

LES HENOKIENS CASE COLLECTION

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YAMASA aims to make valuable contributions to society

YAMASA Corporate Philosophy

Looking far out into the Pacific Ocean in the last days of the Tokugawa Shogunate, Goryou Hamaguchi, the seventh head of Yamasa, said, “I want to see the dawn of Japan,” to Kaishu Katsu, the Commissioner for Battleships in the Edo Government. Kaishu is one of the greatest heroes in the history of Japan, who was indispensable in the peaceful opening of the there-to-fore closed country, to the world. Having quickly discovered the talent of Kaishu who demonstrated rare foresightedness, Goryou spent his own money to support Kaishu financially. In a way, without Goryou Hamaguchi, Kaishu might not have existed, and consequently Japan could not have opened herself to the world in a peaceful manner. Goryou, who became the Minister for Postal Services in the newly opened Japan, had a tremendous power of presence and was revered more than the prominent figures in the country’s economic world. A significant contributor to the country and his community, Goryou literally built the foundation of Yamasa as “the company that aims to make valuable contributions to society,” which later became its corporate philosophy, and formed the ethical views of Japanese companies.

Japan’s total domestic production of soy sauce, the core product of Yamasa since its foundation, dropped from 1.2 million kiloliters in 1984 to below 0.8 million kiloliters in 2014. There were a total of 1,297 soy sauce manufacturers in 2014, with approximately 30 companies closing business annually. The top six manufacturers in the industry, including Yamasa being number two, account for 56.6% of all soy sauce produced in Japan, and many small and medium-sized manufacturers are fighting for the remaining share. As shown by the numbers, the soy sauce industry is very competitive. Various factors may explain about the decline of the soy sauce market: change of national demographic structure, diversification of consumer tastes, families cooking less at home and turning more to ready-made foods as a result of more women entering workforce, and wide availability of frozen foods and other processed food seasoned with soy sauce. These trends are not changing much and the industry is expected to continue shrinking for the time being. Positive trend is observed that housewives tend to revert to cooking at home to save money after the recent recession in Japan whereas the environment that consumers prefer to easy home-meal replacement remains adverse to the increase of soy sauce consumption. On the

other hand, as the market for noodle soup bases, dipping sauces, and other soy sauce-based seasonings has been expanding, the sales volume of these products finally exceeded that of soy sauce in 1994.

For 33 years following his appointment as the 12th head of Yamasa, President Michio Hamaguchi has actively invested in North America, Europe, and Asia where the soy sauce market is growing. In 1992, Yamasa Corporation USA was founded to expand into the U.S., Canada, and Mexico, and in 1994, the construction of its factory in Oregon was completed. In 2004, Yamasa acquired San-J International Inc. in Virginia having strong distribution networks in the U.S. and began selling Tamari brand soy sauce products. In 2008, Yamasa Thailand Co., Ltd. was established in Thailand to cover the markets in Asia and Oceania. Also, in 2015, Yamasa Europe BV was set up in Amsterdam, Netherlands, to take advantage of the city's geographic advantage and business environment for the expansion in European countries. The proactive overseas investment and flexible shifting of focus to the soy sauce-related seasoning market has been successful, as the sales rose from 35 billion yen in 1995 to 53.5 billion yen in 2015.

“Looking at the household consumers in Japan, the soy sauce market continues to shrink, but the soy sauce based seasoning market (dipping sauces and soup bases)” is growing steadily. This is the field that Japanese companies can take advantage of technology improvement. However, the entry barriers are low and the profit of products is decreasing because of keen competitions. On the other hand, the market for food processing and food service industry is growing due to the structural change in society, so we are making strategic moves. The overseas market for soy sauce will surely continue to grow, so we will focus on three regions of Europe, U.S. and Asia. Still, it is inevitable that the competition with Japanese and foreign brands will intensify¹.”
(Michio Hamaguchi)

How to lead Yamasa in the chaotic soy sauce markets in Japan and abroad and how to navigate it into the next generation as a company worth existing in society? This is the big challenge for the 12th head of the soy sauce giant.

History of Yamasa

The beginning

It is said that a priest called Kakushin at the Kokoku Temple in Yura, Kishu (current Hidaka County in Wakayama Prefecture) made what would later become soy sauce, in the Kamakura period. When Kakushin was teaching the villagers of Yuasa in Kishu the method for making Keizanji Miso (soybean paste) he had learned in China, Kakushin made mistakes with the ingredients, and what is similar to current “Tamari Soy Sauce” was made by accident. Gihei Hamaguchi, the founder of Yamasa, was born in Hiromura (current Hirokawa-cho), a town next to Yuasa in Kishu where soy sauce originated. The heads of the Hamaguchi family traveled back and forth between the main house in Hiromura in Kishu, and Choshi, for generations.

Gihei moved from Kishu to Choshi and founded Yamasa in 1645. It is believed that Gihei began doing business in Choshi after being inspired by Jiroemon Sakiyama, a fellow Kishu native who

made his fortune with his new fishing method and built the Choshi Togawa Port. Since then, Yamasa has continued to make quality soy sauce for over three and a half centuries, and twelve generations, despite some ups and downs along the way. Together with Yamasa, the fishing town of Choshi also developed into one of the major soy sauce towns, particularly because of Kishu-like climate suitable for soy sauce productions.

After the start of the Edo Government in 1603 and the defeat of the Toyotomi clan in the summer campaign of the siege of Osaka in 1615, the cultural and political center of Japan moved to Edo (current Tokyo) in both name and reality. Yamasa was founded in the Choshi town of Chiba Prefecture only 42 years after the birth of the Edo Government.

