



## TORAYA Business Case Study

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### TORAYA

*Providing Enjoyable Delicious Japanese Desserts*

- *TORAYA Business Philosophy*

Mitsuo Kurokawa, the CEO of TORAYA which manufactures and sells quality Japanese sweets, *wagashi* (和菓子), who is also the seventeenth head of the family, was drinking coffee at the hotel in Germany after breakfast, when he was on his business trip. He was thinking about the business vision for TORAYA while looking at the garden in the hotel that had somewhat the same atmosphere with his home garden.

Mitsuo Kurokawa was appointed as the CEO of TORAYA in 1991, at the time the bubble economy collapsed. For the past 20 years while the Japanese economy was declining, he had a new vision for the business and actively introduced technical business management into this traditional company which was established 480 years ago. For the first 10 years, he technically analyzed TORAYA together with an outside business consulting company. In 1992, he established "Year 2001 TORAYA Vision" and helped TORAYA take a step toward advancement. He established the business policy, set the long-term sales goals, modernized its factories, strengthened the training of employees, put more focus on environmental issues, and strengthened branding. During the next 10 years, he presented "TORAYA V Vision" in 2001, created "TORAYA Value", developed the group business strategy including a new brand, "TORAYA CAFÉ", and established the TORAYA research institute. The annual sales of TORAYA were 12.7 billion Japanese Yen in 1991, but it has grown to 18.1 billion Japanese Yen in 2012, and the number of its employees has increased from 670 to 900.

Currently, Mitsuo Kurokawa has a vision of expanding the target area for the Japanese sweets, *wagashi*, overseas and he is in the process of creating a business plan with a mission statement "Yokan (sweet bean jelly 羊羹) to the World". TOYARA Paris, which was opened in 1980, has been steadily manufacturing and selling *wagashi* and operating as a café at the same time. We can call it as a success model. On the other hand, the New York store opened in 1993 closed its business after 10 years in 2003. Mitsuhiro Kurokawa dreams to reopen the business in the United States and expand it to other countries. To make his dream a reality, he knows that he must continue to be more innovative while still incorporating the important parts of the traditions in the business that have lasted throughout the years. This understanding and knowledge was passed down to him from previous generations who had run the company throughout tough times. He must create a practical plan to secure the ingredients for the sweets and artisans to maintain its quality and how to adjust and develop the products to targeted countries.

Furthermore, there are many factors he has to deal with; how to increase the market share of *wagashi* in Japan as it has been decreasing, what is now required of TORAYA, and how to become involved with the surrounding circumstances such as the Lehman Brothers Bankruptcy, Great Eastern Japan's Earthquake and Tsunami, and the Fukushima nuclear power plant issue. TORAYA has strengthened the training of the employees and has put effort on making strategies for group business. In the near future, will TORAYA be able to show the company at its best?

## **History of TORAYA**

There are no historical documents of how TORAYA was founded. However, there is record from the Edo era that TORAYA was making sweets for the Imperial Household during the reign of the Emperor Go-Youzei (1586-1611). To become an official sweets manufacturer for the Imperial Household, it was necessary to establish its trust which took a long time. If it took at least two generations to establish its trust, it is thought that TORAYA was founded around the year 1526, which was about two generations (60 years) before the beginning of the reign of the Emperor Go-Youzei in 1586. This means that TORAYA has over 480 years of history.

Throughout the generations, the owner of TORAYA has always been the head of the Kurokawa family. Enchu Kurokawa was the founder and the first owner of TORAYA, and Mitsuhiro Kurokawa is the seventeenth generation head of the family.

It can be said that the biggest turning point of TORAYA was in 1869. TORAYA opened a store in Tokyo because the capital of Japan was moved to Tokyo from Kyoto in that year. TORAYA had been a long-term manufacturer for the Imperial Household and half of its business was from the sales for the Imperial Household. Mitsumasa Kurokawa, the 12th owner, made a wise decision of opening the Tokyo Store while keeping the Kyoto Store, thus creating the foundation of the current TORAYA's business.

Throughout the dark times of the Great Kanto (Tokyo area) Earthquake in 1923 and World War II, Takeo Kurokawa, the 15th owner, who also later became the Minister of Health and Welfare of Japan, overcame those tough situations with his vitality and creativity. It was during this time that TORAYA incorporated the new sales promotions and advertising methods such as direct mailing and advertisements in the newspapers use of trucks for delivery, creating new products, and implementing the training for the employees.

