



The future of Japan: Reigniting productivity and growth

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Japan is facing economic and societal challenges – the safe and protected society is no longer taken for granted



Glass half empty

1

Stagnant macro economy

**GDP: +0.8%
For 1992-2012**

**Customer spending:
-0.9%/year declining
since 1993**

2

Weakening competitiveness

**Low ROIC:
23% pt lower than
the US in 2010**

**Net exports of Adv.
Manuf. down by
24% in 2010-13**

3

Aging and declining population

**Population:
below 100 MM in 2050**

**Aging society:
30% above 65
years old in 2025**

4

Societal challenges

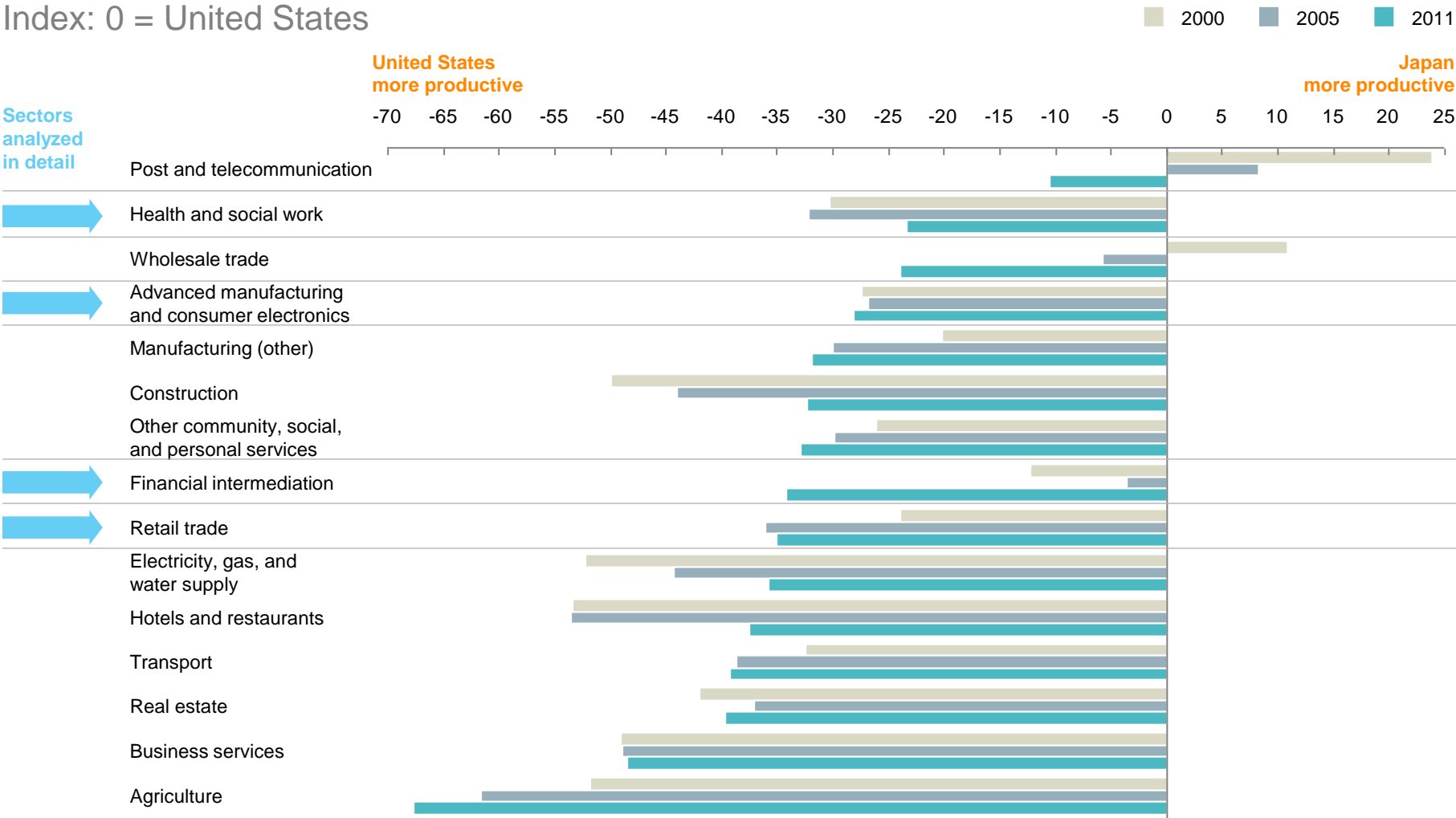
**Non-regular /
unemployment staff:
36.7% / 4%**