Resurgence Period

The founder Gihei was succeeded to by the second-generation Kyouryou, third-generation Kyoukan, fourth-generation Anroku, fifth-generation Kanpo, sixth-generation Hohei, and in 1853, or about 200 years after the founding of the company, Goryou, who as a grandson of the fifth-generation Kanpo, assumed the name of the seventh-generation Gihei Hamaguchi. Goryou, born in 1820, succeeded to the headship of the family in 1853 and protected the family business in the stormy days at the end of the Edo Shogunate. In 1864, under Goryou's presidency, Yamasa was granted the endorsement by the government as the producer of superior quality soy sauce with the title of "Premium Soy Sauce Brand." Goryou's successor, the eight-generation Gihei (Gosou), believed that Western cuisine would become popular in Japan and developed Japan's first Worcestershire sauce, "Mikado Sauce." Gosou must have inherited the outward aspiration of his father who was always paying attention to overseas countries.

In the Meiji era, soy sauce really became a staple seasoning for nation and soy sauce consumption grew. The traditional production method that largely depended on manual labor started increasingly being automated.

In 1893 when the 10th-generation Gihei (Godou) succeeded to the family business, Yamasa was on its path to modernization. Called the "Soy Sauce King," Godou studied and adopted the innovative agricultural technology of brewing soy sauce by utilizing microorganisms, as well as the industrial technology for creating preferable environment for microorganism, for 50 years until he handed over the family business to the 11th generation in 1943. While protecting the spirit of quality focused soy sauce manufacturing, the family brand had maintained since the first generation, Godou also helped drive modernization and development of soy sauce manufacturing business. To scientifically understand the art of soy sauce brewing that traditionally relied on the brewer's sixth sense and experience, Yamasa established a soy sauce laboratory in the Meiji period. For more than a century since its establishment, this laboratory has endeavored to improve the Yamasa *Aspergillus* (Koji-mold)--a key to the distinctive taste of Yamasa soy sauce, produced talented researchers, and made numerous discoveries and inventions.

For its superior quality, Yamasa soy sauce was selected by the Imperial Household Ministry (current Imperial Household Agency), in 1895, as the first soy sauce purveyor to the Imperial Household from the Kanto region.

Diversification Period

The 11th-generation Gihei Hamaguchi succeeded the 10th generation in 1943 in the middle of the Second World War. He maintained the quality of Yamasa soy sauce during the post war period with economic and social chaos, and lack of materials, while working to diversify his family business.

In 1983, the current president Michio Hamaguchi became the 12th-generation head of the Yamasa dynasty. Since then, he has grown the company into a manufacturer of general seasoning including soy sauce and also has expanded its operations overseas to establish global business networks. Under the leadership of Michio, Yamasa's corporate activities expanded from soy sauce manufacturing to also cover the pharmaceutical field, under the keyword of "Optimizing power of microorganisms." Yamasa is now a life-industry company with focus on food and biochemical.

Yamasa's Corporate Philosophy and Code of Conduct

Yamasa's corporate philosophy reflects the fundamental reason why Yamasa exists in this world as a company. It talks about originality and differentiation the company should have in order to maintain its edge as business entity and also states the importance of contributing to society through its business activities as a way of public service.

Yamasa's four-point Code of Conduct also defines how Yamasa as a corporation, and every single employee of Yamasa, should act as a good corporate citizen. The specific points include ensuring of product safety and security, compliance, fairness and equality, and environmental initiatives. Yamasa's Code of Conduct strongly reflects the spirit of the seventh-generation president Goryou Hamaguchi who selflessly dedicated himself in the areas of social welfare programs and political activities and left a significant footprint in the development of modern Japan.

Yamasa's Management Strategy

At the principle of Yamasa's management strategy is the spirit of "Continuous Innovation." Our strategy reflects our commitment to doing "What only Yamasa can and dare to do"².

Research and Development

As our lifestyle choices and preferences change, what we eat is also becoming increasingly diverse. In Japan, the growing presence of women in the workforce is increasing the need for convenient foods that can be prepared quickly, while the reality of fast-aging population is stimulating people to make healthier food choices. To understand these changes and act on them quickly, Yamasa set up the "New Product Planning Section" that analyzes marketing data and designs merchandise concepts and the "Product Development Section" that embodies these concepts so as to release each new product by thinking from the customer's viewpoint, discussing all aspects of the product from its concept to cost performance, and repeating the prototype

production process. Examples of new products Yamasa introduced through these two sections include “Shinmi Shoyu,” a new type of soy sauce that utilizes the synergistic effect of the umami ingredient discovered by Yamasa, and “Sashimi Shoyu,” a soy sauce for sashimi that combines superior umami taste equaling that of tamari soy sauce and the flavor of regular soy sauce. In 1992, Yamasa released the industry’s first soy sauce made from organic soybeans, called “Yuki Marudaizu No Ginsen Shoyu,” despite the difficulties ensuring a supply of organically grown soybeans and managing the various aspects of the manufacturing process. In 1979, against the background of consumer’s tendencies for genuineness but convenience, Yamasa released the first bottled ready-to-use noodle soup which had been considered impossible in the industry. In 1997, Yamasa’s new “Kombu Tsuyu” kelp-flavored noodle soup base became a hit product that successfully demystified the traditional concept that noodle soup bases should be made from dried bonito stock.

Market for Food Processing and Food Service Industry in Japan

The so-called “market for food processing and food service industry” targeting restaurants, ready-made industry, and food manufacturers, is expanding. To tap this special market, Yamasa has established a more customizable business model. Yamasa’s “Original Recipe Manufacturing” system lets the company fulfill the never-ending requests from family restaurants, Izakaya chains, institutional meal manufacturers and other catering companies, lunchbox and deli food vendors, and processed food manufacturers to develop new menu items and flavors. Under this system, sales engineers with decent working experience at a Product Development Section, who are familiar with food science and capable of quickly discerning the latest food trends, attend to the customers and provide the technical service they need and propose new ideas. Also, in order to smoothly operate the “Original Recipe Manufacturing” system, Yamasa has built a factory for custom-made products, complete with state-of-the-art production management systems and equipment including a flexible production system that can manage large or small lots, various types of filling machines accommodating to different packages from small sachets to large containers, mixing equipment that can accurately mix various flavoring ingredients, sensory inspection equipment, hygiene management system, traceability system, and systems that allow materials and products to be carried in/out smoothly.

