

Fostering Innovation through Value Co-Creation

Dr. Yoshinori Fujikawa is an associate professor at the Graduate School of International Corporate Strategy at Hitotsubashi University. The Japan Journal's Osamu Sawaji asked him how the service industry is changing.

Tell us about the global service industry as it currently stands.

Dr. Yoshinori Fujikawa: Economic maturation has accelerated a service economy. For example, in mature economies such as Japan and the United States, the percentage of the labor force employed by the service industry is now over 70%–80%. Emerging countries too are seeing a rapid expansion of their service industries along with economic growth.

Reflecting this trend, for the past few years “service management” has been expanded worldwide, entailing researching services systematically and discussing issues such as service innovation and globalization. Also, debates about how to integrate services into industrial policies are intensifying in terms of industrial policy at the national level. For example, in 2004 the “Innovate America” report was released in the United States, emphasizing the importance of research and development in the service industry. In Japan also, in 2006 the Industrial Structure Council released its “New Economic Growth Strategy,” describing the service industry, together with the manufacturing industry, as one of the two engines of economic growth.

What are the characteristics of

Japanese service companies operating overseas?

What Japanese service companies that are successful overseas have in common is the fact that they are globalizing in pursuit of new knowledge acquisition. For example, the Kumon Institute of Education that delivers the Kumon method of education services to more than 4.4 million children in forty-seven countries and regions including Japan gathers best practices from Kumon method classes around the world. Examples of this include the feedback style of an instructor in Jakarta, Indonesia, or the method of communicating with parents practiced by an instructor in Mexico City, Mexico. They then look for ways to disseminate this knowledge throughout their more than 24,000 classrooms around the world. In other words, globalization has created opportunities for value co-creation with various customers, which in turn has generated innovation.

What impact has the service economy had on manufacturing?

Until now, all companies in the manufacturing industry have typically been most concerned



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about coming up with physical products with the best possible quality and functions. However, the better those qualities or functions have become, the harder it has become to distinguish between different companies' products. This is referred to as commoditization. In order to de-commoditize, it has become necessary in recent years for manufacturing firms to engage in services that will raise value for the customer. In other words, service management has grown in importance for manufacturing firms.

For example, Komatsu has developed a system called KOMTRAX that gathers product usage information using GPS for each of the more than 200,000 construction machines it has sold worldwide. Komatsu is now able to provide its customers with the operation status of construction equipment, and customers are able to check the progress of work, run maintenance checks, and locate vehicles at each construction site.

What role is Japan playing in service innovation in a global society?

There are cases of overseas companies in the service industry utilizing the Japanese market strategically as part of their globalization effort. One example is the American company Coca-Cola that carries out R&D in Japan for noncarbonated beverages such as tea, coffee and sports drinks. Another is the Swiss company Nestlé that has R&D bases in Japan for nutritional products, beverages, and packaging technology. This is the result of a belief that satisfying the Japanese customer, who demands very high quality for these products, will produce innovations that will be recognized by the rest of the world.

Also, the Mexican theme park KidZania has

expanded into Japan, Indonesia, Portugal, and Dubai, and its global development is said to have been facilitated by its success in Japan, its first overseas operation. Officials from those countries which had been considering invitations to set up KidZania accepted after observing KidZania in Japan, where they were impressed with the business operation that had been established, which enables children to gain work experience without being chaperoned by an adult.

These examples indicate that Japan, as a market that demands high quality products and services, provides a "stepping stone" for promoting further innovation and globalization.

What kind of service industry companies is Japan likely to expand overseas in the future?

Among the conditions for expanding Japanese services overseas are that the services originating in Japan to meet customer needs anticipate the future needs of overseas markets, and that to a certain extent those services can be universalized across cultures and replicated in local markets. One example of this could be moving companies. Japanese moving companies transport furniture in a highly skilled and safe way. In future, the need for such a service is likely to increase overseas too.

Another example may be weather forecasters. We are seeing very detailed, customized weather forecasts being prepared in Japan for companies and individuals. A wide range of industries are affected by the weather, from restaurants and retailing to transportation, and in future we may see an expansion of services overseas from Japanese weather forecasters. 