



Sweden
Sverige



BUSINESS CLIMATE SURVEY FOR SWEDISH COMPANIES IN JAPAN 2023

A REPORT FROM TEAM SWEDEN IN JAPAN

RESULT HIGHLIGHTS

Profitability

78%

of Swedish companies were profitable in the last year

Industry turnover

62%

of Swedish companies expect their industry turnover to increase

Future investments

57%

of Swedish companies plan to increase their investments in Japan in the next 12 months

Key success factors in Japan

1. Sales competence
2. Brand awareness
3. Partnerships/local relationships

Brand Sweden

74%

of Swedish companies abroad consider Brand Sweden beneficial for business

Local conditions with high satisfaction

1. Personal safety
2. Infrastructure
3. Distributors

Local conditions with least satisfaction

1. Digitalisation
2. Corporate taxation
3. Market access

“*We are expecting significant growth in our industry as production bases and international investment return to Japan, though it is hampered by rising prices and hiring difficulties.*”

Marketing Manager
Large industrial company

“*A key question is how Japan can balance its business interests in China vs. the US given increasing global tensions – there will be significant impacts if it is forced to pick a side.*”

Managing director
Mid-sized Technology Company

“*Our customers are unwilling to pay a premium for green products today, but they are waiting and watching – they are unwilling to lead but they will be fast followers.*”

President
Large industrial company

FOREWORD

The year 2023 has so far been one of both ups and downs for the Japanese market. The country emerged at last from a global pandemic only to be hit with an economic downturn caused by the war in Ukraine and related supply chain shocks. At the same time, geopolitical uncertainties meant global companies started looking around for alternatives to China, many finding a suitable APAC alternative in Japan for everything from research and partnerships to semiconductor manufacturing. The Japanese stock market then also rose to new all-time highs as Japan found itself an attractive, stable harbour for capital in an otherwise turbulent world.

The overall impact of these events on Swedish companies in Japan over the last year so far seems weighted towards the positive, with both profitability and investment intention up from 2022. However, impressions of the overall business climate going forward are more neutral, reflecting many companies retaining a cautious outlook. Even as parts of their environment are shifting, many companies are still busy dealing with familiar challenges within talent acquisition, sustainability, digitalisation and efficiency, which have plagued Japanese operations for years, though efforts to improve are being made on all fronts.

The Business Climate Survey is a key tool used by Team Sweden to check in with the representatives of Swedish businesses across the globe – especially important in turbulent times such as these. The survey is conducted in over 20 countries across the world each year and seeks to increase the understanding of Swedish companies' performance in different global markets – the opportunities and challenges faced in each country and how those could be addressed through cooperation, knowledge sharing and open dialogue.

We hope the results of this report will be useful to you and your business in the coming year. Please do not hesitate to reach out to any of us in Team Sweden with ideas, questions, thoughts or requests – we are always happy to support Swedish business success in whatever ways we can.

Lastly, we would like to extend our most sincere gratitude to all of the participating companies, respondents and experts who have contributed to our effort this year.

TEAM SWEDEN IN JAPAN



Carsten Grönblad
Trade Commissioner,
Business Sweden Tokyo



Pereric Högborg
Ambassador of Sweden to
Japan

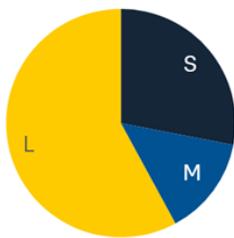


Martin Persson
Chairman, Swedish
Chamber of Commerce and
Industry Japan

THE BUSINESS CLIMATE

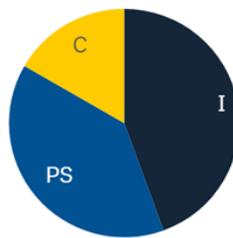
The Japanese market hosts many large Swedish companies with long market experience – 58 per cent of companies present have over 1,000 employees globally, and 82 per cent have been in the market for at least seven years. Indeed, almost half of Swedish companies in Japan were established before the turn of the millennium, clearly showing the potential rewards of being patient and holding to a long-term vision. Industrial companies are the largest cohort present, followed by service providers, and joined by a smaller number of consumer-facing operations.

