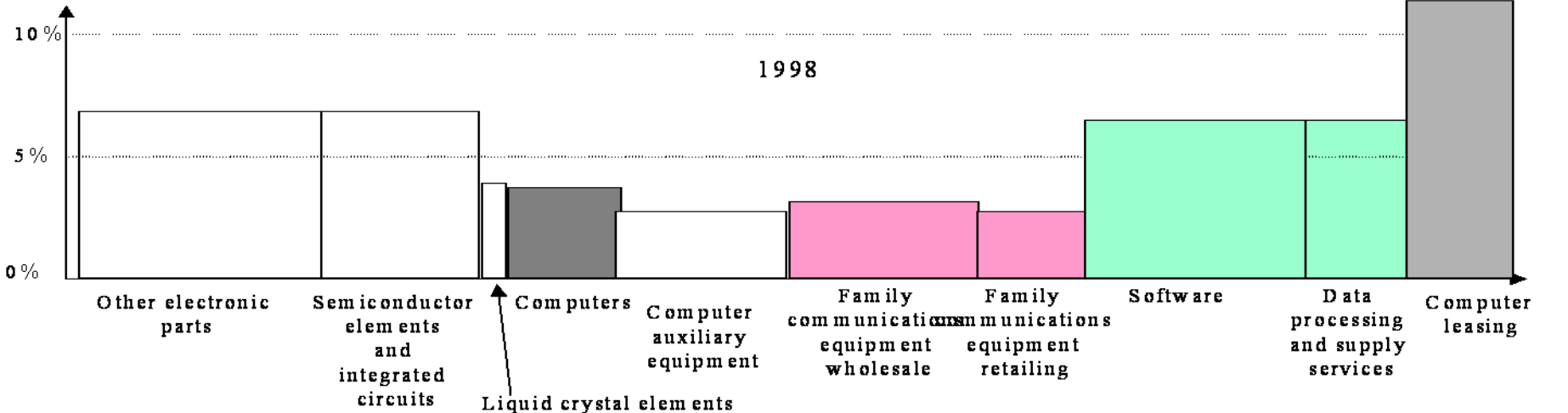




# Smile Curves for the Computer Industry

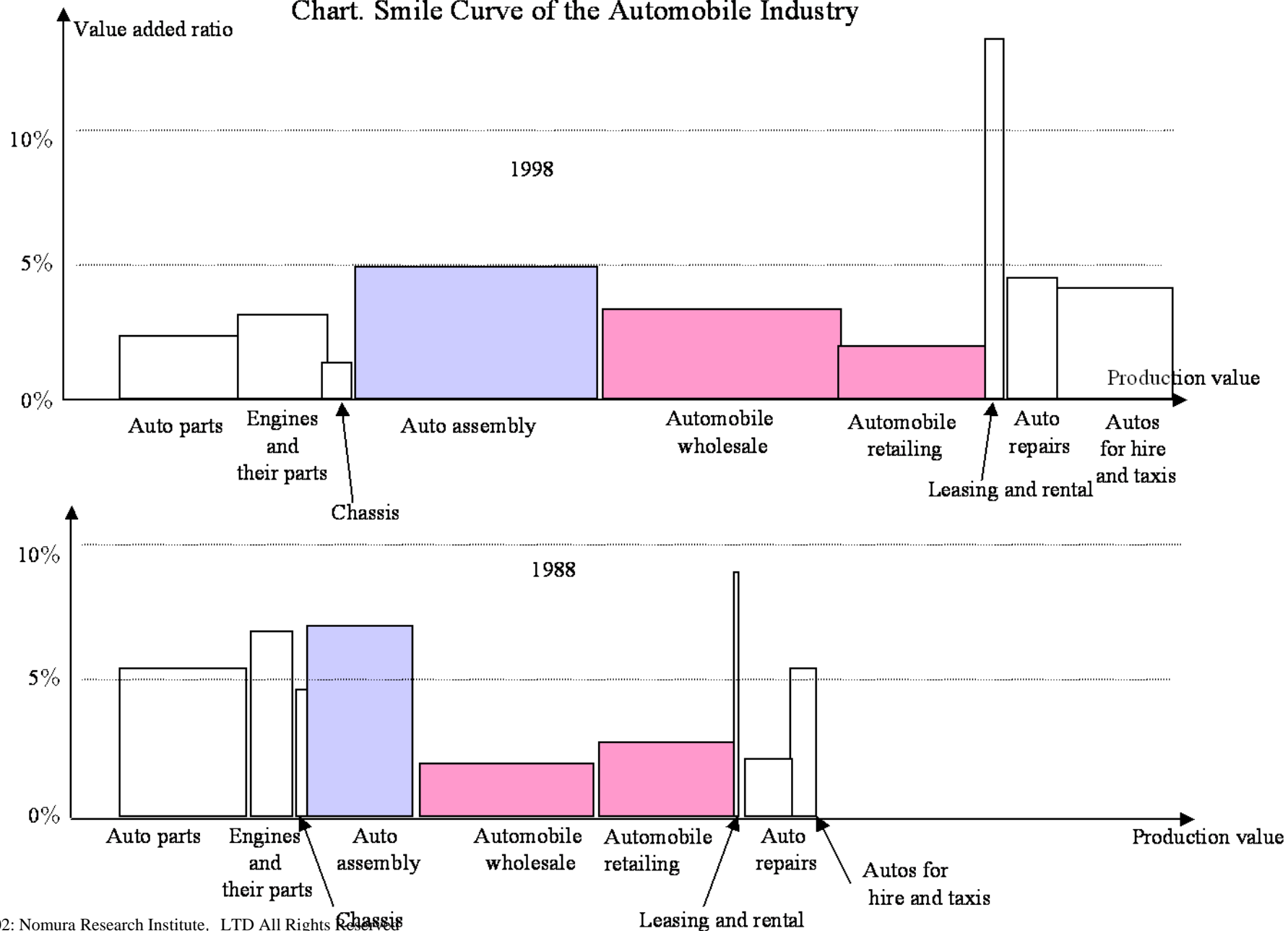
Value added ratio

Structure of the Value Added in the PC Industry



# Smile Curve of the Automobile Industry

Chart. Smile Curve of the Automobile Industry



- The smile curve varies from industry to industry.
- Power relations among sectors make up the value chains of industries.
- Value added as a whole fell between 1988 and 1998.
- It is possible to change the value chain through innovation.

## Factors on the users' side:

### Individuals:

- Graying of the population.
- Participation of housewives in the labor force.
- Increasing need for continuing education.

### Businesses:

- Core competency and outsourcing.

### Government:

- Fiscal rehabilitation

## Factors on the suppliers' side:

- Manufacturers focusing on after-sale services, such as maintenance and leasing
- Companies spinning off head office administration departments to create shared-service companies

- ⇒ To create employment opportunities
- ⇒ To realize a desirable international production network with other Asian countries.
- ⇒ To contribute to strengthening the competitiveness of industries
- ⇒ To realize a rich and worry-free life

The Cabinet Office:

