# SUCCESSION STORIES


***JAPAN BUILT THE WORLD'S THIRD-LARGEST ECONOMY ON CRAFTSMANSHIP, HARD WORK AND FAMILY ENTERPRISE. A SHORTAGE OF HEIRS NOW THREATENS TO END THIS LEGACY***

**BY LEO LEWIS, ERI SUGIURA AND ANTONI SLODKOWSKI**
**PHOTOGRAPHY BY GO ITAMI**

On a low plastic bench outside his restaurant in Kanagawa prefecture, Tomoyuki Ohashi is waiting for a lorry to arrive and take away the large commercial freezer at the back of the kitchen. It is, he says, a point of no return. After taking over the business from his father more than 35 years ago, Ohashi has served his last bowl of raw tuna on rice.

As he prepares to leave for the final time, he wonders whether he should bother his son, an office worker in nearby Yokohama with no apparent interest in the family business, and ask for help dismantling the large sign that advertises the restaurant along the main road. "It's a difficult conversation," he says. The past few years have been punctuated by rows between father, son and daughter-in-law.

Ohashi, 74, is part of the generation that built Japan into the world's third-largest economy. Now, in retirement, it is about to reshape the country once again. His restaurant is one of tens of thousands of businesses that will close down this year because there is no successor to take the reins. Some will be bought by outsiders, some will find an individual from outside the family. Most, like his, will simply vanish.

According to recent government figures, the single biggest cohort of business owners in Japan are 69-year-olds. Demographics have long posed huge challenges to the country's rapidly shrinking and ageing population. But the national shortage of heirs was largely overlooked. Two years of pandemic restrictions have deepened the sense of urgency. Many owners in their mid-seventies have chosen to accelerate plans to either hand over control or watch their cherished firms disappear.

As a consequence, Japan faces what some fear could be the most extensive evaporation of know-how and institutional memory in modern history. The effect on the country will, Ohashi fears, be huge since so much of Japan's culture is embedded in its businesses and the skills they have amassed between them. The idea that the country could somehow allow all this to disappear, and that the process may even alienate parents from children, is a source of national sorrow.

Seen from one angle, the crisis is a consequence of Japan's success. Decades of stellar postwar economic growth helped create a large, university-educated workforce. These younger generations have been a source of enormous pride to their parents, but in a culture that has long emphasised filial piety and family cohesion, their determination to turn their backs on the family business has brought disappointment too. Many children of baby boomers have moved into cities and have no interest in taking over the small factories or repair shops started by their parents in their now-depopulating home towns.

More than 40,000 small firms a year are in need of a successor, government data shows. As angst over the issue grows, high-profile dramas have played out in public. When furniture-giant founder Katsuhisa Otsuka tried to oust his daughter Kumiko from the company's board in 2015, he said at a press conference

that [illegible] a bad child." Kumiko won the battle, which played [illegible] pages of major newspapers for months, but [illegible] forced it to merge with an [illegible] this year.

Even when [illegible] family dramas and [illegible] on family businesses [illegible] says the negative effects of company [illegible] and the closure of each business [illegible] local communities as well as [illegible] frequently play [illegible] within longer supply chains. Business [illegible] as a result of the lack of [illegible] he says, "a clear threat to big companies at the top [illegible]"

As the crisis has grown, [illegible] For-eign and domestic private equity funds have [illegible] on the expectation that succession issues will [illegible] a stream of buyout deals where the hidden treasures of industrial Japan are suddenly available to buy. The likes of Carlyle and Bain Capital have been richly rewarded for that bet. In 2020, Bain clinched a $1.2bn deal to buy Japan's leading nursing home [illegible] Nichii Gakkan after acquiring shares from the founding family.

Now banks, accounting firms and other financial advisers have reworked their business models to provide services to com-pany owners looking to pass on their businesses. Companies have sprung up specifically to conduct merger and acquisition deals among smaller companies – the vast majority of them driven by the need for an owner to hand over their enterprise as a going concern while they still have time to enjoy the profits from a sale.

Other innovations include companies such as Tranbi, a "dating app"-style system designed to match heirless company owners with the sons and daughters they never had. But getting people to the negotiating table is not always so straightforward. The leading M&A advisory houses employ entire teams of sales staff with approaches calculated to have the strongest effects. Female cold-callers are said to be good at convincing restaura-teurs and retailers to consider selling; construction company owners will only ever speak to a male broker.

