Ryobi Holdings Company and Ryobi Group

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Abstract

I visited Ryobi Holdings Company in April 2013, and found one of the most interesting and impressive companies I have ever seen. Owned by the Matsuda family, it was founded in 1910 as the Saidaiji Railroad Company. It is extraordinary in its articulation of its basic philosophy, its vision, its organizational structure and managerial style, its innovative search for new products and markets, and its outstanding and profitable growth performance. Its employment system is combines merit and seniority. In this paper, I start by describing the organizational structure of this multifaceted company. With about 8,400 employees, Ryobi Holdings is the lead company of a group of small and medium enterprises in three broad categories: local transportation, consumer goods and services, and information technology. In total, there are 52 relatively autonomous small companies under the central leadership and decision making of the Matsudas. All of these companies operate under a philosophical spirit of “wholehearted sincerity,” with three guiding principles: adherence to high ethical and moral standards to achieve justice in solving problems through consideration and sincerity; customer first; and happiness of the employees. One of Ryobi’s greatest strengths is its very active search for new market opportunities, in terms both of goods and services and at new locations; another is applying new technologies. Ryobi is an example of the continued importance of the Japanese entrepreneurial spirit.
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Ryobi Holdings Company is one of the most interesting and impressive companies I have ever visited. It is extraordinary in its articulation of its basic philosophy, its vision, its organizational structure and managerial style, its innovative search for new products, and markets, and its outstanding profitable growth performance.

Ryobi is located in Okayama City on the Sea of Japan west of Kobe, less than an hour from Osaka on the Sanyo Shinkansen. The city, once a major castle town, is now a manufacturing center of about 700,000 and capital of Okayama Prefecture. I visited the company on April 2, 2013, together with Mr. J. Yoshida, Chief of the Development Bank of Japan Okayama office, who had kindly arranged the meeting, and with Mrs. Hiroko Ogasawara, an excellent professional interpreter.

Ryobi Holdings is the lead company of a group of small and medium enterprises in three broad categories: local transportation, consumer goods and services, and information technology. Operating under a variety of names, most, but not all, are located in Okayama City. Recently the Group has been developing business activities in the Kanto area, with a Tokyo office.

The Ryobi group is owned by the Matsuda family. I met with Hisashi Matsuda, President and Chief Executive Operating Officer of Ryobi Holdings, as well as president of 31 of the other Group companies; and with Toshiyuki Matsuda, Senior Managing Director of Ryobi Holdings and head of the Tokyo office. His father is Mitsunobu Kojima, born in 1945, who married into the Matsuda family, and who is chair and CEO of Ryobi Holdings and President of 16 of the other companies. In addition to an excellent presentation by Toshiyuki Matsuda and discussion with them both, I was given very useful materials, some in English, about some of Ryobi’s businesses and related activities.

The group employs about 8,400 people. Almost half are with the three largest companies; 32 of the 52 group companies have fewer than 100 employees. Ryobi Holdings itself has 2463 employees and a paid in capital of ¥400 million.

The oldest and largest of the three categories of companies by revenue is the Transportation and Travel group. It includes 33 companies that are engaged in taxi, bus,
hotel, railroad, trucking, passenger ship, and travel agency businesses. In 2011 their combined revenue was $931.7 million, comprising 55.1 percent of Group total revenue, and $15.9 million, 36.5 percent of net profits before tax. Within this category Okayama Kotsu Company, a bus and charter bus service, has 514 employees, making it the third largest employer in the group.

The most-profitable category is information technology (IT). The lead company is Ryobi Systems Company which engages in the development and distribution of medical, administration, and welfare systems. After the holding company itself, RSC has largest paid-in capital (¥300 million) and number of employees, 605 as of February 2013. Of these, 502 are system engineers and 103 are administrative staff. It was established in 1969. Mr. Matsuda is its president. Its annual revenue, ¥10.8 billion in 2012, was almost half of the IT group. The five other companies in the Information Related Business line engage in high tech, IT services activities such as system development, logistics planning, and information security systems. This business line generated $256.2 million in revenue, 15.1 percent of the Group’s total, and an impressive 43.1 percent of total net profits ($18.4 million).

The Life Related Business line with 12 companies is rather heterogeneous. Six of the companies engage in sales and distribution and maintenance of everything from vehicles, fuels, building materials, and air conditioners to jewelry and Godiva chocolates. One engages in the development and production of factories to grow vegetables; another engages in real estate development including warehouses and data centers. Yet another has an elderly nursing home.

Ryobi partially owns Okayama Takashimaya Company, a major department store in the city. The store is not a formal member of the Ryobi Group. Takashimaya is a major department store chain, primarily in Japan but also with stores in New York City, Singapore, and China.

Ryobi traces its history to 1910 and the founding of the Saidaiji Railroad Company to provide local train service. (Saidaiji is a temple town near Okayama. The temple, founded in 777, is sacred to the Thousand-handed Kannon.) In the 1930s, Ryobi expanded into local bus service, in the 1940s and 1950s into the taxi business, and into trucking from the early 1960s.
Ryobi also entered into sales and distribution related to its transportation businesses. Saidaiji Railroad closed in 1962, and Ryobi shifted increasingly to providing local bus services.

In 1973 Ryobi Transportation Company, which later became Ryobi Holdings, was running significant operating deficits and had accumulated significant debt. Mr. Kojima, then working at Mitsui Bank as a loan officer to small businesses, was brought into the company, developed a restructuring plan, obtained a major loan from the Industrial Bank of Japan, and succeeded, with his colleagues, in reviving the company. While some of the Ryobi companies had been established earlier, the number has increased dramatically in the past twenty years or so.

