

## Successful examples of support projects for small and medium enterprises overseas expansion in 2015

[Name of project] Survey on Southeast Asian market cultivation for “hollow chisels”  
(Target countries: Vietnam, Myanma, Thailand, Indonesia)

### Nakahashi Seisakusho Co., Ltd.

- **Location** Takagi 20, Bessho-cho, Miki City
- **Representative** Hisashi Nakahashi, President
- **Business type** Manufacture of general machinery and tools
- **Business outline** Manufacturing and sales of cutting tools for woodworking machinery (hollow chisels, grooving cutters)
- **Capital** 10 million yen
- **Sales** 240 million yen
- **No. of employees** 29
- **URL** <http://www.ns-co.com/html/>



Headquarters main entrance

■ **Overseas deployment situation and plan** Exported to Asian countries in the 1980s through a trading company. Lost most of the market due to the soaring sales price caused by the Asian currency crisis of 1997. Following the global financial crisis, we decided to struggle for survival and enter the global market again, aiming to rechallenge development of the Asian market.

### ■ Business outline

Since its foundation as a manufacturer of the Kobayashi-type hollow chisel in 1955, manufacturing under the corporate philosophy of "Contributing to the development of society through corporate activities," we have manufactured and sold tools indispensable for processing wood-based materials in order to contribute to the development of furniture, fittings and the housing construction industry focused on a living environment. The "hollow chisel" which makes square holes in wood was greatly helpful for housing construction, labor saving and high precision in joinery, and furniture manufacturing during the postwar high growth period.



Kobavashi-type hollow chisel

In the long history of the Hardware Industry in Miki City, our company was a relatively late entrant, therefore, we were only focused on the hollow chisel considering the future mechanization of wood processing, not on more traditional hand tools such as the saw, chisel and plane. Based on the small hollow chisel used for manufacturing fittings in the UK, making it larger in size for the framework construction method of housing construction which had been increasing rapidly during the high growth period, we developed a product known as the “Kobayashi-type hollow chisel,” the collaborator’s name. The hollow chisel earned a reputation for ease of processing and the beauty of the finish, and in a blink of an eye, swept the market.

Today, we are promoting innovative initiatives as a manufacturing company as part of our aim to become a top global niche company, including the renewal of our state-of-the-art processing equipment, the introduction of robotic systems and human resource development.

In the past, as the machine tools were different for each process, the machines needed constant attention from our employees, but by introducing the robots, our employees only need to spend several hours on removing chips and changing over the cutting tools for 24-hour operation of the robots. As a result, employees began to spend time on more cerebral work, including how to make better use of existing processing technology and further advanced processing.

We hope to support Japanese manufacturing by combining our own technologies worth protecting that we have cultivated over our long history with today's state-of-the-art technologies.

## ■ Motivation and aim of overseas expansion

In the 1980s, the name of "NAKHASHI" spread worldwide through our exports to Europe, the United States and Asian countries via hardware trading companies in Miki City. However, in the 1990s, domestic demand declined due to sluggish housing starts caused by the economic bubble bursting. Furthermore, the Asian Financial Crisis made Asian countries fall into a serious currency depreciation and economic stagnation period. As a result, our wood cutters experienced a remarkable deterioration in price competitiveness.

In the meantime, we struggled with cheap Taiwan and Chinese-made products imitating the "Kobayashi-type hollow chisel".

It was the global financial crisis in 2008 that provided an additional blow. We informed the industry we were stopping the heat treatment furnaces for the time being, in order to reduce our huge electricity costs, but the next day, we received lots of phone calls ordering and encouraging us. We finally realized that society needs us, and we were inspired.

In order to maintain and develop a company in Japan where demand is decreasing with the decreasing population, we decided to change our idea of Japanese market-oriented to world-oriented, aiming to become the top company in the global market.

We decided to change our passive attitude of supplying companies with surplus production capacity through export trading companies that approached us. By making our own appeals for product superiority, direct sales, and committed after-sales follow-ups, we decided to challenge China which was the center of furniture manufacturing at that time.

As inexpensive counterfeit goods flooded the market, it was not easy to overthrow this stronghold, but we carried out consistent PR at local exhibitions, and also by suppressing the price so that our products could compete as much as possible against popular items with a price difference of more than 10 times. This brought a successful outcome, after a few years, and we managed to develop the market to increase the sales volume.

To combat the higher production costs of Chinese furniture against the background of its soaring labor costs, the high economic growth and purchasing power in Southeast Asian countries, an increasing demand for high quality products, and to further expand our sales channels, we felt we needed to enter the Southeast Asia market which has a wood processing industry complex comparable to China, as well as a growing market.