Kumiko Kodomari, who is in charge of call centre operations at Nihon M&A Center, says: "Five years ago, almost no one knew about M&As. So they had no idea what we were talking about. Sometimes they got enraged, blaming us for talking about such a serious issue over the phone." These days more people have heard about the idea of "M&A succession". "Still, it is very rare to reach out to someone who knows about it. It's like winning the lottery," says Kodomari.

Over the past two months, the FT has been surveying a range of companies to find out how the coming crisis might play out across the country. Their stories show that, when the deals are finally done, tears flow and people who have spent their whole lives building their business breathe a sigh of relief. For some, it puts an end to worry about looming bankruptcy. For others, it means learning to let go. For all, the consequences go far beyond individual success or failure.

BUSINESS NAME
ARAIE MANUFACTURING
BELOW, PREVIOUS PAGES AND PAGE 18

FUNCTION
MANUFACTURES INDUSTRIAL PARTS, MOVING INTO MAKING PRODUCTS SUCH AS COFFEE MILLS

CURRENT OWNER
FORMER AIRCRAFT ENGINE SPECIALIST KIMIHIRO YAMASHITA [illegible]

BUSINESS TRANSFER
BROTHER TO BROTHER, THEN BUYER MATCHED VIA A GOVERNMENT-BACKED SUCCESSION CENTRE

LOCATION
KAGA, ISHIKAWA

## ARAIE MANUFACTURING

### WHAT HAPPENS WHEN SUPERMAN GOES

When Takeshi Araie died in September 2019 without anointing a successor, the manufacturing firm he ran with his brothers for gen-erations was thrown into limbo. Takeshi was a traditional Japanese manager and, typical of bosses of his generation, one of few words. He did not share much with his employees about his clients or what the parts made by Araie Manufacturing were being used for. There was no computerised system to manage inventories or order flow. Everything had been in Takeshi's head.

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As the crisis has grown, so too has the industry around it. Foreign and domestic private equity funds [illegible] in Japan on the expectation that succession issues will [illegible] a stream of buyout deals where the hidden treasures of industrial Japan are suddenly available to buy. The likes of Carlyle and Bain Capital have been richly rewarded for that bet. In 2020, Bain clinched a $1.2bn deal to buy Japan's leading nursing home operator Nichii Gakkan after acquiring shares from the founding family.

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## ARAIE MANUFACTURING

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## 'WE WERE TOLD WE'D HAVE TO WAIT ABOUT TWO YEARS FOR A MATCH. I WORRIED BECAUSE WE WERE ALREADY ON THE BRINK'

MASAYUKI ARAIE, WHO INHERITED HIS FAMILY'S FIRM IN HIS SEVENTIES

◂ inheriting the firm in his seventies. Worse still, it turned out that the business was in severe financial distress, with a quarter of a million dollars in personally guaranteed loans at risk of being called in at any moment. "I couldn't really disobey my brother or stick my nose into his affairs, so I kept myself to the factory and didn't know much about the finances or management," Masayuki says. "Then I found out we were in deep trouble."

The company that later became Araie was founded in 1956 to produce industrial parts, then branched into industrial conveyor belts. As the country rebuilt after the second world war, it was small manufacturing firms like this that laid the foundations. But by the end of the 1980s, as the asset bubble burst and deflation ate into corporate margins, Araie's fortunes declined, along with those of its hometown of Kaga, a snow-covered resort on the Sea of Japan. Once a popular destination for corporate get-togethers, Kaga's *ryokan* hotels fell into disrepair when Japanese firms cut back on such extravagances. Its population, which hit 80,000 in 2000, is projected to be just half that by 2040.

As Masayuki scrambled to save Araie, he received a helping hand from the local government-backed "succession centre", created as part of Japan's push to help small enterprises survive. Such offices play an increasingly important role. In the fiscal year to March 2021, they successfully matched 1,379 small firms with successors, more than a tenfold increase from just six years earlier. "We were first told we would have to wait about two years for a match," Masayuki recalls. I worried because we were already on the brink."

