The Economist

Japan's hidden growth markets

Strength amid paralysis

Even as it gently declines, Japan has plenty of pockets of growth

Jul 15th 2010 | TOKYO

Another opportunity for growth

TWO decades ago Japan accounted for 14% of the global economy. It is now worth just 1988 eight of the top ten companies by value, and eight of the top ten banks, were Japa today none makes either list. Once the powerhouse of the world economy, Japan is now decline. By many indicators, the country is in the doldrums: its population is shrinking, growth has long been stagnant, property values and share prices have tumbled for years

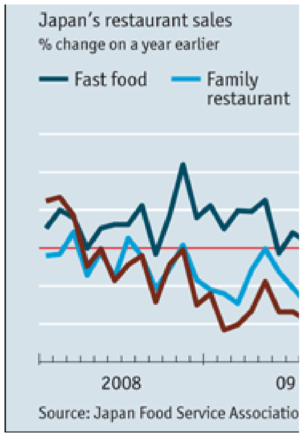
The grim national picture has provoked the government to unveil an exhaustive growth Yet amid the overall decline there are hidden growth markets. Companies that have targ niches are prospering nicely.

Consider the biggest long-term worry: demography. Japan's population is expected to fa 127m today to 124m by 2020 and 100m in 2050. The country is ageing, which means fe workers and less production. But the shrinkage is not uniform. As rural areas empty, the population of Tokyo is expanding by about 1% a year. And, of course, there are more ol The government reckons the number of over-65s in the greater Tokyo area will increase between 2005 and 2015.

Firms that service these groups will have a growing market. Benesse, Watami and other opening scores of new nursing homes this year—"turning silver into gold", as Japanese businessmen quip. Watami has an expanding meal-delivery service for the elderly and a turn over ¥50 billion (around $550m) by 2013. As couples marry later—by two additiona over the past decade—and put off having children, those in Tokyo spend 40% more on v than ten years ago, according to *Zexy*, a wedding magazine.

A close look at the restaurant industry shows that although the

You want fries with that



number of eateries has fallen since 1998, the market for packaged food like bento lunch boxes has nearly doubled. Indeed, fast food in general is thriving (see chart). McDonald's enjoyed its sixth consecutive increase in same-store sales last year; KFC saw profits soar as mothers took a break from cooking.

Another promising niche is buried within pharmaceuticals. Overall drug sales eke out 3% growth annually—not too impressive in an ageing country. But sales of generic drugs are surging three times faster. The government is encouraging their use to bring down costs, fuelling demand. Generics make up only 20% of Japan's $80 billion-a-year drug market by volume, compared with more than 60% in America and Br there is plenty of room to grow. Firms like Nichi-Iko, Towa and Sawai have benefited, a non-Japanese makers like Sandoz and Impax.

There is some optimism even in retailing. Last year department-store sales fell by 10% supermarket sales dropped by 4%, both marking 13 consecutive years of decline. But tw categories are booming. Online shopping has grown by 17% a year since 2005 and is ex expand by nearly 10% annually to 2015, according to McKinsey, a consultancy. Market l Rakuten, Yahoo! Japan and Kakaku are flourishing. And as luxury-goods sales fall, cheap selling well. Sales have surged at Uniqlo, H&M and Forever 21 (for clothing), as well as and Nitori (for furniture).

A few firms are actually learning to take advantage of Japan's overall contraction. Falling commercial-property values and rising vacancies in Tokyo have allowed Sagawa, a parc firm, to expand its store network by 80% to 540 shops. It is thus better placed to handl in e-commerce deliveries. Falling residential land prices have discouraged people from r encouraged them to renovate, boosting building firms.

Some of the most adept at exploiting the pockets of growth are foreign firms, which ma market afresh or are free of traditional ways of operating. MAC Cosmetics, part of Ameri Lauder, outpaces its rivals in part by trying new things, such as temporary sales boutiqu clothing shops. Some Japanese firms that have benefited from the lucrative submarkets middling overall results, because their corporate sprawl includes declining businesses.

Corporate Japan has responded to the decline of its domestic market by becoming more Mergers and acquisitions overseas have been brisk. Nomura, Kirin, Toshiba and others h big acquisitions abroad in recent years. In 2008 Daiichi Sankyo, Japan's third-biggest dr company, bought Ranbaxy, an Indian generics-maker, in part to bring the drugs home. although the country continues to resist immigration, its companies are scrambling to at foreign staff. Panasonic, Uniqlo and Komatsu, a heavy-equipment-maker, have ambitiou recruitment targets. A few firms are requiring English at executive meetings and offering competitive pay.

The overall pessimism of Japanese bosses is understandable. But some firms have found even in a declining economy. Look hard enough, and you'll see a surprising number of opportunities amid the gloom.

Business