Overseas Markets

During the Edo period, soy sauce was exported to Europe through the Netherlands, from where it traveled with the immigrants and was introduced to the United States in 1868. However, soy sauce did not spread throughout the U.S. until the 1970s. Americans learned a savory grilled chicken skewer dish called “Yakitori,” and “Teriyaki” soon become very popular in the nation. Today, soy sauce is exported by Japanese companies to several dozen countries in the world, mainly to the North American continent. Overseas production volumes of soy sauce by Japanese companies, which were 50,000 kiloliters in 1990, exceeded 200,000 kiloliters in 2013.

The new wave of protectionism that emerged in 2016 in the U.K. and U.S. is spreading throughout the world, and it is certain that the importance of producing overseas, or the principle of “Produce locally for local markets,” will increase more than ever. This should benefit Yamasa as it already has production sites overseas; however, now is a good opportunity for Yamasa to

review its overseas production strategy. Also, overseas consumers do not have a fixed notion on soy sauce as Japanese consumers do, which means that applications of soy sauce may dramatically increase in the future depending on how innovative products are developed and marketed. Yamasa now faces the challenge for developing and training sales engineers who can speak foreign languages and fulfill custom orders.

Pharmaceutical Market

Yamasa's soy sauce production technology of generating umami components by breaking down nucleic acids, led to a series of other technologies relating to the creation of nucleic acid compounds that are useful in bio-activities. Yamasa is now in the business of using proprietary enzymes to break down essential bioactive substances such as deoxyribonucleic acids (DNAs) and ribonucleic acid (RNAs) into nucleotides and also applying chemical synthesis methods and bio-enzyme reaction methods based on biotechnology, to develop and supply to the world a diverse range of nucleic acid compounds. Yamasa's nucleic acid compounds are utilized for making pharmaceuticals, nutritional food supplements, diagnostic drugs for medical diagnosis, and in various other fields. Today, Yamasa is considered one of the world's premier providers of nucleic acid products in supply capability, production technology and quality. It is expected that the pharmaceutical business will become another key pillar of Yamasa business portfolios next to, or potentially equaling, the food business in size.

Long-lasting Prosperity of the Company

Ever since he could remember, Michio Hamaguchi, the 12th-generation head of Yamasa, knew that he would succeed to the family business³. After he became president, Michio has led the company for 33 years long to date, by focusing first and foremost on the long-term prosperity of the company. This is a business model typical of any long-living corporation in Japan. It is a stark contrast to the American business model of starting a company and selling it for a lot of money after growing its business. So, what are the key elements of a company that lasts long? This is Michio's answer:

“Any company with a history of over 300 years certainly knows that life is not always a bed of roses. We ventured out to the Goto Islands and set up stores for fishing equipment, only to fail. We also tried, in vain, to operate an iron mine in the northern part of Iwate Prefecture. In my grandfather's time, the company traded marine products from Hokkaido and suffered a big loss when the market collapsed. Yamasa was almost acquired by someone else. Some of our young employees wonder why we don't diversify. However, the fact is that we did try many different things over the course of our long history, and after all of them failed, we were left with the soy sauce business. However, this doesn't mean we only need to protect our current business, because we won't last forever by thinking like that. Over time, customers change, technologies change, and society as a whole changes. A strong commitment of the management to “make the company last forever” is a necessary condition, but not a sufficient condition, for creating a long-lasting company. What determines the fate of the company is whether the management is sensitive to changes in the environment and able to respond to these changes quickly. However, I believe, our corporate history also agrees that we need to change only with respect to the way we operate our

core business, and business attempts in areas that have nothing to do with our core business will fail⁴.”

Michio has been an avid photographer since junior high school days, and even today, he continues to photograph people and sceneries with the eyes and skills of a true professional⁵. People and sceneries change over time, but once captured in photographs, the images will last almost permanently. It is only natural that Michio, who had more opportunities than ordinary people to think about such concepts as time, change and universality of things, as the heir to an old company, took up photography as his life-long hobby.

On one holiday afternoon, Michio was buried in a quiet thought in his study at home, looking at an old photograph of the seventh-generation Goryou Hamaguchi and Kaishu Katsu taken around 150 years ago and wondering how he should hand over Yamasa business to the next generation. Just then, all TV channels began reporting the news of Donald Trump winning the U.S. Presidential Election. *“The world will become a completely different place. There is no stopping.”* Acting on his intuition, Michio was quickly convinced that he must put Yamasa in the hands of a young, talented new leader who could open a new path for the company. Michio’s eldest son was still a university student and too young to take his place. His nephew Naoyuki Ishibashi, who was then Yamasa’s Managing Director, was just 39 years old but had achieved numerous successes in sales. His ability to foresee the future and act quickly has been recognized by many. Michio firmed up his plan to step down and appoint Naoyuki as new President, and support him from the back as Chairman while still representing the company.

As the new leader, Naoyuki may carry over the traditional management strategy of Yamasa, or he may come up with bold new measures. Naoyuki is a graduate of Faculty of Law of Keio University, which was founded by Yukichi Fukuzawa who was a friend of Goryou’s at the beginning of Meiji and is now one of the most prestigious universities in Japan. Lots of hopes and expectations are placed on Naoyuki, a brilliant businessman with a successful career.