Though it is common knowledge in the industry that wood processing is actively carried out in Southeast Asia, just when we were considering getting more specific information on how much the hollow chisel is actually used, and what the sales situations and prices of our competitors are, we heard about a program which supports the overseas expansion of SMEs provided by Hyogo International



Found counterfeit goods! (Bangkok)

Business Center, and applied for it. The program provided us with the actual market situations in Vietnam, Myanmar, Indonesia and Thailand. Using this information, we decided to develop sales strategies.

### ■ Purpose, details and achievements of the project

Of the four target countries, we had exported plane blades to the Thai market through a domestic trading company, but had made almost no sales of hollow chisels. In addition, we found an Indonesian partner last year and shipped a sample order to Indonesia, but we did not know the specific market situation. Regarding Vietnam and Myanmar, we had no clue at all.

The purpose of this project is to find a reliable local sales partner after confirming the local marketability. Specifically, after conducting an inspection tour including on-site visits, and confirming the current situation and marketability, we will select the best local sales partner by participating in local exhibitions, and at the same time, exchange information with local users to develop an optimal sales strategy.

## 1 Market research

### [Vietnam/Myanmar]

As a result of inspections in Ho Chi Minh City and Yangon City, we confirmed that corners hollow chisels are used in furniture manufacturing in both countries, and that the market exists.

In Vietnam, hollow chisels made in China and Taiwan were sold at the tool markets. We also confirmed that the hollow chisels made in Taiwan were most popular in the locality, and that those made in China were inexpensive but frustrating in terms of performance.

Meanwhile, in Myanmar, a lot of manual processing for square holes is still conducted. The processing work using hollow chisels is done at specialized factories, from which the furniture factories purchase semi-finished products to commodify them after processing by hand. They use China-made hollow chisels which have performance problems.



A furniture workshop in Yangon

### [Indonesia/Thailand]



A retailer in Indonesia

Although we had already secured local partners and carried out test sales, the local sales were not good and so we investigated the cause.

We visited our two Indonesian local partners that had participated in the International Woodworking Furniture Manufacturing Component Exhibition (IFMAC) to exchange information and to try and identify the cause at the venue. As a result, we found that because our price is higher than that of the competing Taiwanese manufacturers, users were not purchasing our products. We will have

close communications with our local partners to promote more effective sales strategies.

In Thailand, we also exchanged opinions with our local partners and carried out inspection tours at the local markets. We found that although our products are recognized as high quality, if our price difference with Taiwanese products becomes 1: 1.5 or more, our



A retailer in Indonesia

sales could not increase, and if the difference is about 1: 1.3, users would choose our products.

In response to these results, we decided to create more effective price strategies in closer cooperation with our local partners in terms of sales price.

## 2 Participation in exhibitions

We participated in the Vietnam woodworking machinery exhibition, "VIETNAM WOOD" (October 14 - 17, 2015, at Ho Chi Minh City, with 264 exhibitors and 10,947 participants from 12 countries).

We repeated demonstrations of our electric hollow chisel to show off the high cutting quality and durability. Chinese cutlery would be difficult to cut into the high-density wood of Southeast Asian hardwoods, due to the smoke coming out caused by friction, in contrast, women can easily use our hollow chisel with one hand. We received visitors' feedback at the venue that "This hollow chisel can drill exactly at a high processing speed. The finish of the cut end is also beautiful."



Vietnam Wood Exhibition

In Vietnam, there are still many craftsmen who make hand-made furniture, who were surprised at the electric hollow chisel.

Many people including both users and dealers, came to the booth to negotiate with 47 companies and from these we secured four partner candidate companies. We sent our test samples to these four companies and asked them to test. Consequently, we received orders from one of them, and shipped for the first time in March 2016. Since then, we have successfully received repeat orders.

### ■ Future prospects

In autumn 2016, I visited the Myanmar exhibition at my own expense, made an import and sales contract with one company, and finally managed a sample shipment.

In Vietnam and China, our awareness level and sales are both steadily growing, but in Indonesia, Myanmar and Thailand, sales have not grown yet, although we were able to secure local partners. It's impossible to develop new markets overnight, but we would like to keep in close communication with the local partners we obtained through this project and make continued efforts, aiming to promote local brand recognition and increases in sales.

In the past, the proportion of exports to total production volume was not even 20%, but has now exceeded half. Although we are still holding the price down and the sales ratio is around 35%, we will consider the factors of economic development, inflation rate, the currency situation and awareness of our products in these emerging countries, in order to gradually raise the price and improve profitability.

### ■ From overseas expansion promoter (Hideaki Kawakami)

Overcoming its past predicaments, this company supports regional manufacturing.

Their motivation for overseas development is clear, and their way of creating strategies to narrow down the market is correct, so I think that they could effectively use the support project our center provides.

There are not many companies that achieve immediate successful results at an exhibition, but they received orders from one company at the exhibition in Vietnam. After that, they have steadily expanded their business including starting transactions with Myanmar. We would like to continuously help them in the future.