Toshiyuki Matsuda provided a comprehensive presentation, beginning with a broad explanation of the Group’s basic philosophy, and moving to an increasingly detailed description of the Group’s activities and operations. Ryobi articulates its philosophy in a vision statement. The essential spirit of the philosophy was stated by the company’s founder as chu-jo (wholehearted sincerity). Ryobi has developed chu-jo into three guiding principles as their basic philosophy: adherence to high ethical and moral standards to achieve justice in solving problems through consideration and sincerity; customer first; and happiness of the employees. These principles came through clearly in the presentation.

To make concrete and implement its philosophy, Ryobi has a very well developed, thorough training program at its education center. The training focus is on the company philosophy and training of business leaders. The many training programs cover top management, middle management, and the regular and new employees. Ryobi also operates a health center for its employees.

The Matsudas encourage each company to present recommendations for improvement. Mistakes are accepted as part of the learning process but, as Mr. Hisashi Matsuda noted, not the same mistake twice. The training programs also cover risk management, problem solving, financial training, labor law, and how to train one’s subordinates. There are special training programs for bus drivers, taxi drivers, and truck drivers.

The employment system is merit-based. There is no specific retirement age, though once employees become 50 – 55, their performance becomes important in deciding their
future. The creation of new companies provides job opportunities so that, even with increases in productivity and performance, the Ryobi Group has not had to lay off regular workers, but instead has transferred them to new or growing companies.

Having 52 relatively autonomous small companies under the central leadership and decision making of the Matsudas and a few other people means several fewer levels of managers than might exist if the companies were divisions of one large company. I noted that one advantage of having separate companies was that wages and salaries probably differ among the different companies. Mr. Matsuda agreed this was a significant point.

The person actually in charge of the day-to-day operations of each company, and his management group, are very important. (This being Japan, the heads are all men.) They are judged on performance measured in terms of cash flow and profitability. All are the companies are fundamentally profitable; if not, the Matsudas make changes.

One company operates streetcars in Okayama City on which I rode. The streetcars are clean, elegant, and had riders, especially students. However, I inferred they must be money-losing on an operating basis. Mr. Matsuda confirmed this but said they made a profit from carrying advertising on the outside and inside of the streetcars. The advertising is by outside companies, not members of the Ryobi Group.

One major current business is to develop and build large distribution warehouses in particularly well located areas in terms of accessibility to roads, trains, and ports and in terms of safety of weather conditions and potential earthquake zones. Ryobi built the largest warehouse distribution Center in the Chugoku region (Okayama is in Chugoku), and then sold it as planned. A new focus is on building internet data centers in safe locations with access to large amounts of electricity.

Ryobi is currently developing a factory system and technology to grow leafy vegetables, tomatoes, and strawberries. These factories can grow high-quality vegetables in buildings anywhere, relying on LED lights and air conditioning. The initial plant and equipment costs are about twice annual revenues, according to Ryobi estimates. Moreover, production costs currently are about twice the costs of farm-grown vegetables. One advantage is the consistency of supply – year-round rather than seasonal, and less exposure to freak weather or pest losses. “Organic” status is also more easily obtained in the closed
environment of a greenhouse than in the open air. One key is making these factories competitive will be to reduce transportation and especially distribution costs by selling directly to supermarkets and restaurants. Another is to reduce electricity costs through solar panel installations. Value added comes from closeness to market, stable and reliable year-round supplies, freshness and quality control.

One of Ryobi’s greatest strengths is its very active search for new market opportunities, in terms both of goods and services and at new locations; another is applying new technologies. The current focus on building new, safe internet centers and developing vegetable farms are examples. In its vision statement, Ryobi labels itself as a problem-solving organization. It has developed a solar power research center to generate electricity for its vegetable factory project and a new local bus that uses solar power.

With the Okayama area market likely to shrink as population declines, Ryobi opened its office in Tokyo headed by Toshiyuki Matsuda to develop new markets and investment opportunities not only in Japan but in Southeast Asia.

It has invested in a Vietnamese joint stock company, Transimex, an international freight building company with bonded warehouses, cold storage facilities, and parking operations. However, direct foreign expansion probably is in the longer-run future. Ryobi clearly has technical and business expertise in its lines of business, but I do not know whether it has the human resources and foreign knowledge to enter foreign markets effectively. I expect that Ryobi Group’s expansion and growth in the foreseeable future will be primarily domestic. There probably are many opportunities within Japan as Ryobi reaches out beyond Okayama.

When I asked what Ryobi’s biggest problems are, Mr. Matsuda replied that the group’s rapid growth has meant a shortage of excellent managers for their various companies. This probably is the major reason their education program is so well developed. The second problem is the shortage is of well qualified bus and other drivers, for which they have a separate training program.

The feeling its major problems are supply-side rather than demand-side is one reason why I found the company so interesting. Japan has a reputation for being non-entrepreneurial, but Ryobi is an example of the continued existence of the entrepreneurial
spirit that made Japan the first non-western country to achieve modern economic growth and pull itself from the ashes of World War II to become a major economic power.

While certainly there are many companies in distress today in Japan, there are also many quietly successful companies that are below my radar screen. Visiting Ryobi reinforced my sense that the Japanese economy is fundamentally strong. While Japan certainly would benefit from more good entrepreneurs, Ryobi helps remind us that Japan was the first non-Western country to achieve modern economic growth, and to pull itself from the ashes of World War II to become a major economic power with a high standard of living, skilled human resources, and with strong and deep technology, often showing up in the sorts of ways Ryobi exemplifies, as well as in so-called high tech firms.