When the free competition era (??) arrived after the War, Mitsutomo Kurokawa, the 16th owner, expanded the business to department stores in order to reach out to more customers (1962- ??). Accordingly, he hired more employees, reviewed human resources, restructured company structures, and progressed to make a foundation to utilize computers. At the same time, he reviewed the quality of the products, merchandise management, packaging, and the delivery and distribution system. In 1978, he built a new factory in Gotenba and improved the production system. Mitsutomo said, "Tradition is the continuance of innovations. Innovative methods allow the business to last long, thus tradition is created." \*"Kashiyanozaregoto" Published by TORAYA in July 1984.

These traditions and innovations of business management are succeeded into Mitsuhiro Kurokawa, the 17th owner.

## **Business Model of TORAYA**

### **1. Craftsmanship and Quality of TORAYA's Japanese sweets, *wagashi* – Business carefully cultivated in Japan**

Since over 90 % of TORAYA's sales come from domestic sales in Japan, and most of their ingredients are supplied domestically in Japan, its business hasn't been influenced by changes in the foreign exchange rates. Japan has a unique culture where many people there exchange gifts at each season and events, and the *wagashi* industry is deeply involved in that culture. Therefore, it has escaped from the heavy influence of macroeconomics, and even at the time of the Lehman Brothers Bankruptcy, it did not get much damage.

TORAYA is careful and particular about manufacturing *wagashi* to achieve TORAYA's business philosophy, "Providing enjoyable delicious *wagashi*", and it is reflected in its policies such as "a little bit hard, a little bit sweet, and have a good aftertaste" and "use vegetable ingredients". Both traditional *wagashi* and new *wagashi* are manufactured based on these standards. It requires unthinkable patience and energy to continue making classic *wagashi* that have been handed down for generations, while also creating innovative sweets that are not only custom-made sweets, but also a beautifully designed package of sweets, which is called, "haute couture *wagashi*". Both types of *wagashi* are reflected by the Japanese cultural tradition and can be considered as one of the most unique cultural expressions in the world.

The backbone of this tradition and creativity is TORAYA's "best quality management". Currently, TORAYA has 80 stores domestically in Japan and decided on a business policy of not expanding any more but focusing on its quality. This policy contributes toward retaining their image of being a specialty store for high quality *wagashi*. TORAYA handles almost everything from the supply of their ingredients to the sales of their products in-house, and manages their quality with high standards at each process. After the radiation leak of the Fukushima nuclear power plant's issue surfaced, they immediately implemented and confirmed the safety of their products by installing radiation detectors.

### **2. Training Employees – Necessary to continue business**

It is said that it takes at least 10 years to become a professional Japanese dessert chef. At TORAYA, it is critical to pass on to their employees and chefs their knowledge and craftsmanship which has been attained through many generations, and it requires much time and effort. TORAYA has a unique training system. Employees and chefs are trained by their years of employment and by their different job positions. In 1992, TORAYA introduced a self-development support program called "Egg21" to those who wanted to grow, achieve their dreams, and live a fulfilling life. This program supports its employees through time and finance, even if the time and finance spent by its employees is not directly related to their duty in TORAYA. Employees have been utilizing this program to climb the Himalaya Mountains, or

obtain a certain license and/or certificate, and so on. In addition, human resource development programs such as training at overseas stores, experience with raw material manufacturing, and training in logical thinking are implemented. In addition, benefits such as maternity leave and elderly and child care leave have been improved. These ingenuities in human resources have resulted in employees staying with the company for a long time. There are almost 100 employees, which is 10 % of TOYARA's employees, who have been with TORAYA for over 30 years. Business that requires the passing on of traditions ceases to exist without structures based on nurturing and training employees so that they may commit to the company for a long time.

TORAYA believes that individuals who have professional skills need to organically unite together as a team to work efficiently to reach their goals. They established their business plan together with an outside consulting company and in addition they set up a business strategy, and presented "TORAYA V Vision (Value, Vitality, Victory)", which was a five-year vision started in 2001. It aims to be a professional team to accomplish various tasks such as new product development, store development, and solving environmental issues by recycling.

Mitsuhiro Kurokawa emphasizes, "We need to think of a company as a group of established individuals, not just as a 'chunk'. I believe that a company becomes strong when each individual becomes strong, uniting without compromise. At TORAYA, we need to focus on human resource development so that unique individuals will grow. As a result, TORAYA will become a strong company."

### **3. Overseas Expansion and Group Strategy**

TORAYA accomplished the first overseas expansion in 1980, when the 16th owner, Mitsutomo, opened a store in Paris. Before opening the store, many advantages and disadvantages were discussed; "Is it OK to open a store overseas without any experience?" "We may be at a loss for a long time." "Our company's status will rise." "We will gain a global perspective and achieve new ideas for product development." "It will stimulate traditional business." The path was more difficult than expected because of the challenges of obtaining the ingredients, getting the necessary equipment for manufacturing, conflicts between employees due to the cultural differences between France and Japan, and the products of unfamiliar *wagashi*. However, the flavor of using only vegetable ingredients has been gradually accepted by The French people. together with the assimilation of Japanese food which was becoming popular. Twenty years later, TORAYA was ranked number three in the French magazine, *Le Figaro's* best 30 cafés in Paris (Salon de thé). It has been operating for over 30 years in France and 80 % of its customers are local French residents.