Endnotes

¹ Michio Hamaguchi, President, interview, October 20, 2016

² Michio Hamaguchi, President, interview, October 20, 2016

³ Michio Hamaguchi, President, interview, October 20, 2016

⁴ Michio Hamaguchi, President, interview, October 20, 2016

⁵ Michio Hamaguchi, President, interview, October 20, 2016

Bibliography

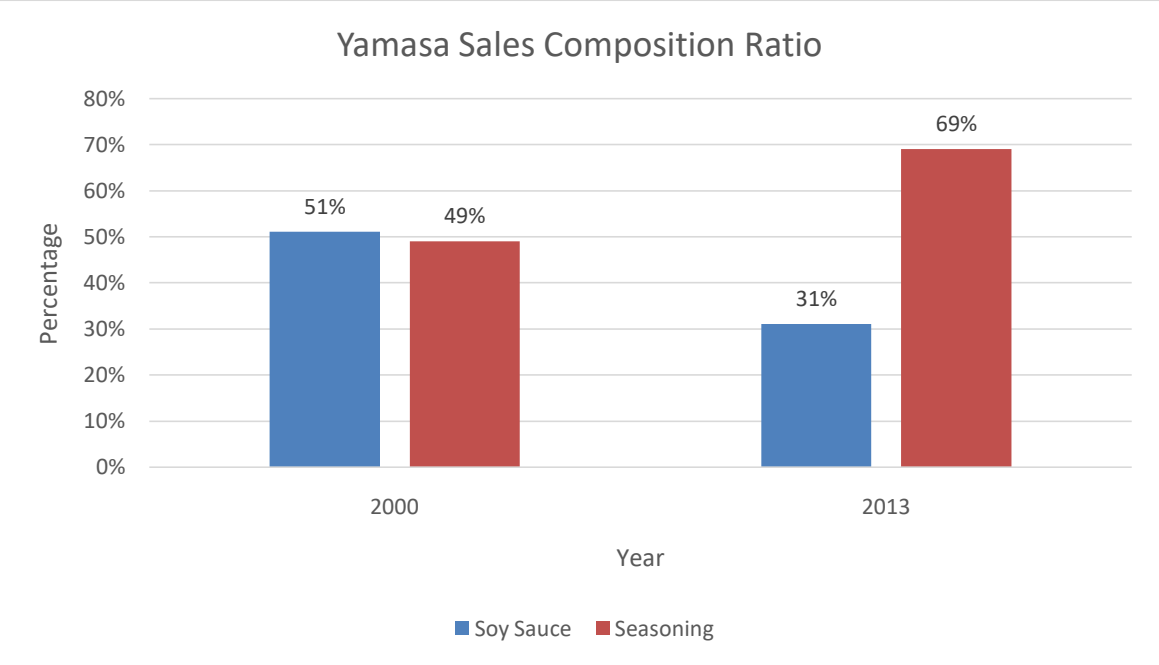
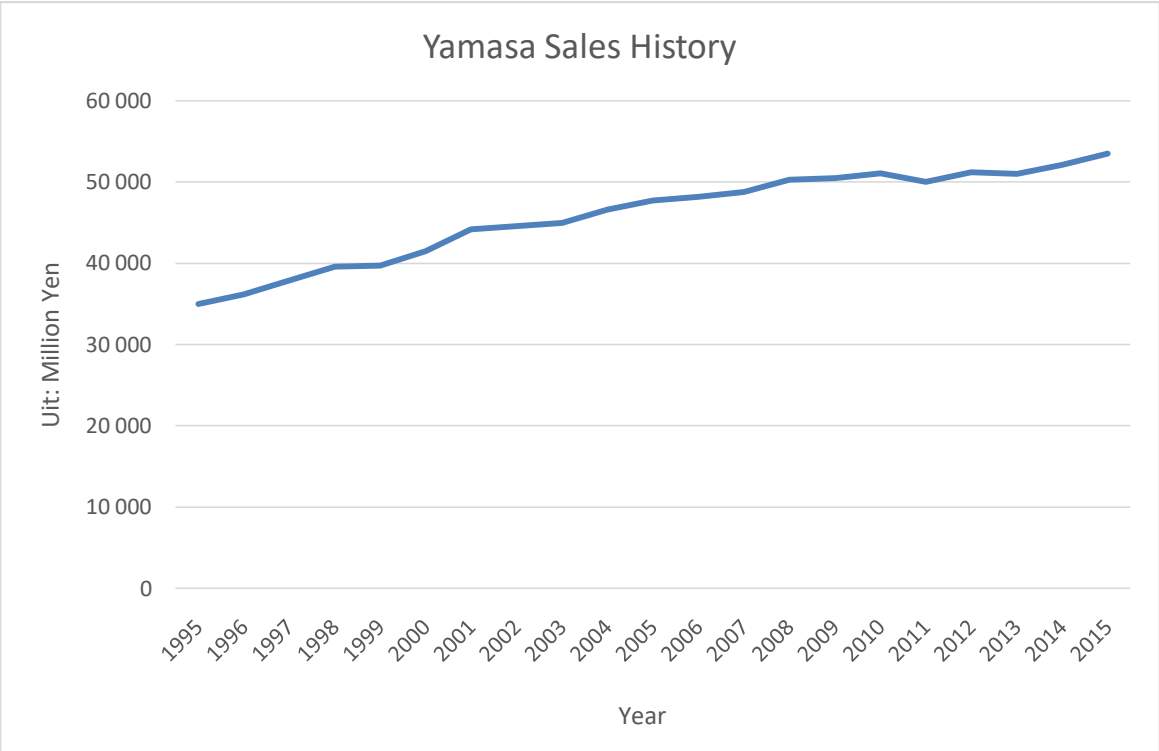
Yamasa Corporate Catalogue · Yamasa

Yamasa Corporate Profile · Yamasa

Shoyu Catalogue · Soy Information Center (SOYIC)