**Senior living
alone: +60%
In last 10 years**

Japan's labor productivity gap with the United States has been widening across most industries

Labor productivity gap by sector (% , based on \$ 2009 at purchasing power parity)

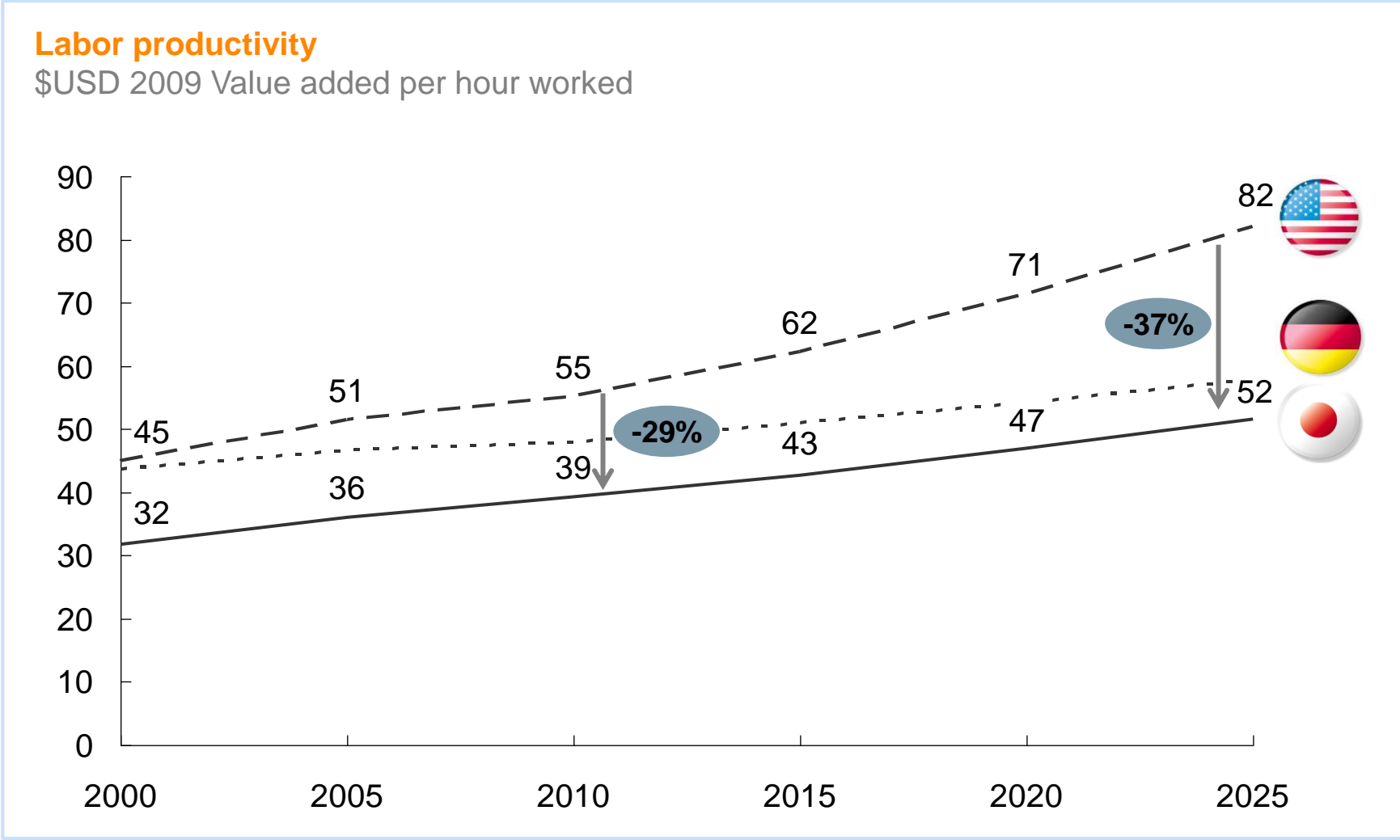
Index: 0 = United States



NOTE: Education, public administration, and domestic employees not included.

