

Empowerment of Shop Operators and the Japanese Economy

Interviewer: *Hirose Keiichi*

MIKITANI Hiroshi, president of Japan's major online shopping mall operator Rakuten, Inc. is widely regarded as one of the country's leading entrepreneurs. He expressed his views on his company, the Japanese economy and his corporate strategy in this interview.

Hirose: Why did you launch Rakuten?

Mikitani: While working at a bank, I intended to get an entrepreneurial chance to launch a business on my own. That is the main reason. Frankly speaking, I thought establishing a venture business by myself might help to provide a breakthrough to or jump-start the Japanese economy, which remained in the doldrums in the 1990s.

Hirose: I heard that the 1995 Great Hanshin Earthquake that hit your hometown Kobe prompted you to make up your mind to set up a business.

Mikitani: In hindsight, that may be one of the main reasons. I lost some of

my relatives and close friends. That killer earthquake made me strongly feel that life is frail and I have to live out my life in my own way and with no regrets. As a result, I quit the bank that year, and set up a company.

Hirose: Why did you opt to venture into the information technology (IT)-based shopping business?

Mikitani: I was given an opportunity to study in the United States while working at the bank. During that period, I strongly felt that the growth potential of personal computer (PC)-based IT is great in view of the speed at which PCs are spreading there, and that IT will have no small impact on Japan. So it is only natural that I should cherish the wish to venture into the IT-based business area. One of Internet shopping's charming points is its ability to offer customers opportunities to buy goods even if they are too busy to go shopping or live in a remote area. The greatest advantage of IT lies in the fact that it operates beyond time and space. I believed that needs for the business

model in which consumers can shop anytime, anywhere will grow rapidly in Japan as well.

Hirose: Have you modeled your business on American ways of thinking and American-style business models?

Mikitani: No. When I was studying at a U.S. university in the early 1990s, IT was still in its infant stage in the United States. Business methods and techniques had not been firmly established at that time. Today's IT giants such as Amazon.com and eBay had not been founded. The basic concept of today's IT was indeed born in the United States, but the target of business in Japan is Japanese consumers. Success or failure depends on whether entrepreneurs are well aware of Japanese consumers' preferences, needs and ways of thinking. The adoption of American methods will not ensure success in Japan. We have developed the basic IT system of the "Rakuten Ichiba" online market on our own, while asking vendors to support it.

Corporate Profile of Rakuten, Inc.

A native of Kobe, Rakuten President Mikitani Hiroshi was born on March 11, 1965. After graduating from Hitotsubashi University, he joined the Industrial Bank of Japan (IBJ) in 1988. He entered Harvard University on a bank assignment in 1991. In November 1995, he left the IBJ and founded a consulting firm, the Crimson Group. He then set up another firm called MDM to run an Internet shopping mall in February 1997. In May that year, he opened the Rakuten Ichiba Internet shopping mall. In June 1999, the corporate name was changed to Rakuten Inc., whose business model calls for shop owners who open their stores on the Internet to pay monthly shop fees and a certain percentage of their monthly sales in system use fees. Mikitani concurrently serves as president and chairman. As of Dec. 31, 2003, Rakuten was capitalized at ¥39,761 million.

Rakuten has put portal and auction sites under its wing. Supported by the rapid spread of broadband services, the

company chalked up a 1.6-fold rise in unconsolidated sales to ¥11,555 million for the fiscal year to December 2003. Group sales also showed a 1.8-fold jump to ¥18,082 million. In April 2000, Rakuten was listed on the Nasdaq stock market for start-up businesses. It has been diversifying its businesses in recent years, successively acquiring a CS TV shopping operator, portal site operators Infoseek and Lycos Japan, a travel booking site, Mytrip Net Co., and an online brokerage house, DLJdirect SFG Securities Inc. Last year, it relocated its head office to Roppongi Hills, Tokyo's symbolic redevelopment site. It also introduced an in-house company system as part of efforts to reorganize its operational divisions. Rakuten is drawing strong public interest as a leading IT venture business that was launched by Japanese capital and people alone. It aims to become the world's No. 1 Internet service firm.



Hirose: You use the basic concept of the English word “empowerment” in your business.

Mikitani: That concept has the nuance of “backup” and “support.” Shopping streets in small towns and cities are reportedly on the decline. But there are a large number of young successors who are enthusiastic about revitalizing shopping streets. By opening their shops in Rakuten Ichiba, the largest Japanese online Internet shopping mall, they can expand their markets nationwide at a stroke beyond the existing spheres. This is what empowerment of shop operators means. This kind of example, if built up one after another, may lead to the revitalization of the Japanese economy as a whole.

Hirose: How about responses from the shop owners who opened shops on the Internet mall?

Mikitani: We are offering shop owners basic know-how on setting up and operating sites at a low cost. On the Internet, however, shop owners need to go back to the basics, that is, offering one-to-one services. They have to respond to individual inquiries and orders around the clock. Some of them say doing business on the Internet requires more work. But there is a shop owner who was on the brink of closing his business, but opened a shop on the Rakuten Ichiba and has now constructed his own building.

Hirose: But some analysts point out that Internet-based shopping has the effect of pushing down prices because it omits intermediaries and accelerates deflation.

Mikitani: I don’t deny that the Internet has the effect of pushing down prices. But the fact that a wide array of consumers and citizens prefer buying goods over the Internet obviously indicates that the Internet is creating new added-value and markets. Internet shopping malls offer goods with high added-value at low prices. It also shows, I think, that intermediaries have so far made unreasonably high profits. There are many such examples in other business areas apart from consumer goods. A typical one is travel. We have acquired Japan’s largest travel site, which handles travel reserva-

vested interests make it difficult to offer reasonable costs to consumers. As for the ongoing dispute over traffic, I am in favor of abolishing highway tolls. A possible shortfall in revenues for highway maintenance, I think, will be fully covered because the abolition of expressway tolls will stimulate consumption and help revitalize the domestic economy, thus boosting overall tax revenues.