But then, through the scheme, he met Kimihiko Yamashita, 57, for the first time at the end of 2019. A lanky former aircraft-engine specialist who is sporting a red jacket and a double-layer of face masks, Yamashita describes Masayuki as "a sophisticated craftsman who's been the pillar of this factory for 60 years". He also uses the term *monozukuri*, synonymous with manufacturing but which also implies a deep respect for the craft of "making things". After the two talked, Yamashita used a government scheme to borrow the money to buy Araie's shares. The company's loans would also now be guaranteed by a government-backed entity, without personal risk to the new owner.

More than two years on, Yamashita's modest office at the Araie factory still looks like thousands of similar family-run places across Japan, with its grey desks, filing cabinets and low chairs. In the far corner, there is a miniature shinto shrine on the wall. As Yamashita lays out his vision, an employee regularly pops in to use a microscope on the desk. One of his first moves was to expand the workforce from 11 to 16 because Masayuki was simply not replaceable by another "superman". Yamashita spent about ¥300,000 ($2,519) in six months on job ads and looking for ways to attract new employees. Passing on Masayuki's knowledge is vital, he says. "If we can't do this, the firm will surely collapse."

Despite this, Yamashita believes that Japan's succession problem is not because there aren't the people to take over companies

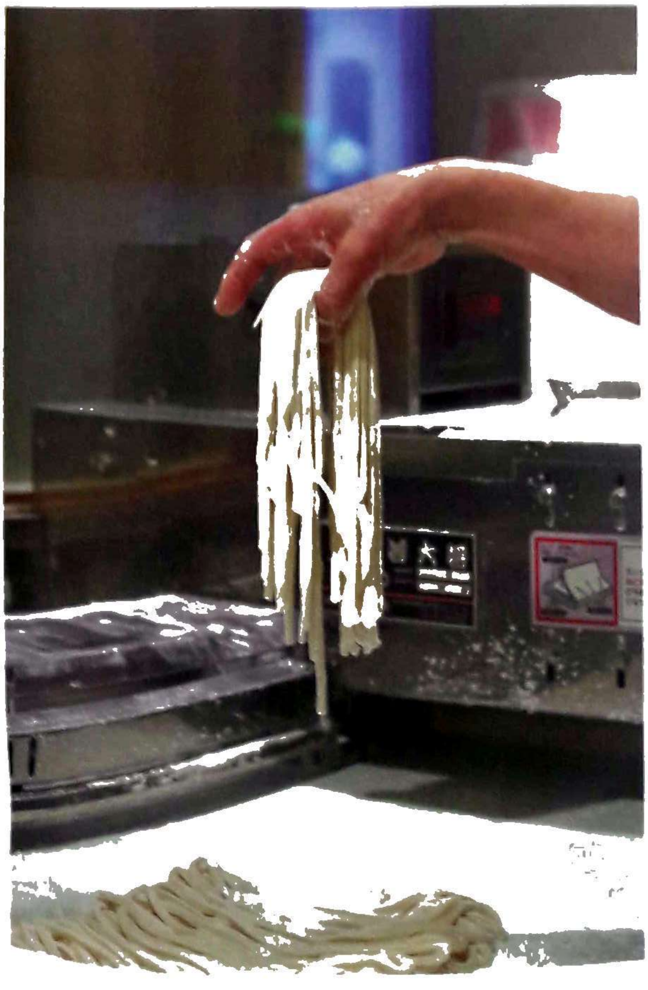

■ BUSINESS NAME:
GENKI

■ FUNCTION:
TRADITIONAL UDON RESTAURANT

■ CURRENT OWNER:
ENTREPRENEUR REIKA HACHISU (FAR LEFT)

■ BUSINESS TRANSFER
FROM ORIGINAL OWNER RYOZO IWASAKI (LEFT) TO HACHISU, WHO IS KNOWN AS THE "SUCCESSOR OF LAST RESORT" TO RESTAURANTS ACROSS JAPAN

■ LOCATION
YOYOGI, TOKYO



like Araie. Instead it's down to the immense cost pressures these companies face. In our two hours together, he fields three long calls from business partners. "You know we can't keep producing at these prices!" he tells one during a testy exchange. The caller had demanded a single part that takes 30 minutes to produce – for a price of ¥50 ($0.42). "So I asked him: if it's ¥50 for 30 minutes, it's ¥100 for an hour. Would you work for that kind of money?"