At this current pace, the labor productivity gap between Japan and the US is expected to grow from 29% in 2010 to 37% by 2025

Estimates



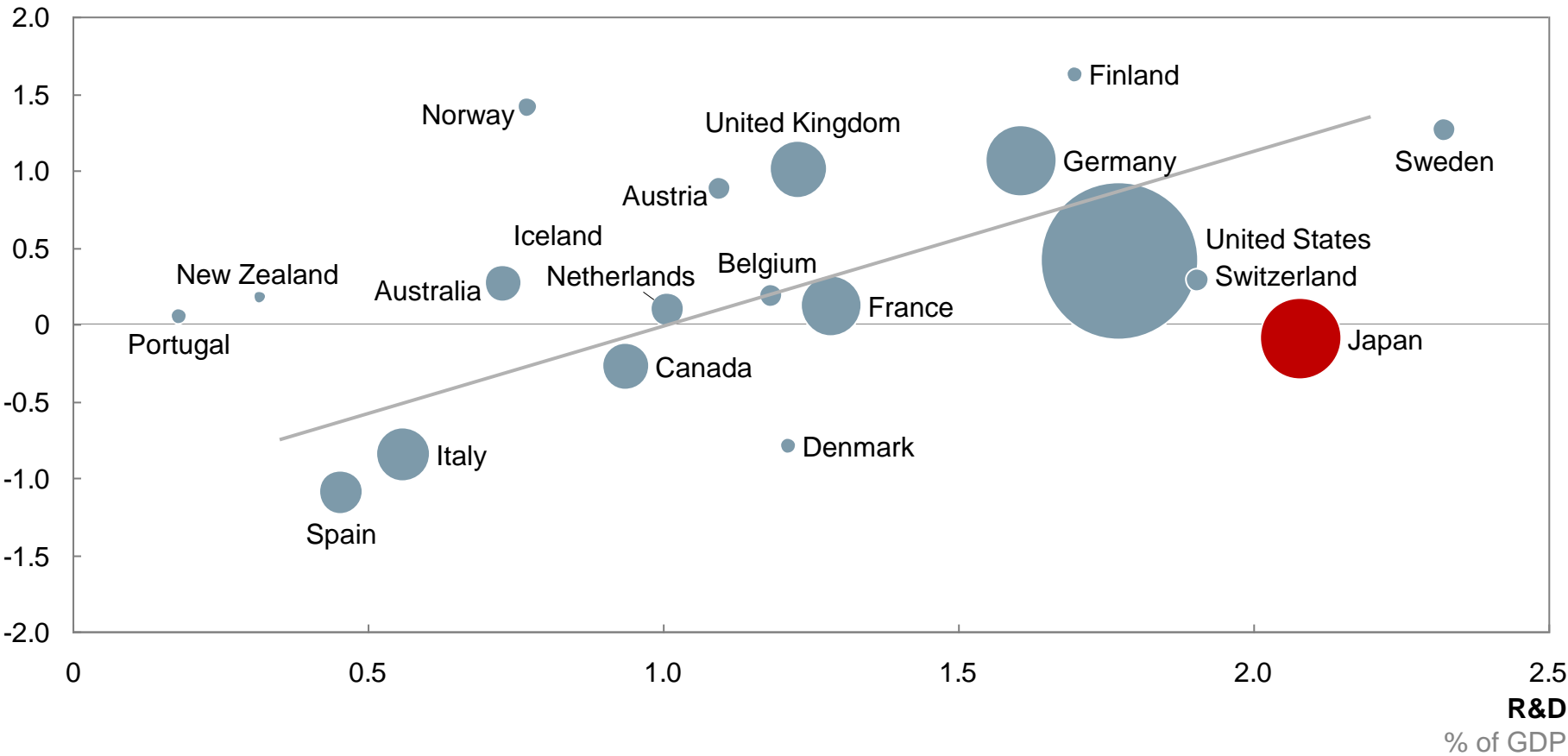
Heavy investment in R&D has not produced a large payoff in productivity for Japanese firms