1. Council on Economic and Fiscal Policy
2. Industrial Structure Council

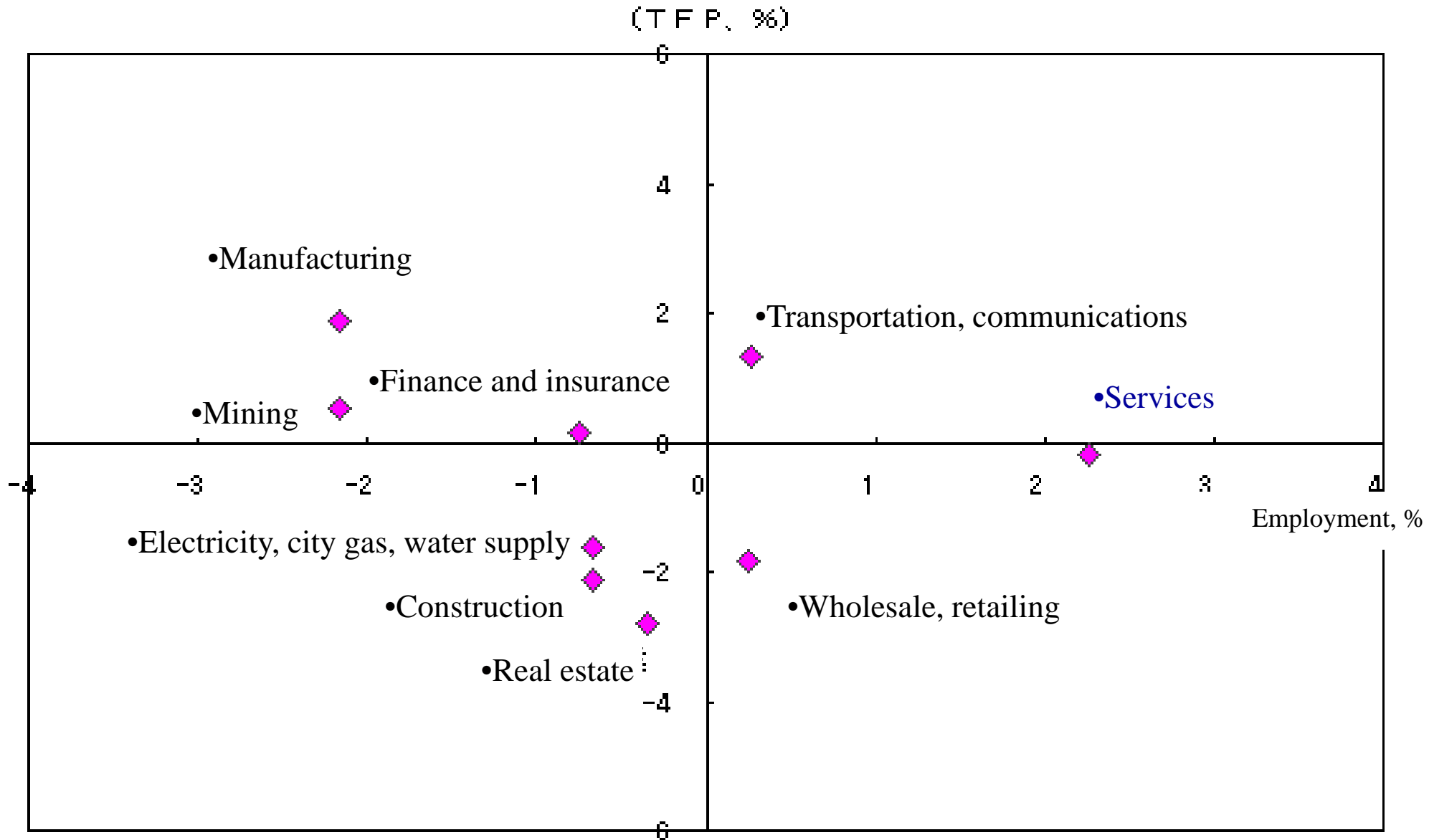
Ministry of Economy, Trade and Industry:

1. Service Forum

Japan Tourism Advisory Council

# TFP and the Rate of Increase in Employment

Average annual growth rate in employment 1997-2000





# SECOM





- Combining crime-prevention sensors and telecommunications technology.
- Based on the information and communications infrastructure.
- Developed technologies in such areas as:
  - remote sensing,
  - image processing,
  - geographical information system (GIS),
  - and the application of information technology to finance



- Based on the combination of a physical distribution and delivery system and an information system.
  - “cool home delivery”
  - “time designation delivery”
  - “cash-on-delivery”
- Challenging the government-run postal business



