

Strategic Triumph for the Underdog: A Case Analysis of Japanese Paper Packaging SME Path to Success

Abstract

This case study examines a Japanese Paper Packaging SME, a company that achieved success in the packaging industry despite facing limitations. The company's strategic decisions, including a focus on the "weak vs. strong" strategy and the development of the Pop-up Box, are analyzed. The study also explores the challenges faced by the Japanese Paper Packaging SME, such as overcoming a fragmented market structure and pressure from established players. Finally, the case study explores the key takeaways from the Japanese Paper Packaging SME's success, which can inform strategic decision-making for underdog businesses in other industries.

Learning Objectives

Analyze how the Japanese Paper Packaging SME, despite facing limitations, achieved success through innovative and disruptive approaches.

Introduction

There is a Japanese Paper Packaging SME, founded in 1963, initially specialized in producing cardboard boxes, primarily serving as a subcontractor for a renowned watch manufacturer. However, over the years, the company has diversified its product offerings to encompass a wide range of packaging solutions, including cardboard cases, gift cases, plastic cardboard cases, labels, OP bags, PE bags, and the inventive "Pop-up Box". Setting itself apart through comprehensive packaging services, this Japanese Paper Packaging SME boasts an in-house design team capable of tailoring bespoke solutions to meet customer needs. Since 2006, the company has transitioned from corrugated fiberboard to the broader paper container industry, forging stronger connections with clients and reducing reliance on subcontracting arrangements.

In the fiercely competitive world of Japan's packaging industry, smaller players such as this Japanese Paper Packaging SME face an array of daunting challenges. The market is dominated by industry giants with strong ties to suppliers, making it incredibly difficult for newcomers to break in. These big players benefit from economies of scale, allowing them to secure materials and production at lower costs, which puts immense pressure on smaller firms like the Japanese Paper Packaging SME to compete on price alone. As a result, these smaller companies must pivot towards innovation and the development of unique packaging solutions to carve out their niche. However, this endeavor requires significant investment in research development, and design, straining the resources of companies like the Japanese Paper Packaging SME.

Furthermore, the Japanese demographic crisis exacerbates the challenges faced by Japanese Paper Packaging SME. With an aging population and declining birth rate, there's a scarcity of skilled labor entering the workforce, leading to recruitment and retention difficulties within the industry. This scarcity forces companies to fiercely compete for talent, driving up labor costs and further squeezing profit margins. Additionally, navigating Japan's complex regulatory environment presents another obstacle for smaller companies. The Japanese packaging industry is subject to a complex set of regulations, and smaller companies often lack the resources and expertise to navigate these regulations efficiently. Compliance with regulations demands meticulous attention to detail and significant administrative resources, placing additional strains on the Japanese Paper Packaging SME's already stretched capabilities. Despite these formidable challenges, the Japanese Paper Packaging SME remains undeterred, continuing to strive for excellence in innovation and customer service, positioning itself as a resilient contender in Japan's packaging sector.

This case study investigates the case of the Japanese Paper Packaging SME, exploring its strategic journey to overcome adversity in Japan's competitive packaging market. We examine the challenges faced by smaller players in a landscape dominated by industry titans, including securing materials, navigating complex regulations, and tackling labor shortages. The case study analyzes the company's strategic decisions to diversify its offerings, provide bespoke design services, and emphasize innovation – focusing specifically on their development of the "Pop-up Box". Ultimately, this research aims to uncover valuable insights for underdogs in various industries, highlighting how resilience and strategic adaptation can pave the way for success.

Industry Overview: Industry and Competitors Analysis

Japan is considered one of the biggest economies in the world with a GDP over \$4.26 Trillion, according to the World Bank (2022). According to Statista (2022), the packaging-related industry contributed approximately 1.13% having a market value around \$55.4 billion making this a highly competitive industry. The growth of the Japanese packaging industry was estimated by Nikkei Asia in 2023 to be 3% compared to 2% of the Japanese market. With industry dynamic and its complex ecosystem, it promotes the advancement of its technologies for research and development. Together with a strong cultural lead market, Japanese have their unique market landscaping.