Business investment in R&D vs. total factor productivity, 1986–2008¹

● GDP size, 2013

Total factor productivity annual change

%



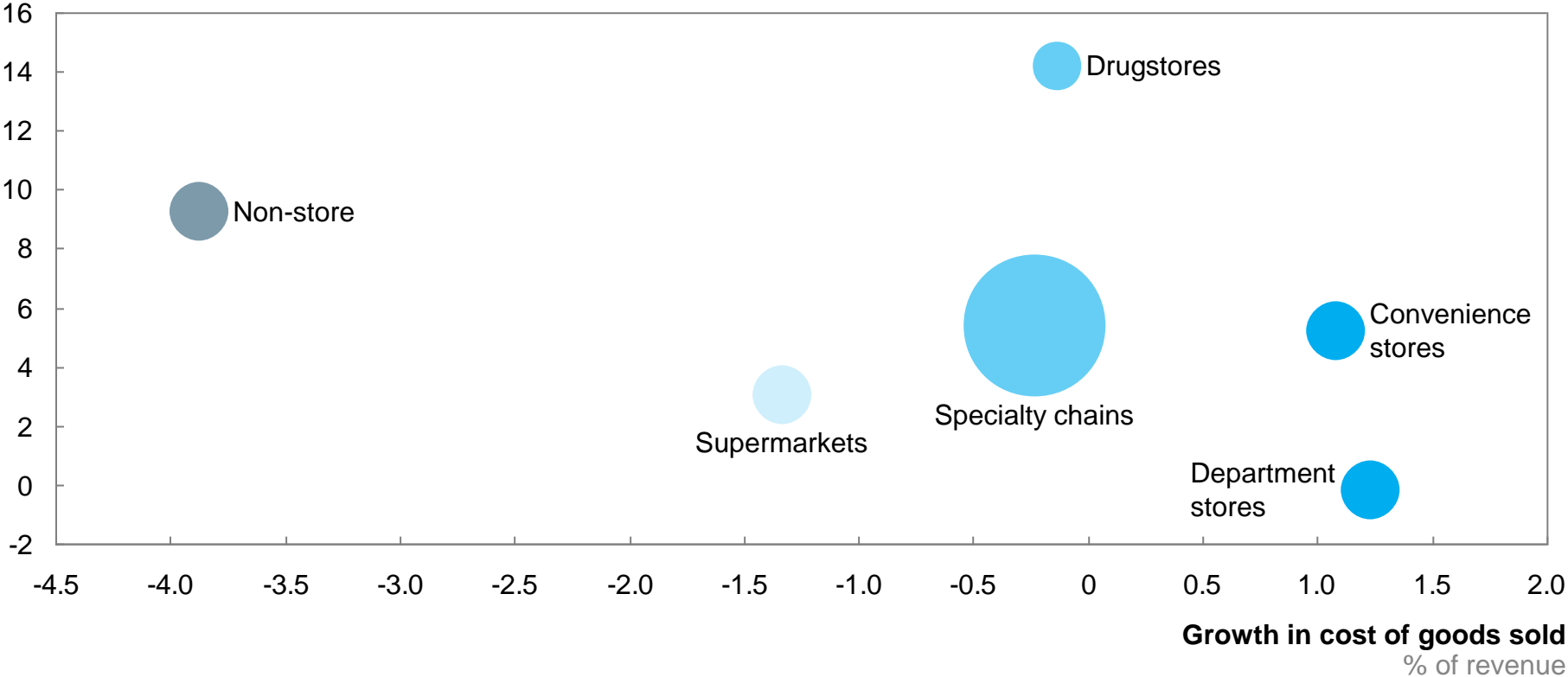
¹ Total factor productivity is a measure of technological progress that measures increases in output after taking labor and capital inputs into account.