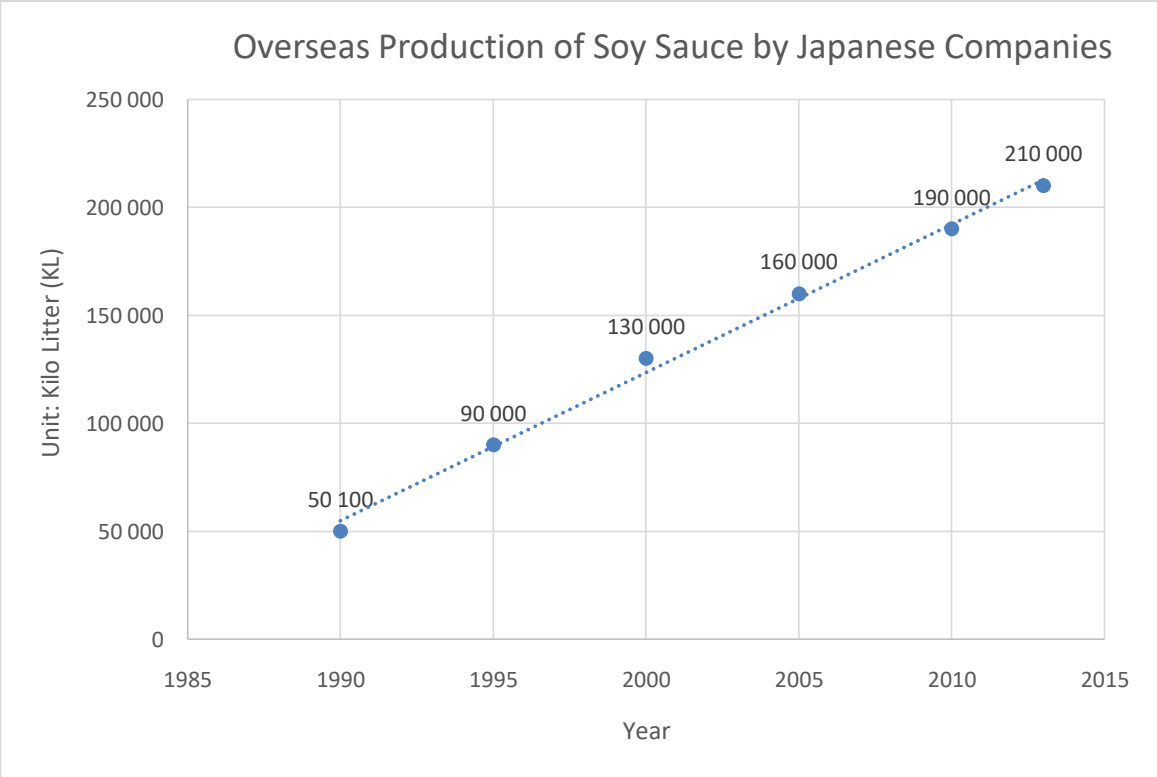
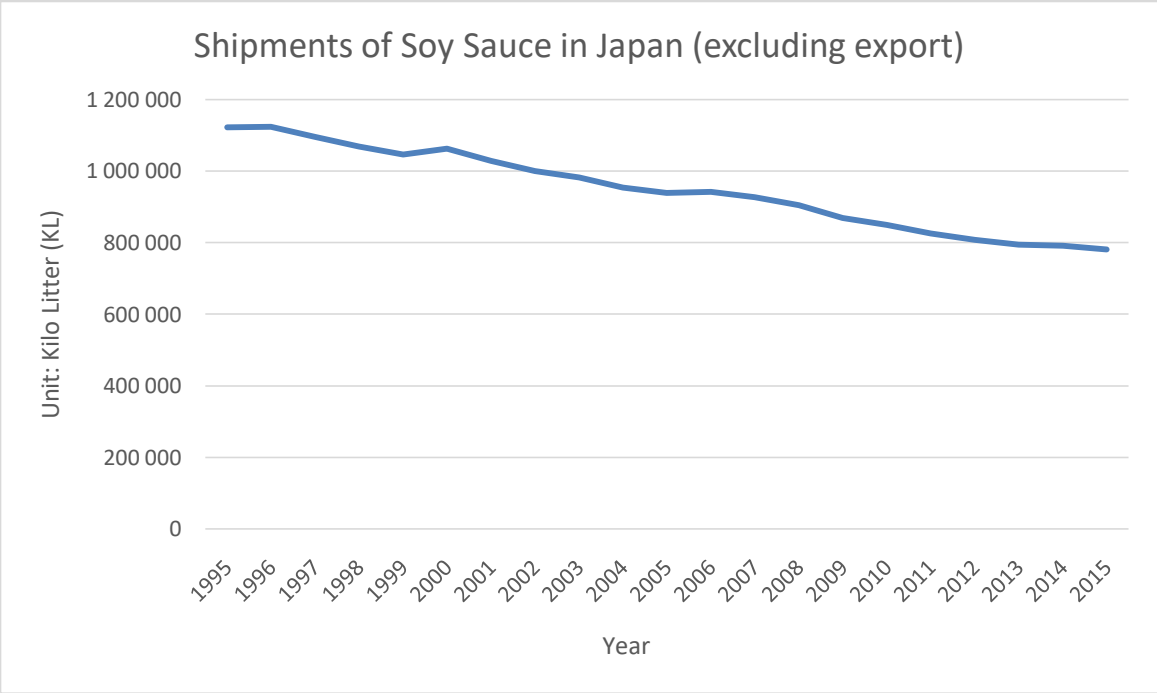
Yamasa web site · <http://www.yamasa.com>