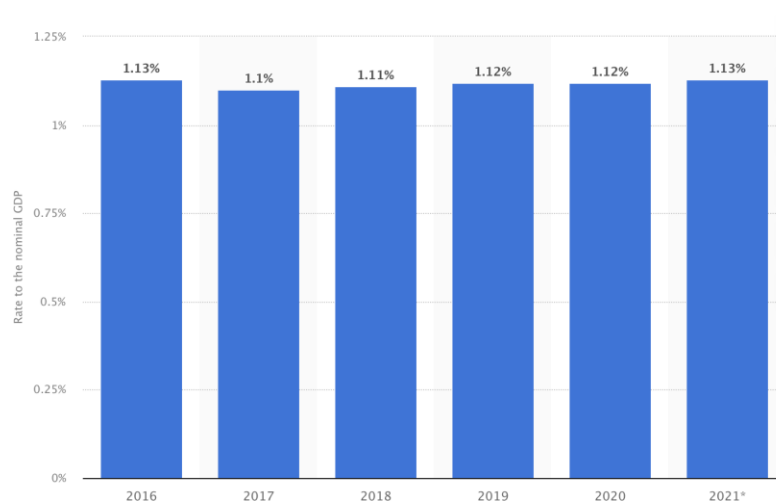


Figure 1: Rate of the packaging industry to the nominal GDP in Japan from 2016 to 2021: Statista, 2022

Packaging is important in the supporting role of the business operation. The primary function is to protect and preserve the products from external factors, prevent product contamination, preserve freshness, and protect the product from collision or impact during transit. The packaging not only protects the content of the product but is also used as a marketing tool to promote/improve the awareness of the brand and product by adding ideas and creativity as a medium to communicate the brand value to their customer. The promotion of sustainability and environmental impact is also taken into consideration as climate change is now a global trend and paper packaging is considered to be environmentally friendly and can be recycled which leads to a sustainable use of resources. Lastly, it's boosting innovation and technology not only to achieve sustainability goals but also to improve customer experiences by developing materials, printing and design processes, and adapting automation and robotics in the production line.

In Japan, packaging is deeply intertwined with their culture. The packaging in Japanese culture is not only used for protection but also to represent the brand and what is inside the package. The packaging design, its patterns, and the wrapping methods represent the importance of the object inside also the relationship between the giver and the recipient. The Japanese packaging industry features a diverse landscape, where large conglomerates leverage economies of scale and extensive resources. Their vast product ranges and competitive pricing serve broader audiences while ensuring efficient production and wider market reach. However, small companies have their special characteristics as they have limited access to resources.

To compete with the giants, they excel in utilizing their limited resources efficiently, focusing on targeted research and development. These resulted in better responses to niche markets, offering personalized solutions, sustainable practices, and deep cultural understanding, carving the ways for their place in the industry.

To succeed in Japan's market, big and small companies have different strategies to win customers. Big corporations gain their customers through the economics of scale, offering vast product ranges and competitive pricing, ensuring efficient production and broad market reach. While SMEs excel in agility and niche domination. Targeting specific cultural needs, they offer personalized solutions with deep cultural understanding. Both big and small corporations must understand the cultural connection within the Japanese market and excel in their technology to be successful in Japan's market.

Key Strategic Decision and Strategic Initiatives

As small and medium-sized enterprises (SMEs) having no power to dominate the market and the emergence of E-commerce which makes SMEs find it difficult to continue adopting the original concept of strategy of the weak to run a successful business, these companies made strategic decisions by developing the strategy of the weak to be suitable for the era of E-commerce. To elaborate this part, there will be 2 main topics that will be written to understand all factors behind the decisions that were made to sustain the businesses today. The first one is the overview of strategy of the strong and strategy of the weak and the second one is the modern concept of the strategy of the weak.

The Overview of Strategy of the Strong and Strategy of the Weak

According to Hayes (2023), Lanchester strategy is a model originated by Frederick W. Lanchester in the early twentieth century. It was originally used for analyzing military battles. Later, it was adopted in business fields regarding how to dominate the market and win a market share. **The Strong** represents large-size companies and **the Weak** represents small-size ones. For **Strategy of the Strong**, it focuses on market domination by creating and maintaining a monopolistic market that does what the weak cannot do, such as investing large amounts of capital to develop products and sale by “**sheer numbers**” which could also be called economies of scale. For **Strategy of the Weak**, it focuses on gaining an advantage by having “**quality**” weapons that do not depend on numbers such as technology, innovation, niche market targeting or providing services. In addition, it also focuses on minimizing the dispersion of funds as much as possible.