Even Japan's more consolidated retail formats are not capturing the benefits of scale

Revenue growth and merchandising synergies of top retailers by store format¹

- Revenue size
- Less consolidation
- Medium consolidation
- Higher consolidation

Revenue growth, 2009–13
Compound annual growth rate (%)

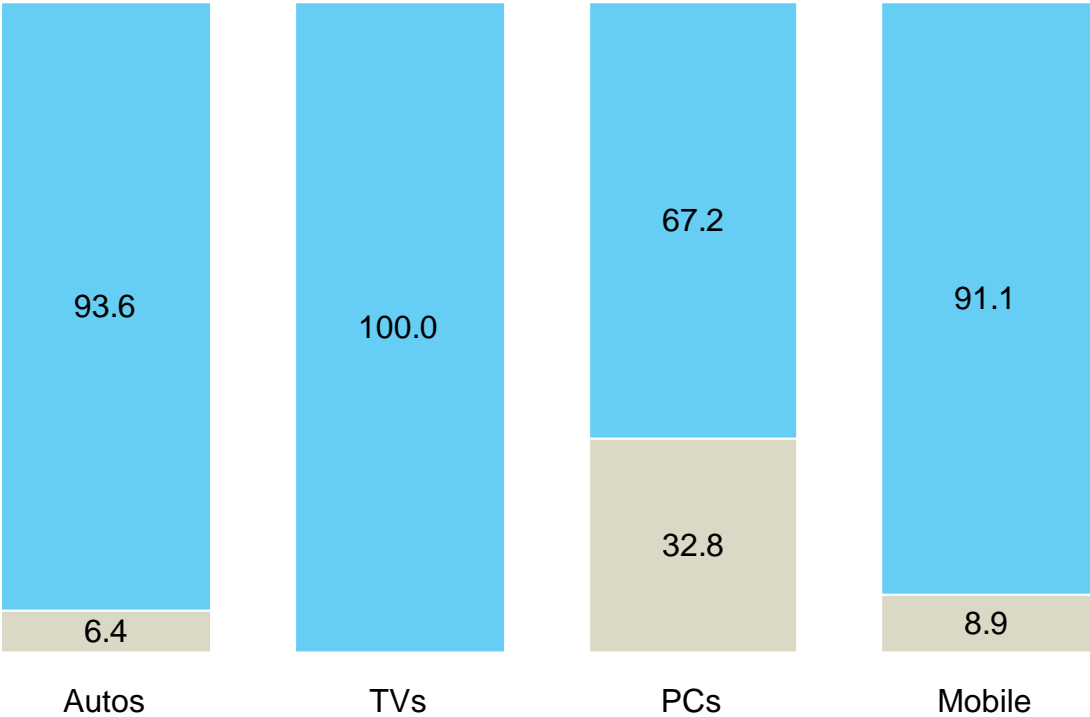


¹ Includes the top three to five players from each format (supermarkets, drugstores, specialty chains, department stores, convenience stores, non-store retailers).

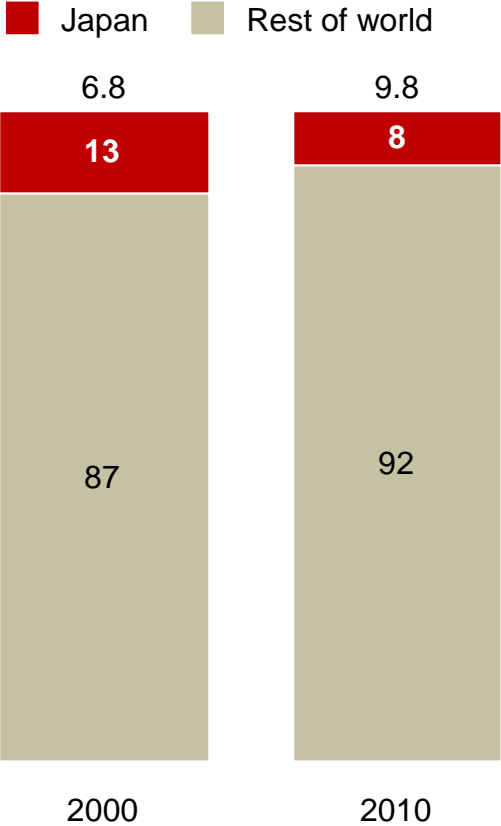
Japan's advanced manufacturing industries have relied on the domestic market while losing ground globally