Exhibit 1 Yamasa Financial Data



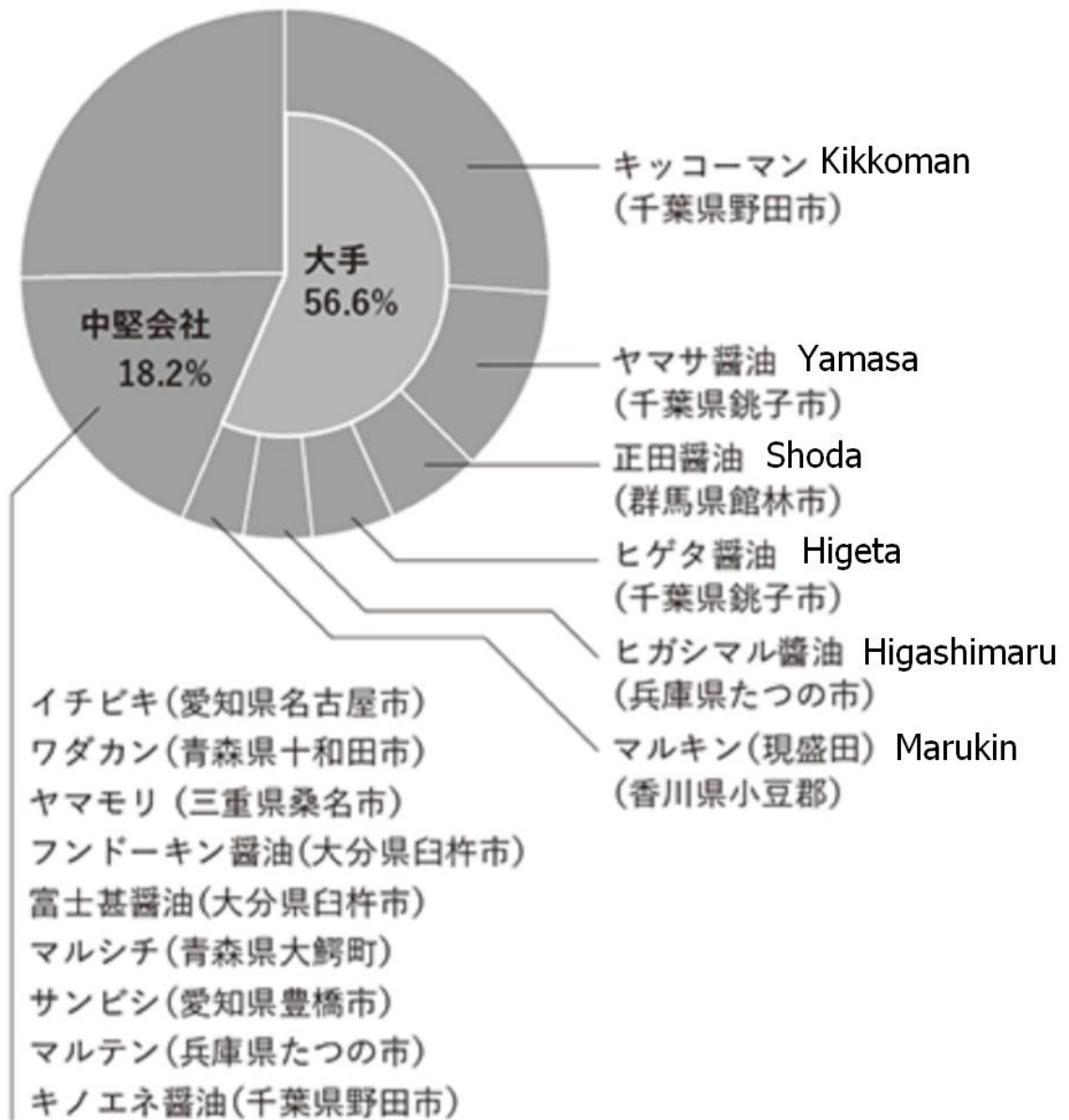
Source: Yamasa internal company documents