With the emergence of E-commerce companies connecting all markets digitally around the world such as Amazon, it has drastically changed the business landscape for small and medium-sized enterprises (SMEs) inevitably. As Amazon has been able to apply both strategies of the Strong and the Weak and many other crucial factors such as social networking, AI, and automation that have advanced so rapidly, the strategy of the weak is becoming less viable. Thus, paper packaging SMEs in Japan could no longer adopt the original concept of strategy of the weak, otherwise their businesses will not be able survive in the highly competitive e-commerce era nowadays.

The Modern Concept of the Strategy of the Weak

The **Modern Concept of the Strategy of the Weak** was finally developed and adopted for value-added product development such as the birth of pop-up boxes in the SMEs paper packaging industry. These Japanese companies were forced indirectly to adapt for the new era of digitalization as they are losing out to larger enterprises in price competition. Their products become so innovative and unique that they are unable to be copied by other brands. Thus, the strategy of the weak is developed from **differentiation** strategy to **Uniqueness** strategy. Nowadays, these SMEs companies also position their newly innovative products as value-added paper packaging products that are designed to be souvenirs and not to be thrown away like the old-styled products in the past.

The Birth of Pop-Up Boxes, the Strategic Initiatives of the Japan Paper Packaging SMEs

Beautiful and patented products such as Pop-up Boxes developed successfully in 2010s are targeted to all Japanese people who have a strong culture of souvenirs and thank-you gifts and people who are particular about the details of wrapping paper and wrapping methods, partly due to the influence of noshi (dried paper used for wrapping gifts). As these packaging boxes were something that would not be thrown away, they sought to create a unique and differentiated product by creating a 3D box with an emotional message that would be appreciated by the recipient. By the birth of pop-up boxes, these companies survived changes in the global business landscape through its brand strategies as followings:

1. **First Moment of Truth (FOMT) Theory.** According to the theory, customers look at products displayed in a store and decide which product to purchase in about 3 to 7 seconds. Packaging that is eye-catching and catches the eye among many products is in high demand from companies. To sell products in a difficult economic environment, not only "quality" but "branding" are important.
2. **Uniqueness and Customization.** As all products are unique and protected by trademark rights, other companies cannot imitate their designs. For that reason, their products can be sold at higher prices. In addition, not only that these products can be customized to satisfy the needs of customers, but it is also flexible to be produced at the small lots by the demand of the customer.
3. **Customer Collaboration.** They collaborate with clients to understand their specific packaging needs through interviewing. From the data collected from interviews, they know what customers think about and latent needs that they are unaware of. Through this process, a concrete image of the product is solidified.
4. **Research and Development.** R&D plays such an important role in packaging innovations and improvements. From the R&D section, each employee conducts market research on competitive products in their daily lives, and the Planning Department conducts teardown analysis and utilizes the results in their own product development.



Figure 2: Pop-up Box by the Japanese Paper Packaging SME

Overcoming challenges

The major challenges faced by the company.

The major challenge encountered by this SME company is when the company loses out to large enterprises in price competition. However, price competition could be difficult for SMEs because of several challenges.

The first challenge is the economies of scale. SMEs can only have limited production volumes due to their scale causing the limitation in negotiating for the price of raw materials causing the lower competition to larger companies. The second challenge is the brand recognition and marketing power. SMEs typically have a lower brand recognition and lower budget for marketing compared to large enterprises. In addition, Financial resources, as an SME company, normally have harder access to capital and worse negotiating power with the lender.

Strategies employed to navigate challenges.

The company can leverage its strengths to navigate the challenge effectively through several aspects. First, agility and flexibility, smaller companies can adapt quickly to changing market demands and customer needs, offering customized solutions that larger enterprises may struggle with. With personalized service, SMEs can build closer relationships with their customers, providing personalized service and building trust, which can be more valuable than price to certain customers. Innovation and niche markets are also one of the strategies since SMEs can focus on niche markets or develop innovative products that larger companies may not be able to offer effectively, allowing them to command premium prices.