Share of Japanese market, 2010

%
 ■ Japanese goods ■ Imported goods



Global consumption of advanced manufactured goods
 %; real 2005 \$ trillion

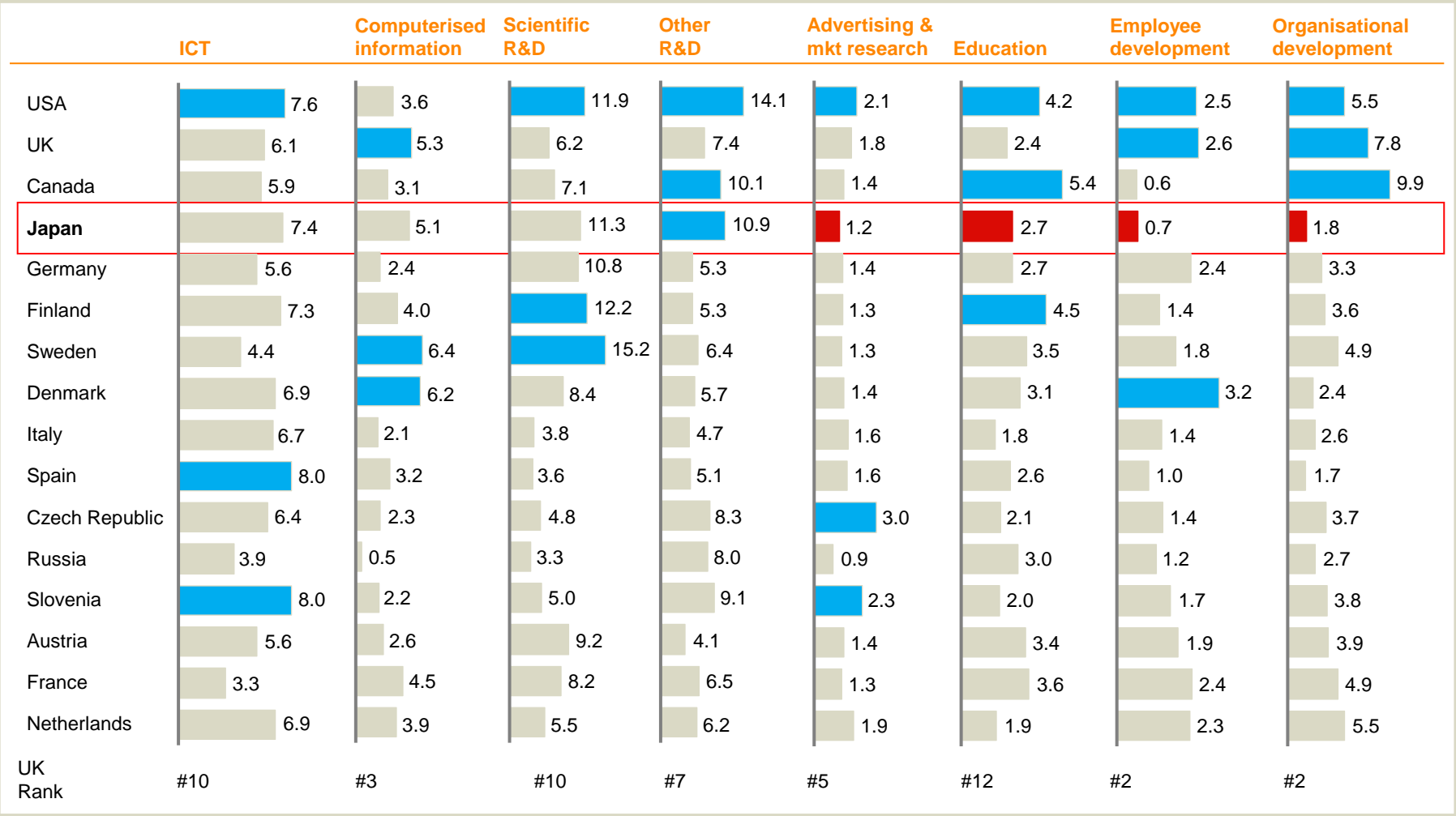


NOTE: Numbers may not sum due to rounding.

