

St.Petersburg Business Strategy Conference

Japanese Firms entering the Russian Federation and St. Petersburg business opportunities

日本企業のロシア進出動向とサンクトペテルブルグへの期待

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Widening business opportunities, emerging with the process of expansion of personal consumption and social investment in Russia

- Russia - on the way to becoming the largest market in Europe and entering the age of extensive investment under head-office leadership

Companies	Business in Russia - current status and future outlook
Company A (automaker)	<ul style="list-style-type: none">- Targeting a five-fold increase in sales volume over the next five years- 2007 sales up about 50% from 2006- Total investment of more than 100 billion yen (for projects including construction of a second plant)- Hoping to build a setup for production of 200,000 vehicles/year by 2015
Company B (AV equipment manufacturer)	<ul style="list-style-type: none">- Russia - the 4th biggest sales market after Japan, the USA, and China- Outlook for 20% rise in the growth rate of Russian sales- Start of extensive investments directly managed by the head office
Company C (machinery manufacturer)	<ul style="list-style-type: none">- Targeting sales of 120 billion yen, up 50% from 2007, in 2011- Plant start-up scheduled for 2010

Some apprehensions about risks associated with business in Russia among Japanese companies

- At the stage of constructing the sales setup
 - Elevated labor costs and retention of talented human resources
 - Customs clearance procedures, logistics arrangements, acquisition of first-rate sales agencies, etc

- At the stage of production in Russia
 - Difficulty of acquiring well-outfitted industrial sites
 - Complexity of the system of authorization and licensing in all stages from land acquisition to plant construction
 - Difficulty of recruiting human resources and steep increase in wage costs due to the labor shortage

- Worries about improvement of productivity after plant start-up
 - Assurance of the supply of management personnel to support plant operation
 - Finding cooperating firms to support cost competitiveness

Prospects for establishing “ monodukuri” (Japanese - style manufacturing) management to support the competitiveness of production in Russia

Cases of production innovation at a manufacturer of IT hardware

■ First round of production innovation (1995 - 2000)

● Shift from belt conveyors to cell production

Compression of intermediate inventories from 25 days' to 8 days' worth

Shortening of production lead time from eight to five hours

40% reduction in manufacturing cost over a period of three years

■ Second round of production innovation (2000 - 2006)

● Adoption of the Toyota production system

Decrease in production line length from 17 to 4 meters

Seven - fold increase in labor productivity over a period of six years

■ Third round of production innovation (2007 -)

● Approach to innovation of production at cooperating firms

Source) Prepared by NRI based on information from Dr. Junijiro Shintaku,
Professor of the University of Tokyo

Possible need for an improved HRD infrastructure to make the manufacturing industry more competitive

Factors governing competitiveness in the manufacturing sector

Governmental level	<ul style="list-style-type: none"> - Public infrastructural investment - Tax incentives - Regulatory relaxation 	<ul style="list-style-type: none"> - Rule of law (spirit of strict compliance with laws and regulations) - System of higher education - Labor ethics
Corporate level	<ul style="list-style-type: none"> - Automation systems - Management information systems - CAD/CAE systems 	<ul style="list-style-type: none"> - "Kanban" (Just-In-Time) system - Cell production system - On-site improvement system - Development of human resources for "monodukuri"
	"Hard" initiatives	"Soft" initiatives

Source) Prepared by NRI based on information from Dr. Junijiro Shintaku, Professor of the University of Tokyo

Toward deeper Russia - Japan economic interaction in St. Petersburg

- Arrangements for one - stop provision of services related to siting by Japanese firms
 - Japan Desk in St.Petersburg
 - Representative office in Japan

- Developing centers for HRD to raise manufacturing industry competitiveness
 - Management level / Worker level