Sushi is Back!

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After the 2nd world war Japanese economy gradually started to achieve high growth and prosperity. Though the strict regulation for new entrants to play in their domestic economy, Japanese’ companies gladly found a world with almost no entry barriers. Consumers all over the world enjoyed driving Toyota cars and watching TV in Sony apparels, while the surplus of liquidity was applied in the most exquisite real estate: beaches in Mata Atlântica, palaces in Loire or Villas in Italy, not to mention that Los Angeles financial centre or the Kona coast in Hawaii is almost entirely Japanese. For sure it was a W. Edwards Deming advice.

But with the 90’s came a sudden down turn and the economy suffered like hell, but an ambitious country would not be held down for long – now the sushi is back! Companies cut out in bureaucracy, became more agile and atomized thus improving their decision making process. Younger and more creative management have speeded up organizations and a stronger appetite for risk was a way to new vibrant projects. Above all, Japanese companies are more mature today due to years of turnaround implementation to cope with the endless crisis of the former decade. They successfully rebuilt their balance sheets and accumulated a cash pile. Nowadays history repeats itself and they are coming for an expansion second round. Just consider some huge moves into the global financial industry:
• On September 22nd Mitsubishi Financial Group – MUFG – Japan’s most powerful player in the financial industry, decided to pay ¥900Bi (=$8,4Bi) for approximately 20% of Morgan Stanley
• In August MUFG had already bought 35% for the San Francisco based bank UnionBancal, for $3,5Bi
• Nomura, Japan biggest broker, acquired Lehman Brothers’ Asian-Pacific operations for $225Bi and Lehman Brothers’ European and Middle Eastern equities and investment bank operations for a total sum of $5,7Bi a – but not Lehman Brothers’ collapsed trading assets nor liabilities. Mr. Watanabe, Nomura’s new CEO (only 55 years old) is now leading more than 5.500 people worldwide
• Sumitomo Mitsui Financial Group – SMFG – invested $1Bi in Barclays and considered injecting cash in Goldman Sachs before Berkshire Hathaway, by the hands of Mr. Buffet, agreed to buy $5Bi of GS shares to reinforce their capital
• Mizuho, another Japanese big bank, agreed to invest $1Bi in Merrill Lynch and the buzz signals more is still to come
• Et ceteraLet’s look at Japanese strategy caveats:
1. Lack of M&A experience. Although these institutional giants have built sound organic growth at home, the lack of mergers and acquisitions on their track record may be a con
2. Two opposite cultures. In the west investment bankers and strategy consultants think of themselves as stars hired to be aggressive and individual. There is less value in seniority and fear of job hopping because the system is all based in merit and pay check correlation. Conversely, Japanese hierarchy prizes loyalty in times of crisis, the structure is more egalitarian and there’s a narrower space for intra team competition. In the banking industry people (after money) are the most important asset. So there will be a challenge: integrate cultures at a risk or separate them thus creating huge inefficiencies in joint operations
3. Strategic valuation. In the 80’s Japanese expansion strategy bought American banks at inflated prices and sold them years after at a loss. But the industry was booming. Now the deal looks really cheap. But the financial industry is in crisis: it’s almost impossible to predict future streams of cash flows since profits will be small for years. Further regulation will influence projects’ acceptance rate, and leverage will be a forbidden word. Moreover, it might happen an overall recession in clients’ industries
4. Systems integration. Migrating systems, integrating operations, finding a common language and hierarchy reporting lines will come at a huge cost of IT and operations consulting. IT and operations consulting companies will be waiting for you

Anyhow, the momentum is for Japanese banks to expand. An ageing population and discrete GDP’s growth rate signals the financial industry that no big prospects are coming their way. With an aggregated cash pile of $600Bi, Japanese banks have the opportunity to reshape the industry and benefit from high return projects that appear in recession – when no one else has money. Therefore, the way is to become global. They know it and are acting accordingly.

And they are aware of their highest skill: the ability to overcome long periods of crisis and win the game. The most interesting aspect is that once more they are moving at a strong pace acquiring American and European flagships. Yet, it’s so hard to believe how tough it can be for a foreigner company to settle in their own territory.