In 1993, TORAYA purchased a townhouse that was built over 100 years ago, remodeled it, and opened a store in Manhattan, New York. However, there were many difficulties and cultural differences, just like in France. Therefore, it required much time and great effort to introduce and establish *wagashi* into the US market. After the bubble economy collapsed, the Japanese economy had declined for a long time and many Japanese companies withdrew their businesses from the US market,

which greatly influenced TORAYA. They tried to sustain their business by creating events and changing the menu but 9-11, the terrorist attack in New York in 2001, also impacted the sales as they declined further, and ultimately the store was closed in 2003.

In the meantime in 2003, TORAYA opened the first “TORAYA CAFÉ” in Tokyo, which is a café restaurant which also sells TORAYA’s *wagashi* products. 10 years later, the number of cafe restaurants increased by three (Roppongi Hills Store, Omotesando Hills Store, and Aoyama Store). The goal of TORAYA CAFÉ is to combine the East and West into their sweets by utilizing experiences and the know-how in Paris and New York. They have developed a new market by adding the European sweets ingredients (chocolate, honey, dairy, etc.) to the base ingredients of the *wagashi* and by introducing the European manufacturing method. The majority of TOYARA’s customer base is over 40 years old, but the majority of customers at TORAYA CAFÉ are women in their 30’s to 40’s. Additionally, 10 % of the interviews that TORAYA receives from media are for TORAYA CAFÉ, and 30% of media coverage is to introduce these three cafés, which have been receiving much attention.

TOYARA has TORAYA France and TORAGEN as group companies. TORAYA CAFÉ is managed and operated by TORAGEN. TORAGEN also operates “TORAYA KOBO” and manages a real estate business. TORAYA has strengthened their group businesses along with their *wagashi* business.

### **New Vision**

Although the nature of TORAYA’s business is rarely influenced by the global economy, the dramatic changes in the world economy as a result of the Lehman Brothers Bankruptcy definitely influenced their sales. The market of European sweets and mass manufactured sweets at low prices are increasing, while the market of *wagashi*, is decreasing. TORAYA requires a new vision of how to accomplish their business philosophy, “Providing enjoyable delicious *wagashi*”.

The greatest challenges are thinking of ways to develop new innovations and how to keep the tradition and craftsmanship. At the same time, there are problems such as the difficulty of supplying ingredients for traditional *wagashi* and the lack of successors in the traditional cooking tools and ingredients industries. The special ability in producing 3,000 different kinds of *wagashi*, which can greatly satisfy the customers’ needs, is important hereditary property as well as the chefs, who seek to pass down their artistic skills, and their brand image that has lasted for about 500 years. TORAYA needs to review these properties, and to set new visions in a way in which the company would make the best use of its qualities.

After the earthquake, as people are rediscovering that *yokan* (sweet bean jelly) is nonperishable and can be eaten without being cooked, a new market is predicted. The mission statement, “*yokan*, the main product of TORAYA, to the world”, was presented and TORAYA is currently in the process of planning their next 10 years of business strategies in the global market. Currently, the high quality soybean, which is a main ingredient of *yokan*, is mostly grown in Japan since the seeds of the soybeans are restricted from being sent overseas. To expand its business overseas, TOYARA has to solve this supply problem.

Not only does TORAYA desire to present *yokan* to the world, they also desire to provide the opportunity for people in the world to experience the Japanese culture

reflected in *wagashi*. To achieve this goal, TORAYA needs to analyze new demands, new styles, and the global market; then build strong business plans and strategies that include new product developments and creating new values.

To create "TORAYA V Vision" in 2001, much data was collected from their employees. However, the vision was predominantly based on the view of the management level employees. The "2010 Co-working Vision" was created and established by all employees. During these times of global expansion, we can ask ourselves what kind of vision should we have, and how do we attain that vision? Mitsuhiro Kurokawa desires to set a creative and unconventional vision that is mainly made by skilled and unique employees.

Mitsuhiro Kurokawa saw the light being reflected off of a leaf while looking at the garden in the hotel in Germany. At the same time, he heard the news being broadcasted in the hotel lobby announcing that the 2020 Olympic Games were to be held in Tokyo, Japan. He believed this to be the grand opportunity to present the Japanese culture to the world. Mitsuhiro Kurokawa felt his heart leap for joy while listening to the excitement of the Olympic Committee at Buenos Aires.