For this company, they made an effort to compete with the larger companies by increasing their competitiveness of the products by creating “value-added” products to serve the customer needs. At that time, they conducted new product development to increase the number of products by launching a package of local souvenirs. In Japan, there is a strong culture of souvenirs and thank-you gifts, and many people are particular about the details of wrapping methods.

The packaging box was considered to be something that would be thrown away, so the company sought to create a unique and differentiated product by creating a 3D box with an emotional message that the recipient would appreciate. The company realized that not only quality and uniqueness but ‘branding’ is also important to sell the product in a difficult economic environment. Therefore, the company created the name and logo “Pop-up Box” as an image strategy and branded it.

Impact on Performance and Future Roadmap

By adopting the cultural characteristics of Japan’s souvenirs and thank-you culture, the company was able to differentiate itself from its competitors by creating a product that contributes to sales promotion by making people happy with the box, rather than the conventional wisdom that the wrapping box is something to be thrown away. To identify its position, the company branded its products, absorbed customer issues, and strengthened its product lineup and variations to solve problems together with customers.

For Future Roadmap, currently, overseas trade has started to establish its position as a brand of popup box. In addition, they are planning for a prospective production project in collaboration with Japanese anime characters. Moreover, they have the plan to leverage their accumulated know-how to capture new market development and penetration of completely new stationary using their brand. The company’s goal is to continue to promote various measures to become the number one package brand.

Conclusion and Lesson Learned

The case study of this Japanese Paper Packaging SME provides valuable insights into how smaller players can navigate and thrive in a competitive market landscape dominated by industry giants. Despite facing numerous challenges, including fierce competition, regulatory complexities, and labor shortages, this Japanese Paper Packaging SME has demonstrated resilience and adaptability. Through strategic initiatives such as diversification, innovation, and a customer-centric approach, the company has managed to carve out a niche for itself and achieve success.

Initially constrained by a fragmented market and intense price competition, the company's survival seemed precarious. Yet, through a bold shift towards innovation and a focus on value-added products, they not only survived but carved out a unique position within Japan's packaging sector. The development of the Pop-Up Box embodies their strategic ingenuity. Understanding the cultural significance of gift-giving in Japan, they transformed packaging from a disposable item into a cherished part of the experience. By emphasizing customization, emotional resonance, and meticulous design, they successfully differentiated themselves, even justifying premium pricing.

Their unwavering commitment to research, development, and customer collaboration further exemplifies their winning strategy. Through deep market analysis and understanding of evolving consumer needs, they continued to refine their offerings, remaining agile and responsive in a complex industry landscape.

Lesson Learned

The journey of the Japanese Paper Packaging SME offers valuable insights applicable to businesses of all sizes and across various industries. Firstly, the concept of the Weakness Advantage highlights how limited resources can spur innovation. Smaller players, instead of being hindered by their size, can leverage their agility and creativity to outmaneuver competitors. By focusing on niche opportunities and providing tailored solutions, they can carve out a unique position in the market, offering value that larger competitors may struggle to replicate.

Secondly, the Power of Cultural Understanding emphasizes the importance of incorporating cultural nuances into product development. By tapping into the emotional significance of cultural practices, businesses can create products that deeply resonate with consumers, enhancing the product experience and fostering strong brand loyalty. Thirdly, Customer Collaboration emerges as a key strategy, going beyond traditional supplier-customer interactions. By actively engaging with clients and soliciting their input, businesses gain valuable market insights and a deeper understanding of customer needs and pain points, enabling them to develop precisely tailored solutions.

Lastly, continuous R&D Investment is essential for long-term success despite resource constraints. By prioritizing investment in research and development, businesses can stay ahead of evolving trends and technologies, ensuring competitiveness and maintaining a leading edge in their respective industries. In conclusion, this Japanese Paper Packaging SME's journey underscores the importance of leveraging weaknesses as strengths, embracing cultural understanding, fostering collaborative relationships with customers, and investing in continuous research and development to achieve sustainable growth in today's competitive business landscape.

The concept of the weakness advantage (the strategy of the underdog), the understanding of culture, and the continuous R&D enable this Japanese SME to thrive in the market by empowering them to innovate swiftly, develop products deeply rooted in consumer emotions and cultural significance, and maintain a competitive edge through ongoing technological advancements and market responsiveness.