Japanese firms have significantly under-invested in organizational capabilities and talent for commercializing innovation globally

Share of GDP for components of innovation capital

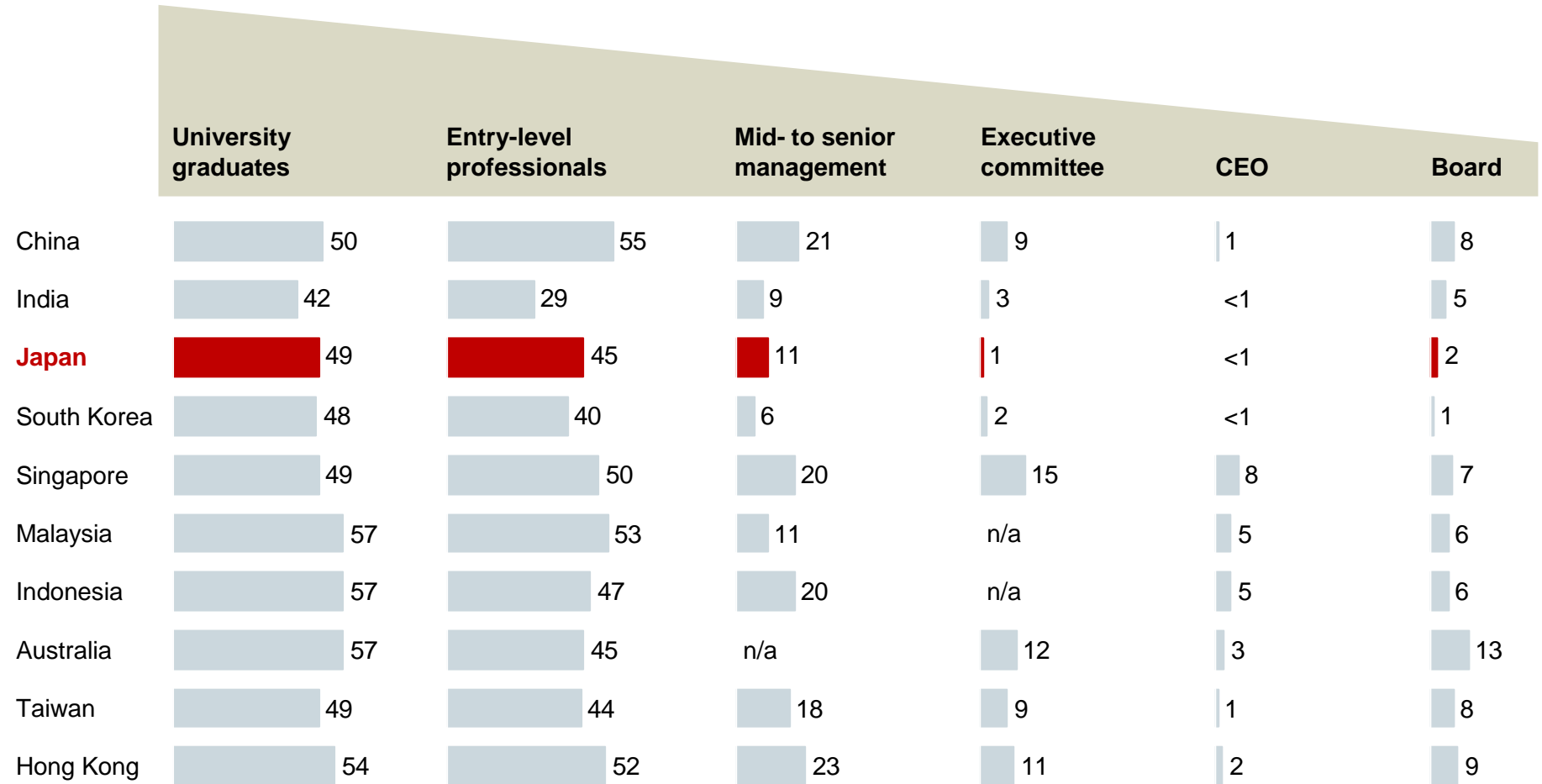
% GDP, 2008



SOURCE: Corrado, Carol, Jonathan Haskel, Cecilia Jona-Lasinio and Massimiliano Iommi (2012). "Intangible Capital and Growth in Advanced Economies: Measurement Methods and Comparative Results" available at www.INTAN-Invest.net; McKinsey Analysis | 7