Exhibit 2 Soy Sauce Market



Source: Soy Sauce Information Center (SOYIC) · Statistical Materials

Exhibit 3 Soy Sauce Market Share in Japan



Source: Nikkan Keizai Tsushin-Sha · Data Collected in 2013 January - December

Exhibit 4 Yamasa Official Photos

12th Generation Owner and President, Michio Hamaguchi



Headquarters in Choshi, Japan



Factory in Choshi, Japan



Factory in Narita, Japan

Factory in Oregon, USA



SAN-J Factory in Virginia, USA



Source: Yamasa internal company documents

Exhibit 5 Yamasa’s major product lines

Soy Sauce



Seasoning



Source: Yamasa internal company documents

Exhibit 6 Yamasa Historical Photos

Big Tub for Preparation



Factory Photo in Early 20th Century



Lively Coat, utilized until 1940's



One Doubling Barrel, utilized until 1960's



7th Generation
Goryo Hamaguchi

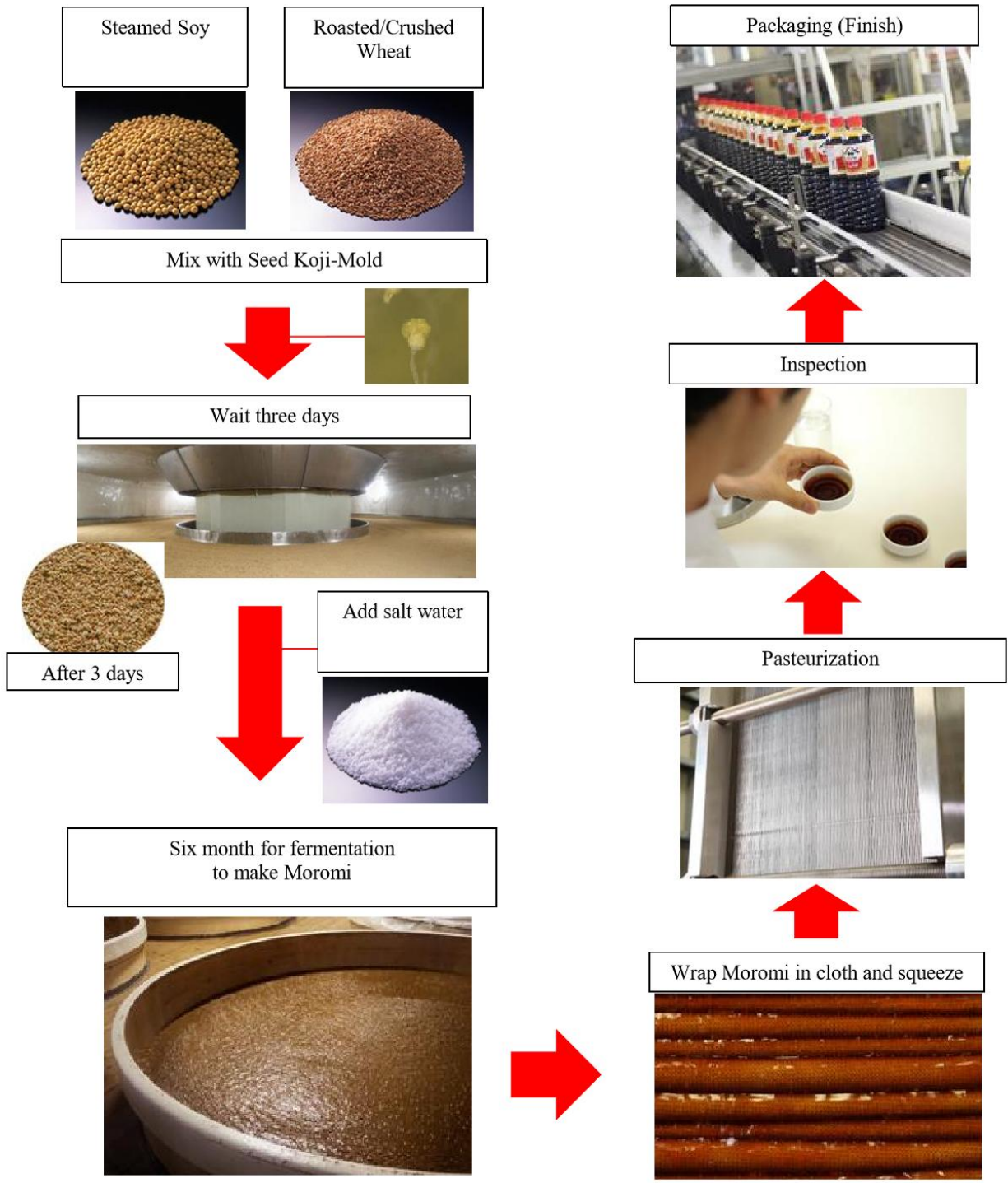


Founder of Japanese Navy
Kaishu Katsu



Source: Yamasa internal company documents and google

Exhibit 7 Production Process of Soy Sauce



Source: Yamasa internal company documents

Exhibit 8 Corporate Philosophy and Code of Conduct

Corporate Philosophy

Yamasa aims to make valuable contributions to society

For a company to survive and prosper, it has to be acknowledged as being worth existing in society. In other words, it has to have the unique ability to differentiate itself from other companies, and provide society with valuable convenience and benefit by optimizing this ability while conducting sound and fair business operations.

Yamasa Code of Conduct

Preface

A company is an enterprising organization deeply rooted in society, and for any company, maintaining trust of society is a basic condition for survival. Just as each person must be a responsible citizen, a company must also be a good corporate citizen in society. In this sense, each and every employee of Yamasa must be aware and conscious of his/her role as a member of a good corporate citizen and pay due attention not to deviate from the Yamasa Code of Conduct in carrying out one's duties.

1. Ensuring Safety and Security of Our Products

As a manufacturer, it is our first and foremost mission to ensure that the products we provide is safe anytime, anywhere. To achieve this mission, we must do all we can in every process from sourcing and storage of material to development, manufacture, storage, transport, and final delivery of the products to the consumers/users in order to prevent our products from presenting any health risk to the consumers.

We shall also provide accurate information to the consumers and communicate with/treat them sincerely to make them feel safe to use our products.

2. Compliance

Various laws are created one after another to reflect the changing times and respond to the needs of society. We now have a complex web of intricate laws, and companies must deal with all these laws that add conditions to how they operate. However, laws are rules of society and must be respected by companies because observing laws or ensuring compliance in whatever circumstance is the responsibility and duty expected of good corporate citizens. The first measure against which to determine the right and wrong of any action or decision we take or make in carrying our day-to-day duties is compliance, and we must confirm all our actions and decisions beforehand that they are not against the law.

3. Fairness and Equality

Laws only provide a minimum set of rules, and avoiding violations is simply not enough.

To be a good corporate citizen, we must conduct business fairly and sincerely and discipline ourselves so that we will not receive any criticism, on ethical grounds, from the consumers and other stakeholders about how we do business.

We must also recognize that our society consists of individuals with very different values and customs, accept this diversity by applying the good commonsense of society, and try to be always fair without succumbing to biased views or positions.

