

# Special Shareholder Benefits Keep Evolving

## Unique Practice in Japan Adopted by 1,000-Plus Firms

By *Katsuhiko SAKAI*

Suppose you decide to live in Japan and start investment in Japanese stocks. You may look for undervalued stocks from among those of some 3,800 Japanese firms listed on the stock exchanges in consideration of investment yardsticks such as price-earnings and price-book value ratios in an effort to get capital gains. If investment targets are generating robust earnings, you may expect to receive handsome dividends.

But wait a minute. There is another factor you should consider in choosing investment targets in Japan. That is a system introduced by more than 1,000 listed Japanese companies to provide individual investors with special benefits. Under the system, companies give well-designed goods or services to people who hold more than a certain number of shares. Food and daily necessity manufacturers provide their products. Retailers and restaurants give gift certificates. Railway and aviation firms present attractive discount tickets. You cannot afford to brush off the third type of return following capital and income gains.

### Gift-giving Culture, Gift-loving Trait

Some companies in the United States and Britain have introduced special shareholder benefits. But no country has as many companies providing such benefits as Japan. "This is Japan's peculiar system based on its unique gift-giving culture," said Kiyotaka Hayashi, an operating officer at Nomura Investor Relations Co.

Japanese give midsummer and yearend gifts to express thanks casually. Incidentally, the timing of doling out special shareholder benefits is exactly in line with the seasonal practice. Most Japanese companies close their annual books in March. They decide on these benefits at the end of March and/or September. The selection of shareholders eligible for gifts, arrangement of gift distribution and other procedures and preparations take about three months. In this way, special gifts are sent to shareholders in the middle of summer and toward the yearend in a timely manner.

You can easily find companies that provide special shareholder benefits. At the investment section of any bookstore, you may see special magazines featuring details of special shareholder benefits. Useful information is available on the Internet, including rankings of popular special shareholder benefits and lists of exceptional gifts.

In last year's poll of readers of an investor information magazine published by Nomura Investor Relations, 76.1% of respondents cited special shareholder benefits as a factor in choosing investment targets when they were asked to cite multiple alternatives. The percentage was the highest, exceeding 74.9% favoring stable growth as a factor, 57.2% seeking robust earnings and 53.4% looking at the divi-

dend payout.

"Behind special shareholder benefits are Japanese people's characteristic love of giveaways," said Miho Hakata, chief editor of the magazine. In Japan, confectionery products and plastic bottled drinks accompanied by gifts such as tiny toys and comic character figures sell very well. Rather than simple discounts, gifts can attract consumers. Regarding stock investment, Hakata said: "Special shareholder benefits are nothing more than gifts. They are fundamentally different from dividends that represent shared profits."

When special shareholder benefits are converted into money, prices mostly range between 1,000 yen and 3,000 yen. But benefits provided by some companies are worth 5,000 yen to 10,000 yen. Depending on investment amounts, benefits could be significant. All Nippon Airways Co. gives each shareholder a ticket with a 50% discount on domestic flight fares, which voucher shops buy for around 8,000 yen in the summer travel season. The amount is eight times as high as a dividend per 1,000 shares. Not a few investors pay attention to a combination of special shareholder benefits and dividends as overall investment returns in selecting investment targets.

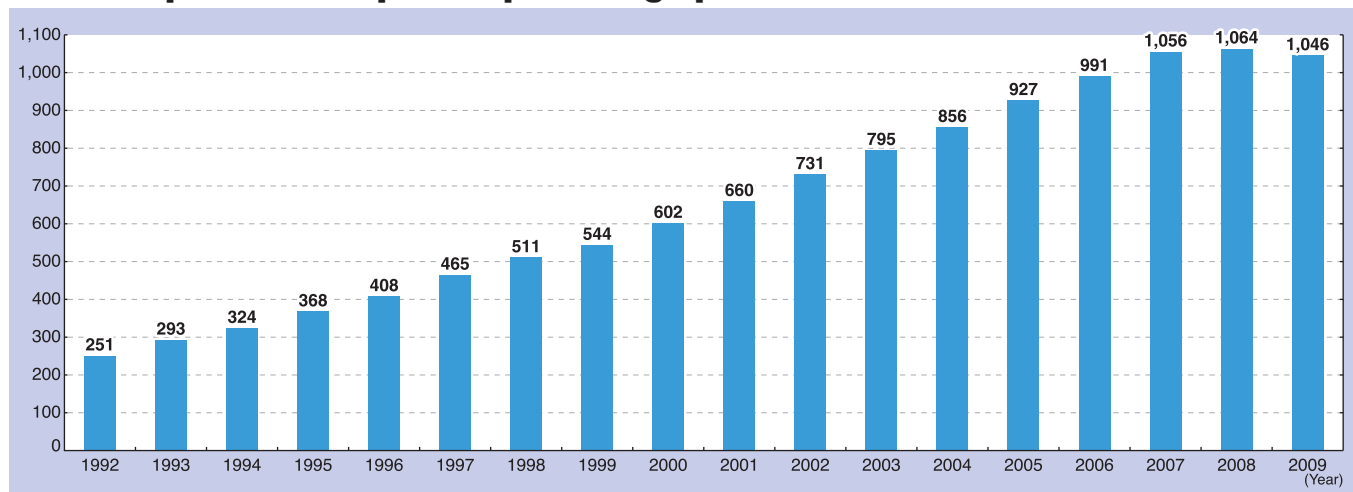
### Benefits Used to Boost Individual Shareholders