SIZE OF COMPANIES



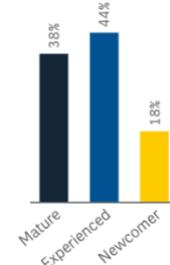
NOTE: Global employees. Large >1000. Medium 250-1000. Small 0-249

MAIN INDUSTRY



NOTE: Industrial 44%. Professional services 39%. Consumer 17%.

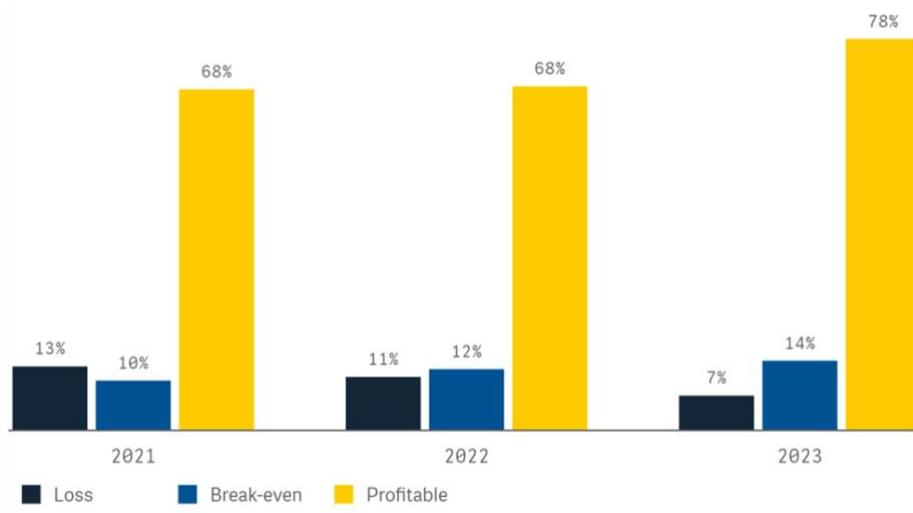
AGE OF COMPANIES



NOTE: Mature (-2000). Experienced (2001-2015). Newcomer (2016-)

Japan has long been known as a strong and profitable market for Swedish companies. Whilst it can initially put up some high barriers to entry, those who persevere usually find a comfortable niche where they can consistently show good margins. In 2023, the share of Swedish companies that showed a profit in Japan increased from a historical 2/3rds to almost 4/5ths.

SWEDISH COMPANIES' STRONG PROFITABILITY IMPROVED FURTHER IN 2023



Answers for "How would you describe your company's financial performance in Japan in the past year?"

This image also holds when comparing Japan to other markets across the Asia-pacific region. Along with Taiwan, Japan in 2023 showed the strongest profitability shares of all the markets surveyed in the region.

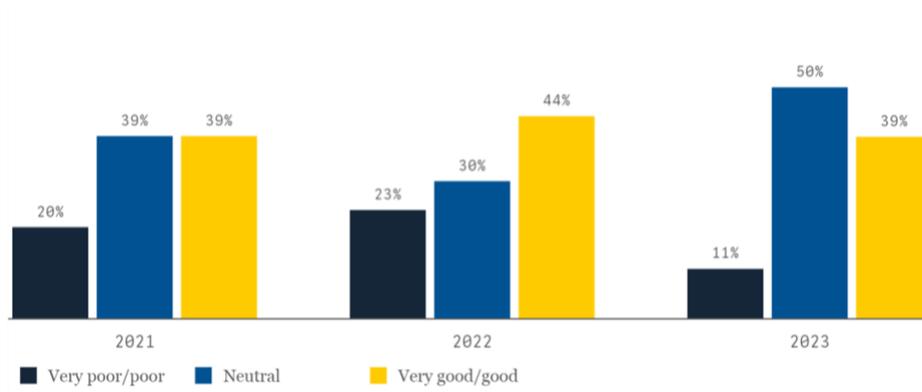
JAPAN TIED FOR HIGHEST PROFITABILITY IN APAC



Answers for "How would you describe your company's financial performance in [Country] in the past year?"

This is a major shift from last year when Japan placed third after China and South Korea; both markets which have dropped significantly in the rankings in the intervening time. It is easy to speculate that this shift in the rankings is at least partly attributable to the recent shift of focus and investment away from the Chinese sphere and towards adjacent markets perceived as safer and more stable.

