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Nagasaki Jidousya Co., Ltd.

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C O L U M B I A U N I V E R S I T Y I N T H E C I T Y O F N E W Y O R K

Nagasaki Jidousya Co., Ltd.
(Nagasaki Bus Company)

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Abstract

I visited the head office of the Nagasaki Bus Company in Nagasaki City in May 2014. The company's main business is providing regular bus services both within Nagasaki City and from the city throughout Nagasaki Prefecture. It also provides a variety of special bus services, such as to hospitals and for major Nagasaki companies. Furthermore, it holds extensive – and quite profitable – real estate holdings which are being developed into urban shopping centers, office buildings, condos, and hotels. The company's challenge is that its bus service loses money, despite providing an essential public service making 4,000 trips a day, along with regular service to Osaka and to Nagoya, amounting to sales of \$95.8 million in 2013. Moreover, the number of passengers has been declining ever since the 1980s when young people began buying cars, and will continue to decline as the Nagasaki City population, now 440,000, may decline to about 300,000 in the next 20 years. The company is attempting to address this challenge by developing special bus services for the elderly to hospitals, shopping, and tourist trips. For now, the company is profitable on the strength of its real estate holdings, but given these budgetary and demographic realities, the future is unclear.

Nagasaki Jidousya Co., Ltd.

(Nagasaki Bus Company)

I visited the head office of Nagasaki Jidousya Co. group in Nagasaki City on May 26, 2014, meeting with Kazuhisa Nagai, managing director and member of the Company Board. The meeting was arranged by the Development Bank of Japan (DBJ), and I was joined by Hirofumi Maki and Keisuke Shimizu, former CJEB Visiting Fellows, from DBJ.

The bus company was founded in 1936 by Kizaemon Ueno, a Kagoshima oil merchant, who was both a good businessman and highly civic-minded. The company is owned primarily by Nangoku Shokusan, whose shareholders are the founder's family, its customers, and other Nagasaki stakeholders. The other shareholders are Juhachi Bank and Isuzu Motors.

Indicative of the company's status, the CEO always serves as the Honorary Consul of the Netherlands in Nagasaki. The Consulate office is on the same floor as the Nagasaki Bus Company's CEO office. Since the Netherlands were in Deshima in Nagasaki as the first Western foreigners in Japan, and were there even throughout the Tokugawa isolation period, this has a special symbolic importance. The company's chairman, Keizo Ueda, is head of the Nagasaki Chamber of Commerce and Industry. He joined the company in 1966, became president and CEO in 2000, and chairman in 2011.

The company's sales in 2013 were 9,698 million yen (\$95.8 million at yen 101 per dollar), and paid-in capital of 780 million yen (\$9.72 million). It has about 900 employees, 700 of whom are bus drivers. The buses make about 4,000 trips a day on their various routes. The company's main business is providing regular, scheduled bus services both within Nagasaki City and from the city throughout Nagasaki Prefecture. It has once-a-day regular bus service to Osaka and to Nagoya. It also provides a variety of special bus services, such as to hospitals and for major Nagasaki companies such as Mitsubishi Heavy Industries, which has its main shipyard in Nagasaki. It has a total of 567 vehicles.

Mr. Nagai stressed that their bus service business has a major dilemma: it provides an essential public service but it loses money. Moreover, the number of passengers has been declining ever since the 1980s when young people began buying cars, and will continue to

decline over the coming years as Nagasaki City population, now 440,000, may decline to about 300,000 in the next 20 years.

However, in fact the company is quite profitable because it has had extensive real estate holdings which are being developed into urban shopping centers, office buildings, condos, and hotels. Some of the land was previously used to park buses. The company also owned a large amusement center in the city (serviced by buses of course!), which was then sold to a developer, torn down, and the land profitably used for offices and condos. Rental and related real estate income provides a comfortable total profit, offsetting the bus business losses. On our way to see the bus driver training facility, we drove by one downtown, tall, shopping center building, financed with a syndicated loan led by Mizuho Bank, in which DBJ participated for the longer-term portion of the loan.