The number of Japanese companies providing special shareholder benefits quadrupled in 15 years from 251 at the end of September 1992. This was because companies moved to unwind cross shareholdings with banks and nonfinancial firms to secure individual shareholders as buyers of shares released in the aftermath of the collapse of the late 1980s economic bubble. For companies, special shareholder benefits, unlike dividends, can be provided without approval at general meetings of shareholders. And provision of products or gift certificates costs less than dividend increases. In addition, benefits can attract individual investors as noted earlier.

Meanwhile, special shareholder benefits have long been described as running counter to the principle of equality among shareholders since these benefits are unavailable to overseas shareholders and less advantageous for major shareholders. But the benefit system has not come under fire openly from investment funds and other institutional investors or foreigners. "An increase in individual investors who tend to buy shares on decline can contribute to preventing sharp falls in share prices and to improving stock market liquidity," said Hakata. "Understanding such secondary effects, they apparently have refrained from complaining about the benefit system."

Not a few companies have exploited special shareholder benefits for their respective marketing strategies. Known as a pioneer in

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**No. of Japanese companies providing special shareholder benefits**

Note: The number is at the end of September in each year. In 2009 alone, however, the number is at the end of May.  
Source: Nomura Investor Relations Co.

such exploitation is food giant Kagome Co., famed for its tomato ketchup. The company created its special shareholder benefit system in fiscal 2001 as banks, its major shareholders, unloaded Kagome stock. Under the system, it has reduced the minimum unit of share trading from 1,000 to 100 shares and has made it a practice to present shareholders with gifts twice a year – a selection of its products worth around 1,000 yen for holders of 100 to 900 shares and 3,000 yen worth to holders of 1,000 or more shares.

The number of individual Kagome shareholders has increased substantially from some 6,000 just before the benefit system creation to about 150,000 now. These gifts are accompanied by questionnaires about personal information on shareholders and their impressions of Kagome products. Kagome analyzes responses to questionnaires and take advantage of them for developing new products. Shareholder benefits cost 300 million yen a year. “But we have found that ordinary consumers spend an average 100 yen on Kagome products monthly against more than 1,000 yen spent by Kagome shareholders,” said Kagome spokesman Go Ichikawa. “Our ‘fan’ shareholders have underpinned our business performances.”

### More Effective Shareholder Benefits Eyed

According to Nomura Investor Relations, Japanese firms providing shareholder benefits numbered 1,046 at the end of May 2009, down 18 from September 2008. This was the first drop since Nomura initiated a survey of such firms in 1992. The decrease was attributed primarily to a rising number of companies that were delisted following mergers. But it reflected earnings deterioration amid the global recession as well.

Under such a situation, a growing number of companies have been adopting measures to make special shareholder benefits more effective. Some companies have introduced benefits for long-term shareholders to increase stable individual shareholders. Dividends

cannot be used for such a purpose. At the end of May, 54 companies had introduced systems to differentiate benefits according to how long shareholders have held shares. The number posted a sevenfold increase from four years ago. Another measure to make shareholder benefits more effective is to reflect the concept of corporate social responsibility in such benefits. More than 30 firms have allowed shareholders to choose to replace such benefits with contributions to welfare organizations or environmental conservation funds. Welcoming this move are institutional investors who have agonized over how to dispose of massive shareholder benefits.

Many companies may doubt any effects of shareholder benefits that cost much money and labor while ending up as unilateral gifts. They may be considering reforming the shareholder benefit system. In a bid to meet potential needs for such reforms, a new firm has emerged to support shareholder benefit schemes. Shareholders RelationService Inc. (SRS) developed a “Good-P point service” using the Internet and brochures, launching the service in August 2007. Ten companies, including Coca-Cola West Co., have already subscribed to the service.

On behalf of client companies, SRS gives shareholders points according to shareholding amounts and periods, proposes benefits, sends benefits and conducts questionnaire surveys of shareholders. “Our duty is to provide a contact point between our client companies and their shareholders and enhance their relationship,” SRS President Kiyoshi Kondo said. He emphasized advantages of the SRS service. “Our service allows client companies to substantially reduce clerical burdens and know details of individual shareholders through questionnaires,” Kondo said. “In the near future, we would like to increase the number of our clients to 100.” **JS**

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