SWEDISH COMPANIES NEUTRAL ON JAPAN'S BUSINESS CLIMATE



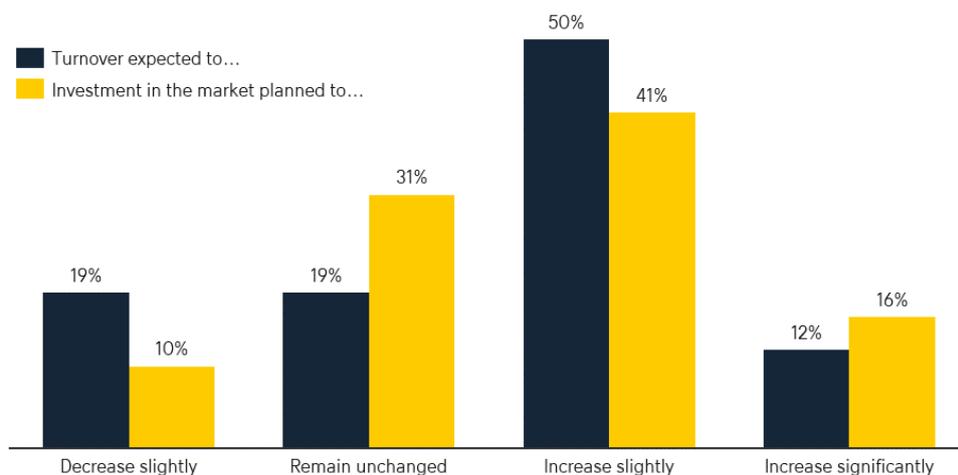
Answers for "How do you perceive the current business climate in Japan?"

Finally, Swedish companies' perceptions of the overall business climate in Japan remain reasonably positive in 2023. Interestingly, both positive and negative sentiment decreased from 2022 in favour of a more cautious, neutral viewpoint. This may reflect the effect of the many conflicting factors currently impacting the Japanese economy in both positive and negative directions, with companies uncertain about their ultimate impact.

PROSPECTS FOR GROWTH

Japan has long been seen as a stable market in the Asia-pacific, with strong profitability but limited potential for growth compared to other markets in the region. However, this year we may be seeing the beginning of a gradual shift of perspective based on several factors that have the potential to create more opportunities for growth in the Japanese market.

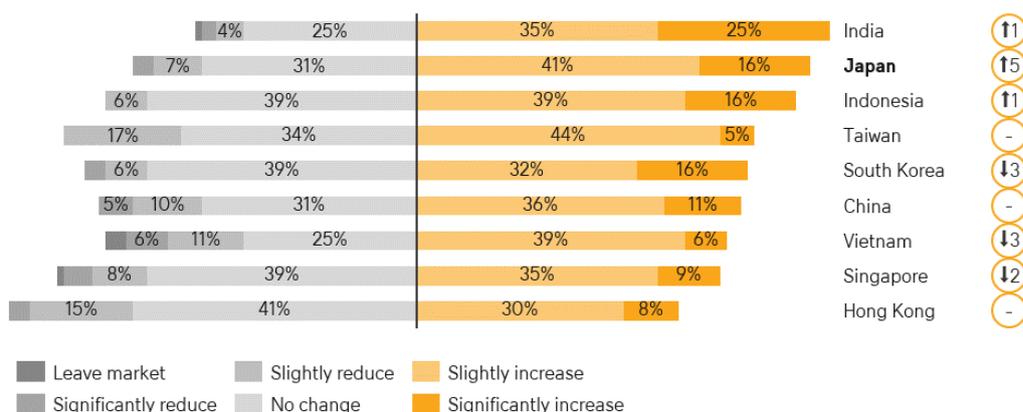
MAJORITY OF COMPANIES EXPECTING MARKET AND INVESTMENT GROWTH



Answers for “What are your expectations for the coming 12 months for your industry in Japan regarding turnover?”, and “What are your company’s investment plans for the coming 12 months in Japan?”

Nearly two-thirds (62 per cent) of Swedish company respondents expected turnover in their industry to be growing in the next year, with 12 per cent expecting significant growth. In many cases, this is based on a sudden shift of investment and manufacturing capacity back towards Japan.