In a bid to increase margins, he has started accepting orders for larger, more complicated parts for the construction industry. "If you raise prices, fewer people send you orders, but the net result is the same and it frees up the resources to do more innovative, value-added work." Yamashita shows off one more thing he hopes will help turn Araie around: a 3D-printed bright green prototype of a coffee mill, which is the result of combining his engineering background with Araie's technology. He wants to transform the company into a maker of products, not just parts. "Companies like ours have the technology without which Japanese *monozukuri* would not exist," he says. "We must first help these firms and then help find people who can inherit them."

## GENKI

### SURVIVING AND THRIVING

For almost three decades, Ryozo Iwasaki worked in quiet anonymity among the ranks of Japan's salarymen. Then, in his early fifties, he left the construction company where he was a civil engineer and went to noodle school before setting up Genki, a traditional udon restaurant in the Sugamo district of Tokyo.

A heaving *shitamachi* labyrinth of small restaurants and bars beloved by the post-work crowd, the area was the perfect home for Iwasaki's new venture. It didn't take long for word of his delicious udon to spread through a city not short on fine-dining options. Within a few years, Genki appeared on the revered Tabelog list of the capital's top 100 udon shops. And by 2020 Iwasaki had built a fanbase among aficionados. Then his landlord gave him some bad news. The building Genki stood in was to be sold for redevelopment.

Tokyo owes its ever-changing skyline and its flavour as a city to a permanent state of being torn down and rebuilt. Many businesses faced with such issues simply find a new spot to open. But for Iwasaki, who was 68 and had never considered the issue of a successor, it felt like a sign that it was time to give up. However highly his noodles ranked among foodies, the idea of securing 10-year bank loans to relocate in his late sixties was daunting. Meanwhile, his two sons had careers of their own, and there was no energetic young successor ready to take on the job.

With the end in sight, Iwasaki got in touch with an employer in the construction industry to ask if they needed the services of a retired civil engineer. He also began telling loyal customers that the days of their favourite udon were numbered. They were not ▶

◂ happy, begging him to explore every possible avenue to keep his kitchens open. A possible buyer for the business did appear but pulled out at the last minute.

Six months later, Iwasaki sits at a table near the entrance of the newly opened Genki in Tokyo's upmarket Yoyogi district. A few hundred metres south lies the home of former prime minister Shinzo Abe. A similar distance to the north is the home of Japan's richest man, the Uniqlo founder Tadashi Yanai. The lunchtime rush has just finished, and a large delivery of eggs for the evening is being hoisted from the front door to the gleaming metal kitchen. The smell of corn oil, in which Iwasaki deep fries Genki's signature tempura, hangs thickly in the air.

Iwasaki tells me that salvation for Genki finally came in the form of one of its many devotees. Reika Hachisu is a 36-year-old entrepreneur with a habit of swooping in as the successor of last resort to restaurants across Japan. She also happened to be a huge fan of the old Genki. Whenever she had been there, Hachisu noted the long queues outside, even in the rain. She started to do her research on udon restaurants, even going to the southwest island of Shikoku - one of several places that claims to be the birthplace of Japan's favourite comfort food.

A month before Genki was due to move out of its old building, Hachisu, who is chief executive of the restaurant operator Otto, came to the negotiation table. The deal was done shortly after the first meeting, with Otto, which runs more than 20 establishments nationwide, taking care of everything from finding the relocation site to hiring staff. Critically, Hachisu also agreed that Iwasaki himself would stay on.

It's not her first merger. The last time out she also hired the former owner, but there were conflicts over staff recruitment. "Employees were unsure who to follow," says Hachisu. With Iwasaki, she shares her ideas on how she wants to grow Genki, including plans of opening at least five udon eateries under the same brand.

They also discuss how to educate the younger generation as udon chefs and technical aspects such as whether soup and noodles should be made at a central kitchen if they expand the chain. Hachisu wants Iwasaki to stay as long as he can, in whatever capacity he wants: "Just tasting udon at each Genki location and giving advice, for example, is an important task that only he can do."