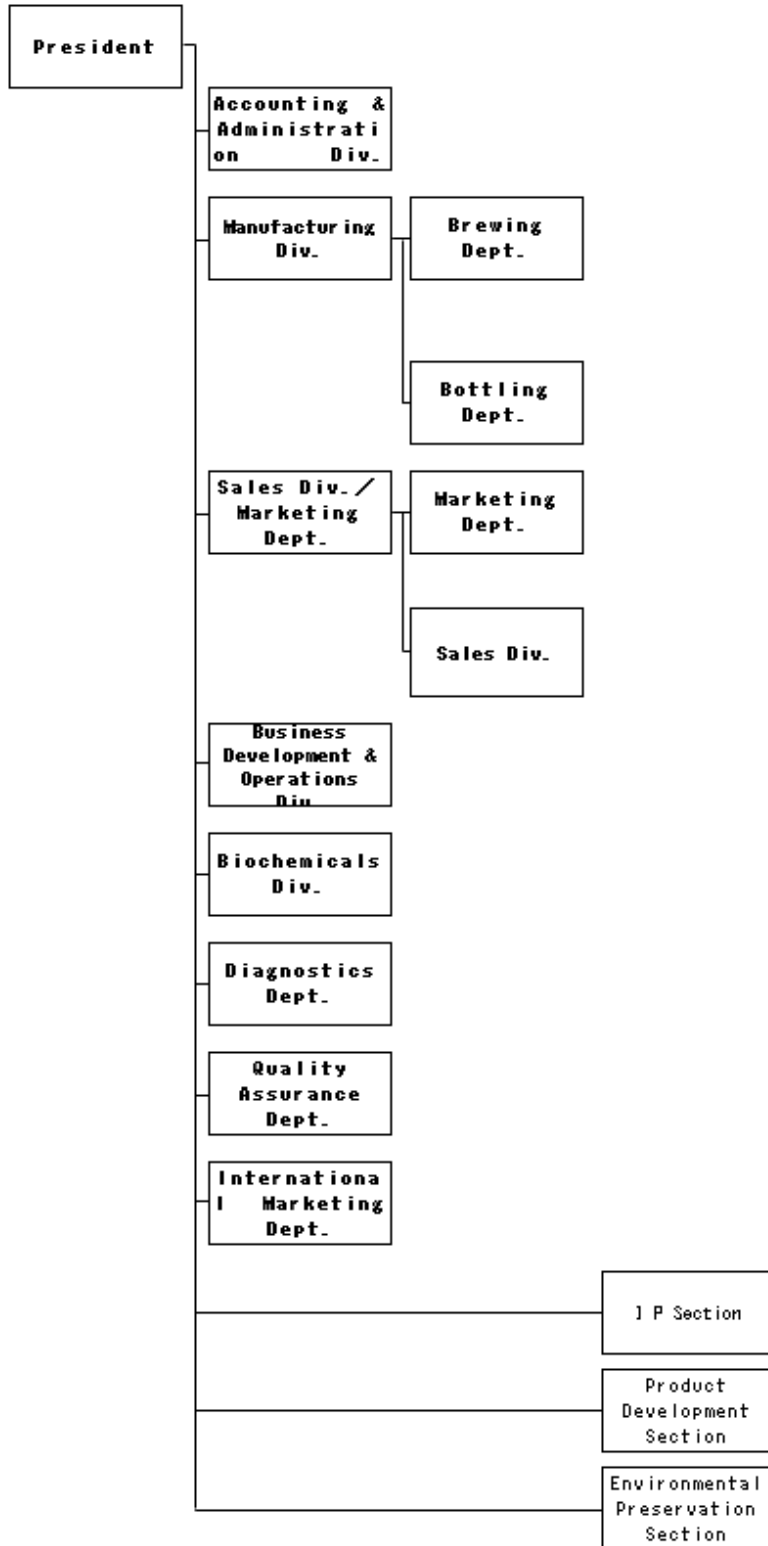
4. Environmental Efforts

Corporate activities have wide-ranging impacts on the environment, and if we view them as environmental issues, addressing these impacts in earnest is essential to the survival and development of any company.

Environmental issues are very close to us in that they have potential causes in what companies do every day, and the attitudes of companies and employees toward these issues affect our society as a whole. We shall recognize that companies must operate in harmony with the environment, and take self-guided, proactive steps to reduce environmental impacts by caring for the preservation of natural environment and gathering the wisdoms and knowledge of all of us.

Source: Yamasa internal company documents

Exhibit 9 Organizational Chart (As of April 1st, 2017)



Source: Yamasa internal company documents

Appendix

Seventh-generation Head Goryou Hamaguchi

Just before the Nankai Earthquake that hit Japan on the 4th, and again on the 5th, of November 1854, Goryou, who happened to be back in Hiromura (current Hirokawa-cho) of the Kishu region at the time, looked at the way sea water was ebbing and how well water was quickly receding, and predicted that a big tsunami would come. The legend goes that, to evacuate the villagers, Goryou burned the stacks of harvested rice straw in his paddy field to alert them of the imminent disaster and saved the lives of the villagers. Moved by this selfless act of Goryou who had risked his own life and sacrificed his own property to help others, Lafcadio Hearn (Yakumo Koizumi), the literary genius in the Meiji Era, described Goryou as “A Living God” in his anthology of short stories entitled, “Hotoke No Hatake No Naka No Ochibo (Fallen Ears of Rice in God’s Field).” Later on, elementary school teacher Tsunezo Nakai wrote a story called “Inamura No Hi (Fire on Stacks of Rice Straw)” based on Goryou’s character, and it was included in the Japanese language textbook for elementary school children.

Goryou did more than saving lives. To help the villagers of Hiromura destroyed by tsunami, Goryou built temporary homes and procured agricultural and finishing equipment to keep the villagers from leaving their village. Also, he spent 353 kg of silver over the course of four years from 1855 to build a large breakwater to prevent damage from future tsunami. The breakwater, totaling 600 m in length and towering 5 m high and lined with pine trees on the sea side and wax trees on the land side, has been designated as a historic site that maintains its magnificent view even now.

Goryou, who befriended Gonsai Miyake, a doctor of western medicine who had his practice in Choshi, took interest in the west and opened “Keikojo” in 1852 at the end of the Tokugawa Shogunate. Keikojo, which has long remained a place to study the excellence of western civilization and educate the youths, is now continuing its mission as Wakayama Prefectural Taikyu High School.

When a vaccination center in Edo caught fire and burned down in 1858, Goryou donated 300 ryo (a currency unit in the Edo period) of money to rebuild the center. He donated another 400 ryo to purchase books and machinery, and this vaccination center later became Seiyo Igakusho, the only research center for western medicine in Edo (which became the basis of the current Faculty of Medicine of The University of Tokyo).

Known for his exceptional insight and magnanimity of heart, Goryou was invited into the political world of the time. After serving as the Finance Commissioner for the Fiefdom of Wakayama and the first Chairman of the Wakayama Prefectural Assembly, Goryou entered the national politics and built a modern postal system as Japan’s first Minister of Posts and Telecommunications. He also maintained a large circle of friends who were intellectuals, including Shouzan Sakuma, Kaishu Katsu, and Yukichi Fukuzawa, and after Goryou’s death, Kaishu Katsu dedicated a poem which was engraved on his grave stone.

Bibliography: <http://www.yamasa.com/enjoy/history/inamura/>