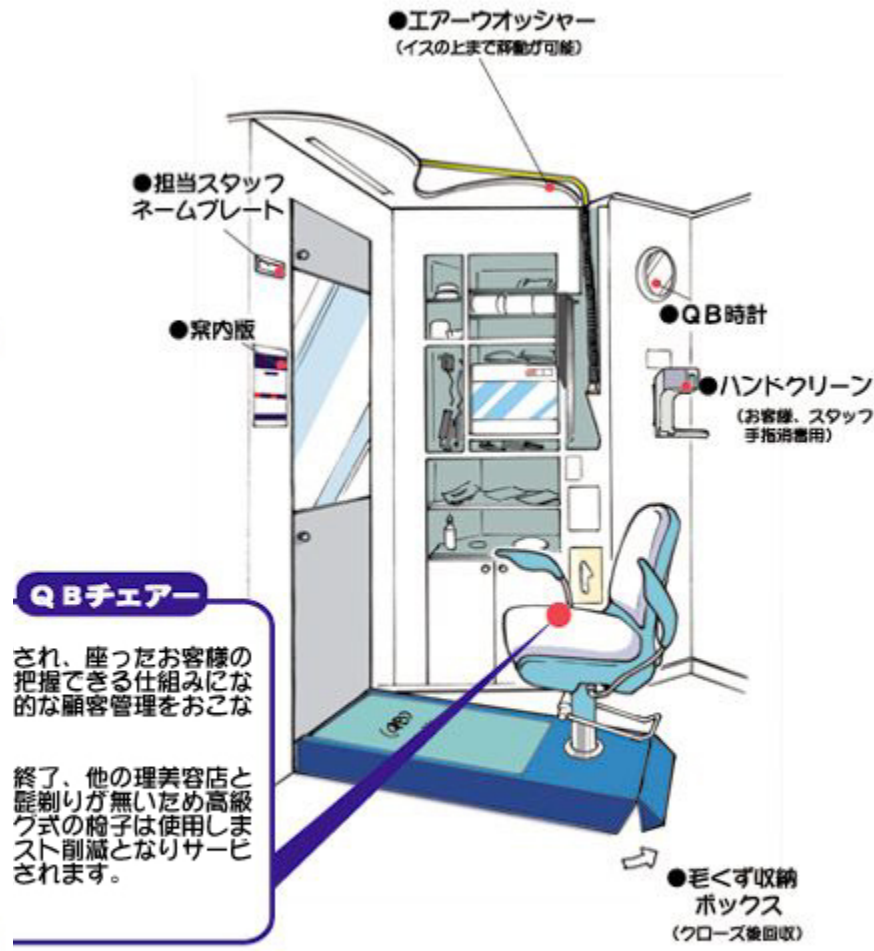
# 7-ELEVEN JAPAN CO.,LTD.

- Convenience stores supported by sophisticated physical distribution and information systems.
- Offering a various services in addition to selling merchandise.

## Services Available at SEJ Outlets

- Copying
- Fax transmission
- Photo developing
- Parcel delivery
- Sale of postage stamps, post cards, and revenue stamps
- Sale of waste disposal stamps
- Sale of ski lift tickets
- Printing of New Year's cards
- Sale of automobile third party liability insurance
- Magazine subscriptions
- Pick-up of merchandise ordered via the Internet, etc.
- Sale of catalog gifts
- Sale of various prepaid cards

- Barbershop chain operator.
- Based on the concept of \1,000 and 10 minutes.
- Eliminate shampoos, face shaves, and massages.
- Designed a shop system, including utensils and barber's chairs, that allows efficient and inexpensive service.
- Opened shops in Singapore.



- Dry cleaning and laundry industry:  
Adopting the “kanban” method to process small lots of various types of clothing resulted in improved finishing, fewer delivery errors, and less damage to clothing.
- Hospitals:  
Reforming operations based on the concept of eliminating waste, which is the core of the Toyota model, sharply reduced waiting time for patients.

- It is essential for service industries to raise labor productivity.
- The development of markets and the creation of demand through innovation should expand the markets for services.
- Service industries need to do business abroad.



## Product innovation

- Creating new service content.
- Requires developing technology to create new services or developing technologies and know-how to offer services more efficiently.

## Process innovation

- Building systems that can meet diverse needs and be efficient.
- Chain Operation is such a system.

# **Future policies for the development of service industries**

- (1) Develop service technologies**
- (2) Improve the market environment for service industries**
- (3) Develop service industry professionals**
- (4) Promote the internationalization of the service industries**

- ▣ Adapt technologies and know-how used in the manufacturing industries.
- ▣ Develop original technologies for the service industries.

- Ubiquitous network technologies -- IC cards, RFID, etc.
- Data mining
- Other information processing technology
- Sensor technology

# Improve the market environment for the service industries

- ☐ Increase competition by eliminating monopoly and removing entry barriers.
- ☐ Open markets that have been monopolized or heavily regulated by the public sector

Securing and nurturing manpower with professional capabilities are essential for the development of these industries.



- ☐ Enhance higher education in the field of services
- ☐ Develop vocational schools for re-training and re-education of workers.

# Promote the internationalization of the service industries

- ☐ Provide information to help businesses go abroad.
- ☐ Harmonize systems that affect the business environment in various countries.
- ☐ Actively promote foreign direct investment in Japan.