Iwasaki says: "There are various forms of succession. Some people hesitate to sell their business to be hired by a company." He is happy with his decision. "I have no stress in udon-making. But I do feel pressure," he says, laughing. "I need to meet the sales target or I'll be fired."

'SOME PEOPLE HESITATE TO SELL THEIR BUSINESS TO BE HIRED BY A COMPANY'

FORMER GENKI OWNER RYOZO IWASAKI, WHO STILL WORKS AT THE UDON RESTAURANT

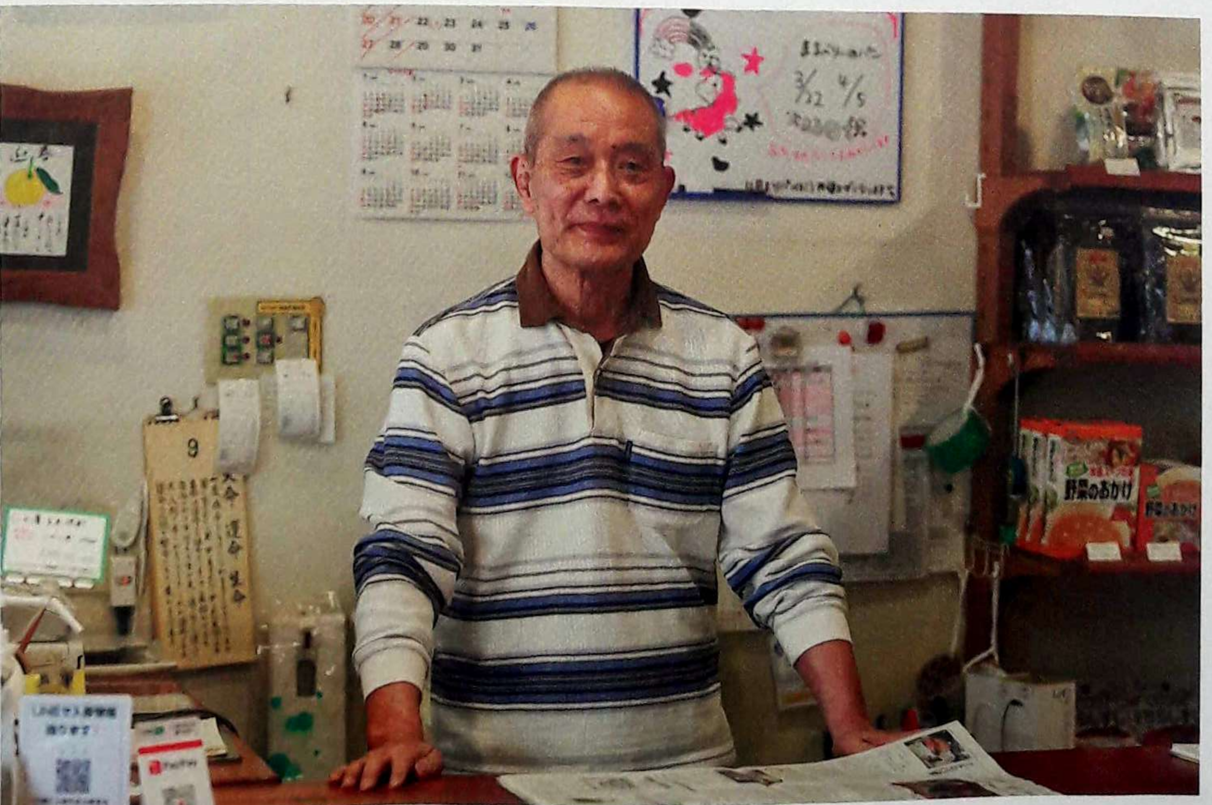
## IKOMAYA

### FATHER TO SON, WITH A TWIST

In Kobe, everything changed on January 17 1995, when the mighty western port city was bowed by a massive quake that killed 6,000 people and left 320,000 people at evacuation centres. For Kazuo Inoue, the battering of his family liquor store, Ikomaya - which was founded in 1935 and survived the second world war - was one of thousands of life-changing events that defined the quake's aftermath.