For example, in 2008 a major subsidiary, Mirai Nagasaki, opened Mirai Nagasaki Cocowalk, a comprehensive center for shopping, movies, and an amusement center featuring a giant Ferris wheel to memorialize its earlier amusement park. It was built on a former flat bus terminal, and continues as a terminal. "Coco" from Cocowalk, means community and communication. Its website has a multilingual flow guide in English, Chinese, and Korean.

Since it is a private company, balance sheet and profitability data are not available, but the company pays to shareholders a regular 10 percent dividend, and the shareholders expect management to continue to have a rate of return on new investments of at least 10 percent. One interesting new project is solar power generation on their buildings and facilities at their maintenance centers, training center, and one bus storage area. And, as Mr. Nagai proudly stated, the bus fares are the cheapest in Japan and, as a public service, will remain so.

The company hires about 50 new bus drivers a year, and has a two-month training course for them. Prior to being hired they have to graduate from high school, and, at their own cost, complete a four-stage technical training program, which prepares them to pass the national driving license test for larger, special vehicles including buses, trucks, and taxis. In Nagasaki taxi drivers are mostly in their 50s and 60s. Nationwide there are about one million holders of this special driver's license, and about 100,000 of them are bus drivers. The company's bus drivers are hired on a contract basis for the first five years to determine how

they perform; those completing five years successfully are then hired as permanent employees. Five of the bus drivers are women; the company receives compliments from their passengers about them.

Those seeking bus driver jobs in Nagasaki seek a stable, secure, long-term, full-time, well-scheduled work environment. Truck drivers are paid more, but their working hours are more volatile, and often longer, so it is a more difficult occupation. The bus employees are members of a union, which apparently reasonably interacts with company management. Mr. Nagai indicated the company had increased the wage rate slightly this year, but that the Bank of Japan's inflationary policy had not yet reached the Nagasaki economy since prices were not rising yet.

The company has a management staff of about 40; virtually all are graduates of Nagasaki University or other universities in Kyushu. Four new persons were hired this year. No women are yet in management positions, but there probably will be a few in the future. Mr. Nagai joined the company in 1983. President and CEO, Masahide Shimazaki, joined the company in 1980 and became CEO in March 2011.

The average life of a bus is about 10 years, though some are used for as long as 15 to 20 years. The company buys 10-15 new buses every year. The older buses are sold to other bus service companies, probably for local or charter services.

The company's biggest problem is the highway accidents the buses have; they take a lot of staff time to handle. Two drivers are on a 7-hour shift; one drives, the other sleeps. They drive about 500 kilometers a shift. The company actively memorializes a major bus accident as part of its history, demonstrating its commitment to its customers. On September 1, 1946, a tire blew on a bus on a narrow, mountainous road. The conductor jumped out and threw himself in front of the wheel to stop the bus from going over the cliff. He died, but the passengers lived. This serves as a symbol of the importance of commitment to safety, for drivers and passengers alike.

Following our visit to company headquarters, we went to the company's bus training facility in the city. It had a large oval driving ring, with various routes to make turns. As it happened, the driving course was being used by fledgling police drivers, with about six police

cars. I was told that they provide this service free of charge to the Nagasaki police department. The company is a good, smart, public citizen.

I noticed that in displays we saw at the headquarters with pictures of buses dating back to 1936 (made by Ford), often the company's name was in English (Nagasaki Bus Company) as well as in Japanese, but not on some of the buses I saw when I was going on Nagasaki streets. They didn't know why the company had dropped the English name. I suggested that before the 2020 Olympics maybe the company should reinstate its earlier practice.

This is a company that proudly provides an important local and regional transportation service, even though it is losing money, but astutely develops and utilizes the real estate it has accumulated over the course of its business history to be quite a profitable entity. While its total bus passengers will continue to decline, this will be somewhat offset by developing special bus services for the elderly to hospitals, shopping, and tourist trips. However, the key to the company's sustainable future lies in the continued development of its real estate holdings and the rental income it receives. Over the course of time the company may diversify its assets from real estate into other assets. However, if it has to sell off real estate or other assets on an ongoing basis simply to cover bus services losses so that its total assets decline, the company obviously will eventually be in difficulty. I do not think that will happen; I expect the company to continue to prosper.