Hirose: What do you think of the Japanese economy, which remained sluggish for a long period?

Mikitani: My view is that the Japanese economy remained in the doldrums in the 1990s mainly because Japanese businesses stood idle after remarkable postwar success. The Industrial Bank of Japan (IBJ) seems to have already ended its mainstay role of industrial finance before the collapse of the bubble economy. Despite the changing times, it failed to quickly transform itself and move into new lucrative business areas such as investment banking and the securities business. This is because the IBJ stuck to the existing successful

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Rakuten President Mikitani Hiroshi and his employees

tions. The large number of hits indicates strong demand among consumers for having their itineraries arranged quickly without going to travel agencies.

In the upcoming aged society, I believe, elderly people will hope to enjoy traveling in their own ways – in small groups instead of using package tours. Currently, however, a week-end trip from Tokyo to Kyoto staying few nights for an elderly couple sometimes costs, for example, as much money as going to Hawaii. The cost of domestic travel is unusually high because a number of

model and failed to identify a new business model for its development. The same can be said for city banks. Moreover, the government was following a lukewarm financial policy at that time. The financial authorities may have been able to adopt options that would bring benefits to citizens and taxpayers even without using such a large amount of tax money in dealing with the collapses of Shinsei Bank’s predecessor, The Long-Term Credit Bank of Japan and Aozora Bank’s predecessor, Nippon Credit Bank.

Hirose: You served as the head of Hitotsubashi University's tennis club. Has this affected your managerial style?

Mikitani: The most important thing is to keep my power as a top leader from weakening, as well as trying to maintain a proactive, leading role. Without yielding results, my colleagues don't follow me. The ways of thinking may be a reflection of my experience in the tennis club. The company was established by several people. We hold a meeting at 8 a.m. every Monday, and have no plan to stop it although the number of employees has now increased to several hundred. It may be rare for contemporary Japanese companies to do this, but the face-to-face meeting provides us with good opportunities to share information on business results and strategies. We always want to avoid becoming a vertically structured, bureaucratic big company even if the number of our employees continues to increase. We relocated our company's head office to Roppongi Hills last year. The new layout of the head office has enabled all of us to make face-to-face contact.

Hirose: You are consistently pursuing a performance-based wage system.

Mikitani: Major Japanese businesses have lost vitality due to the excessive expansion of their organizations and the maintenance of a seniority-based wage and promotion system. Rakuten's employees are about 30 years old on average. What is important, I think, is to highly value those employees who create interesting business plans and produce successful products, reflecting their performances in wages and promotion. One employee became the president of Rakuten's group company in his 30s. Age and background are not decisive factors in our wage and promotion system, nor do we adopt a simple collective system that requires self-sacrifice. I tell young employees, "You should work as an independent professional like the

major leaguers." I hope all the employees view their jobs as enjoyable rather than painful labor. I believe employees can produce great results if they do their jobs with dreams. We offer employees stock options as an incentive, and shop owners opportunities to expand their marketing spheres. I consider Rakuten Ichiba a forum where the new-age Japanese dreams of both employees and shop owners will come true.

Hirose: As a former IJ man, are you interested in financial business on the Internet?

Mikitani: I'm very interested in this type of business. Rakuten has acquired DLJdirect SFG Securities Inc (which will change its name to Rakuten Securities, Inc. on July 4). The online brokerage house is performing well, reflecting rising domestic stock prices. While the settlement business may be promising, our main target is consumer loans. Demand for such loans is great, and we are studying ways to branch out into that area possibly by the end of this year by acquiring competent personnel.

Hirose: How about other business goals, overseas operations and problems facing Rakuten?

Mikitani: As a medium-term goal, we are aiming to achieve annual ordinary profits of ¥100 billion and double overall annual turnover. We intend to focus on finance, travel and digital content businesses. As for overseas operations, the United States and Europe are our long-term target areas. For the time being, our goal lies in Japan's neighboring markets. Specifically, we plan to promote booking business for travel to China and South Korea.

We would improve Chinese-language version of "Mytrip" reservation site, and prepare Korean-language version. This is aimed at boosting reservations by Chinese and South Korean visitors to Japan. Mytrip Net Co., the operator of Mytrip, has opened offices in Shanghai and South Korea. We are seeking to

raise the ratio of the overseas travel division to our overall travel business to around 40%. If our plan for the travel business involving China and South Korea goes on track, we intend to launch Internet shopping businesses in the two countries.

Hirose: Rakuten has also launched cell phone-based shopping business.

Mikitani: As cell phone screens are so small that we need to devise new ways of expression and strengthen contents. Cell phone-based shoppers are largely young women. The growth potential of such shopping is great because handset holders can buy goods anywhere unlike PC-based shopping. We plan to offer the same services to cell phone customers as those for PC customers.

Hirose: Rakuten entered into a business and capital tie-up with convenience store operator Lawson, Inc.'s subsidiary Lawson Ticket Inc. this year. What was the tie-up for?

Mikitani: From the viewpoint of enabling consumers to buy goods anytime, anywhere, we intend to create a forum, in which they can buy tickets on the Rakuten Ichiba online market. The linkup with Lawson enables customers to buy a wider array of tickets.

Hirose: Late last year, you decided to help revive financially troubled Vissel Kobe, the Japanese professional soccer team based in your hometown of Kobe. It also acquired Turkish World Cup striker Ilhan Mansiz.

Mikitani: As a native of Kobe, I personally invested in the club in hopes of fostering it into a strong one. I want to see the investment link up to Rakuten business in the near future. **IS**

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