When Inoue reached his shop in the affluent district of Ashiya, adjacent to Kobe, he found every bottle of sake broken, their remains mingling with the shattered pieces of traditional roof tiling brought down as the city trembled. The scene inside Ikomaya was bad. But compared with the devastation everywhere around it, at least it was still standing. As the painful reconstruction of the city began, Inoue too began rebuilding, using driftwood and other scrap material he dragged from a nearby beach. His 12-year-old son, Ryoji, watched him work.

There was a wider spirit of rebirth around Kobe during this period and Inoue had his sights set on fundamental change. ▸



■ BUSINESS NAME: IKOMAYA

■ FUNCTION:
WHOLE FOODS SHOP

■ CURRENT OWNER:
RYOJI INOUE (ABOVE LEFT)

■ BUSINESS TRANSFER:
INOUE TOOK OVER FROM HIS FATHER KAZUO (LEFT)

■ LOCATION:
ASHIYA, NEAR KOBE

◀ Years earlier he had been diagnosed with an intestinal disease that doctors said was incurable. Rather than accepting this fate, Inoue adopted a strict diet of brown rice, organic vegetables and natural foods, a regimen he says kept him alive and which he was determined to share with the wider world. When Ikomaya reopened, it did so as a whole foods shop.

Over the next two decades, the transformation worked. Inoue, now 74, recalls the deep pleasure that came from hearing about customers who overcame their own debilitating illnesses by eating his foods. But he was quick to see that the unstoppable rise of giant supermarkets and e-commerce had huge implications. "Although customers come to our shop at first to discover products, they move away to heavily discounted places to make their second purchase," he says.

This realisation crystallised Inoue's succession plan: he would do everything he could to steer Ryoji away from taking over the business. The boy was instead urged to study and play with his friends. "I never wanted him to feel like how I felt when my father asked me every day to help him prepare the store."

For a while it looked like his plan was working. Ryoji graduated from one of Japan's best public universities, and his father convinced him to join a company listed in the the Tokyo Stock Exchange's prestigious first section (recently renamed the prime section), home to the likes of Sony, Toyota and Panasonic and a byword for job stability, a decent salary and white-collar respectability.

That changed two years ago when Ryoji, now 39, demanded the right to succeed his father and take over the shop. Inoue was horrified, not to mention confused. "I have always envied people who work in offices," he says. "In this shop I have no fixed salary, no bonus, no paid leave." To cap it off, Ikomaya was now struggling badly. Inoue told Ryoji he was opposed to the idea.

The son says he took his decision with his eyes open and knew Ikomaya was in the red, though he admits that, when his father showed him the finances, "it was worse than I had expected". The store had posted a deficit for eight consecutive years. But he set about persuading his parents that he should quit his job and devote himself to keeping Ikomaya alive as it approaches its 10th decade.

Ryoji prides himself on making logical decisions. He moved the financial decision-making out of the hands of an elderly tax accountant on whom his parents had leaned heavily for decades. He also overhauled his own outgoings so that, if necessary, he could survive without income for up to two years. The opposition from his father - and particularly his mother - was stronger than he expected. But he found an important ally in his younger sister, who'd missed her brother when he left Ashiya for his big city job, and joined the effort to talk their parents around.

After months of discussion, the successors won. Ryoji took over his father's business in October 2021. He confesses to having felt anxious at the beginning but says not having a retail background allows him to "see things differently". There is even a plan to rent out a kitchen space in the shop as a bar after it closes at 6pm.

Inoue still spends a lot of time at the shop. "We are in small conflicts every day," Ryoji laughs. His father often throws away vegetables without notifying Ryoji, who manages inventory. When Ryoji experimented with displaying products on different shelves, Inoue silently put them back. "I am still not entirely from the bottom of my heart *for* the idea of Ryoji taking over the business," he admits.

Since he became the fourth generation of the family to own Ikomaya, Ryoji's monthly salary has more than halved. His story may be a twist on the prevailing narrative in Japan, but he is satisfied with his decision. "For the first time in my life, I did something different from what I have been told by my father." FT

*Leo Lewis is the FT's Asia business editor. Eri Sugiura and Antoni Slodkowski are Tokyo correspondents for the FT*

**'I AM STILL NOT ENTIRELY FROM THE BOTTOM OF MY HEART FOR THE IDEA OF RYOJI TAKING OVER THE BUSINESS'**

KAZUO INOUE, IKOMAYA'S PREVIOUS OWNER