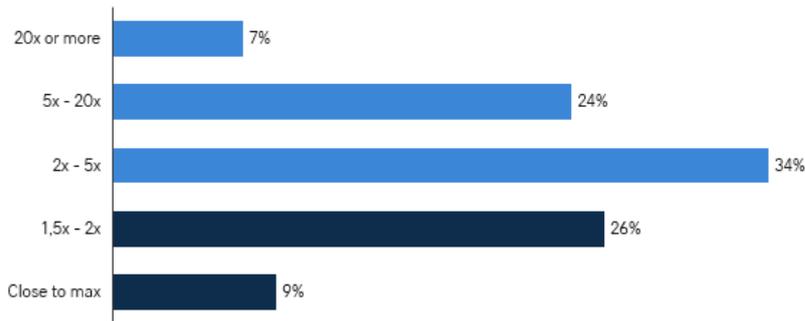
JAPAN RISING TO THE TOP AS ONE OF THE MOST DYNAMIC MARKETS IN APAC



Answers for “What are your company’s investment plans for the coming 12 months in [Country]?”

Well over half (57 per cent) of companies also intend to increase their investments in the Japanese market in the coming year. This figure puts Japan in second place for investment intention in the APAC region, trailing only India – a major break in trend for a country which has historically seen significant underinvestment owing to a perceived lack of growth prospects.

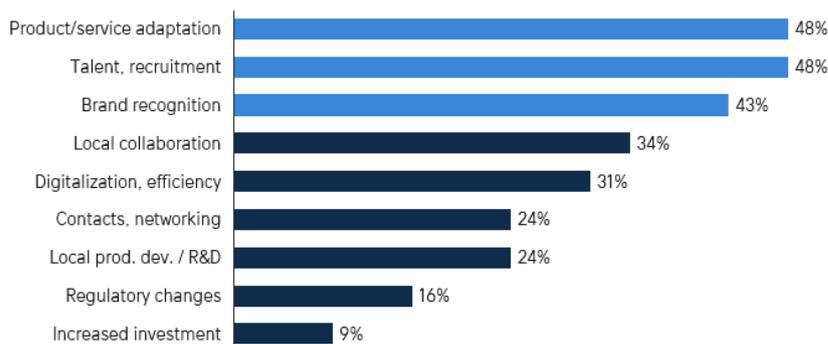
TWO THIRDS OF COMPANIES COULD MORE THAN DOUBLE REVENUES



Answers for “What do you think the absolute growth potential is for your company in the Japanese market?”

When asked to estimate their total potential growth in Japan in the longer term, companies were again optimistic. Two-thirds (65 per cent) think that by overcoming key barriers, they could, at the very least, potentially double revenues, and almost one-third (31 per cent) think they could increase revenues by over five times. This represents a massive opportunity for the Swedish business community – if even some part of this potential growth is realised, it would have a significant impact on total Swedish exports globally.

CHALLENGES EXIST IN ADAPTATION, TALENT AND BRANDING



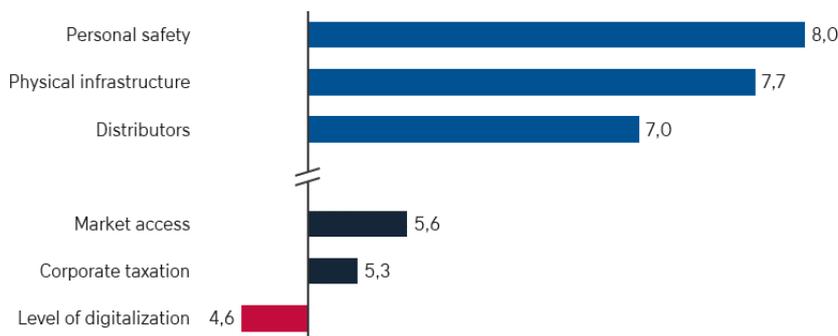
Answers for “What are the top things you need as an organization to reach your full potential in the Japanese Market?”

Of course, achieving this level of growth is not possible without first overcoming significant challenges. Interestingly, increased investment is not high on the priority list for Swedish companies to be able to grow in Japan. Instead, the main challenges are identified as adaptation – making sure that products and services are fit for the demands of the Japanese market –, talent – finding the right people with the right skills, background and language proficiency to drive the business – and branding – gaining recognition as a foreign company in a traditionally domestically-focused nation.

STRENGTHS AND CHALLENGES

Whilst leading the world in many areas, Japan is also a definite laggard in some aspects of global development. When asking Swedish companies to break down the Japanese business climate into components, one aspect which has been constant since the beginning of this survey is a clear dissatisfaction with the level of digitalisation in Japan, leading to low efficiency, high cost, and slow adoption of new products and services.

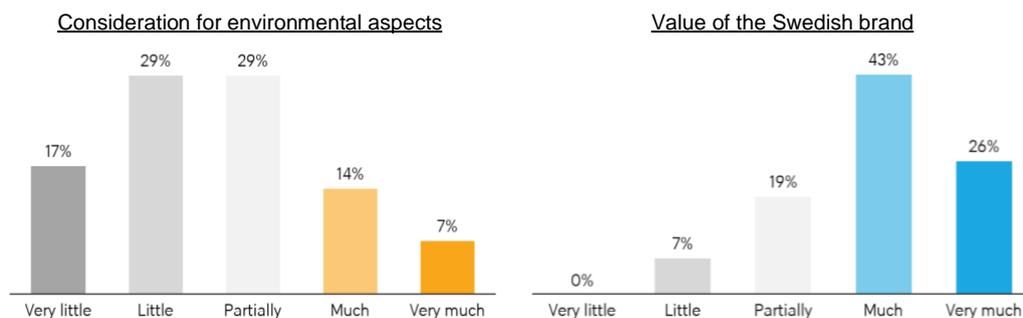
DIGITALISATION CONTINUES TO BE A KEY CHALLENGE IN JAPAN



Answers for "How do the following conditions meet the needs of your company's business in Japan?"

Whilst companies in Japan are generally happy with robust infrastructure, reliable business partners, and general stability and safety, the score for digitalisation consistently ranks the lowest of all markets surveyed globally. However, for many Swedish companies, this also implies a potential business opportunity if they are able to leverage a strong digital offering to support their clients' efficiency.

SWEDISH COMPANIES STRUGGLE TO LEVERAGE SUSTAINABLE CREDENTIALS



Answers for "To what extent do customers in your industry in Japan consider environmental aspects in purchasing decisions?", and "To what extent do you estimate that the Swedish brand contributes to your business in Japan?"

In an interesting disconnect, a majority (69 per cent) of Swedish companies in Japan see a high value in using the "Swedish" brand image to further their business; however, unlike in most global markets, sustainability and environmental credentials do not seem to be core to this branding. Only 21 per cent of companies think that their customers consider environmental aspects when making purchases. Instead, presumably, the Swedish brand in Japan gains its value through other associations such as high quality, technology and an aspirational culture. Successfully leveraging sustainable values to increase the attractiveness of Swedish products and services remains a key challenge for the Swedish business community.

VOICES FROM THE MARKET

The results of this study were presented at an event at the Swedish Embassy in June 2023, where the attendees were also asked to elaborate on a few key questions raised by this year's results. Below is a compilation of some of the answer highlights from this exercise.

HIGH DEMAND FOR JOINT SWEDISH ACTIVITIES, FOCUS ON BRANDING



Event participant answers for "What activities could we do together to overcome common challenges and enable growth?"

When asked about what activities they would like to conduct jointly as Team Sweden, many business leaders focused on collaborative promotion of the Swedish brand image as a method to further the interests of the community. This also included positioning around both sustainable and technological/digital values. Activities focused on attracting local collaborators and stakeholders, as well as local talent, were other suggestions.

SWEDEN SHOULD KEEP PUSHING THE ENVELOPE ON SUSTAINABILITY



Event participant answers for "Given low consideration – how can you still use environmental aspects to drive business?"

On leveraging sustainability, companies seemed to agree that, whilst indeed difficult, there is still a need to keep communicating and educating local customers and clients. The impression was that understanding of sustainable values in Japan is starting to slowly increase but that more guidance and push are still required and that it is the natural place for Swedish businesses to be at the forefront of these issues.

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