Japanese women step off the career ladder during their prime child-bearing years and occupy few senior leadership roles

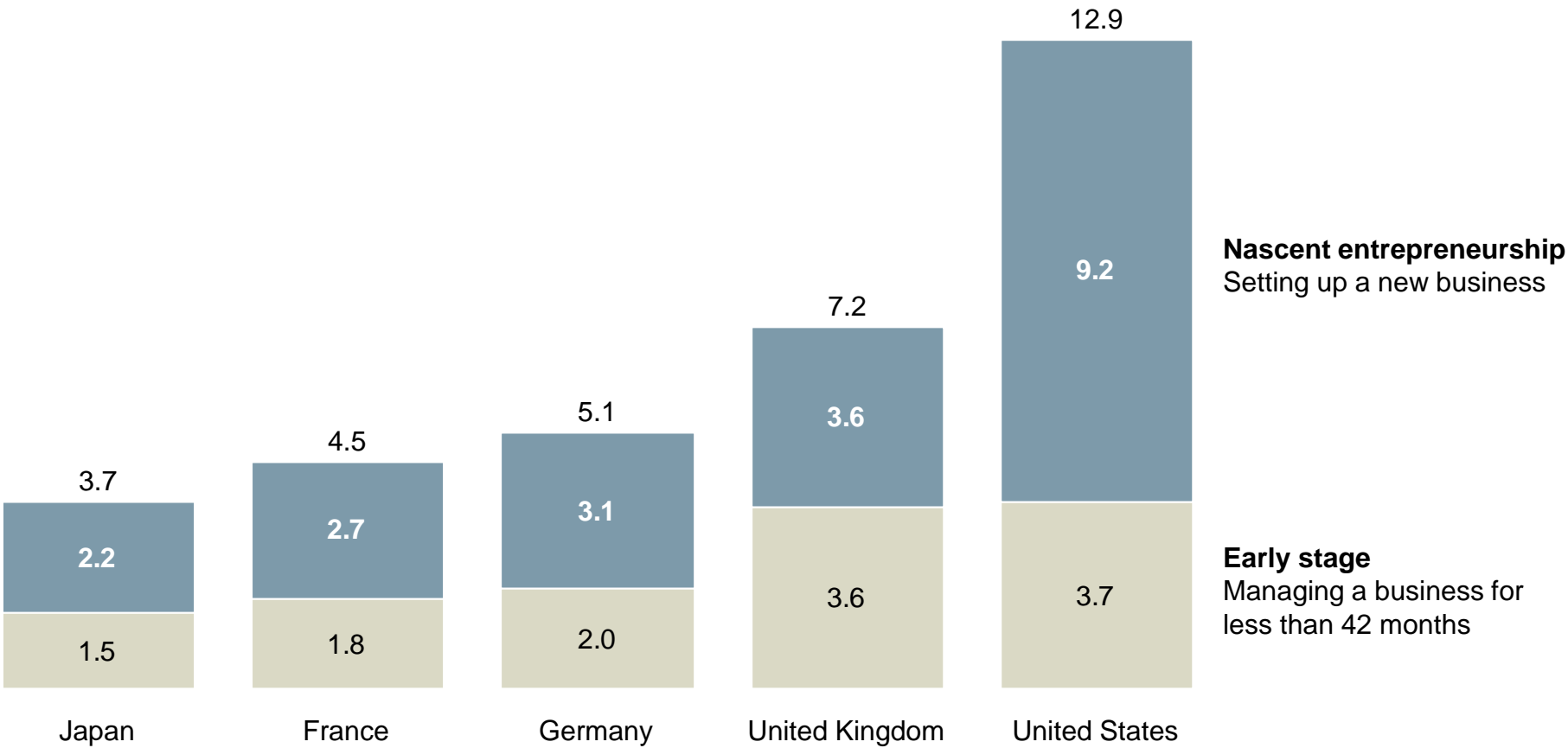
%



Japan has fallen behind other advanced economies in enterprise creation and growth

Share of labor force engaged in entrepreneurial activity, 2013¹

%

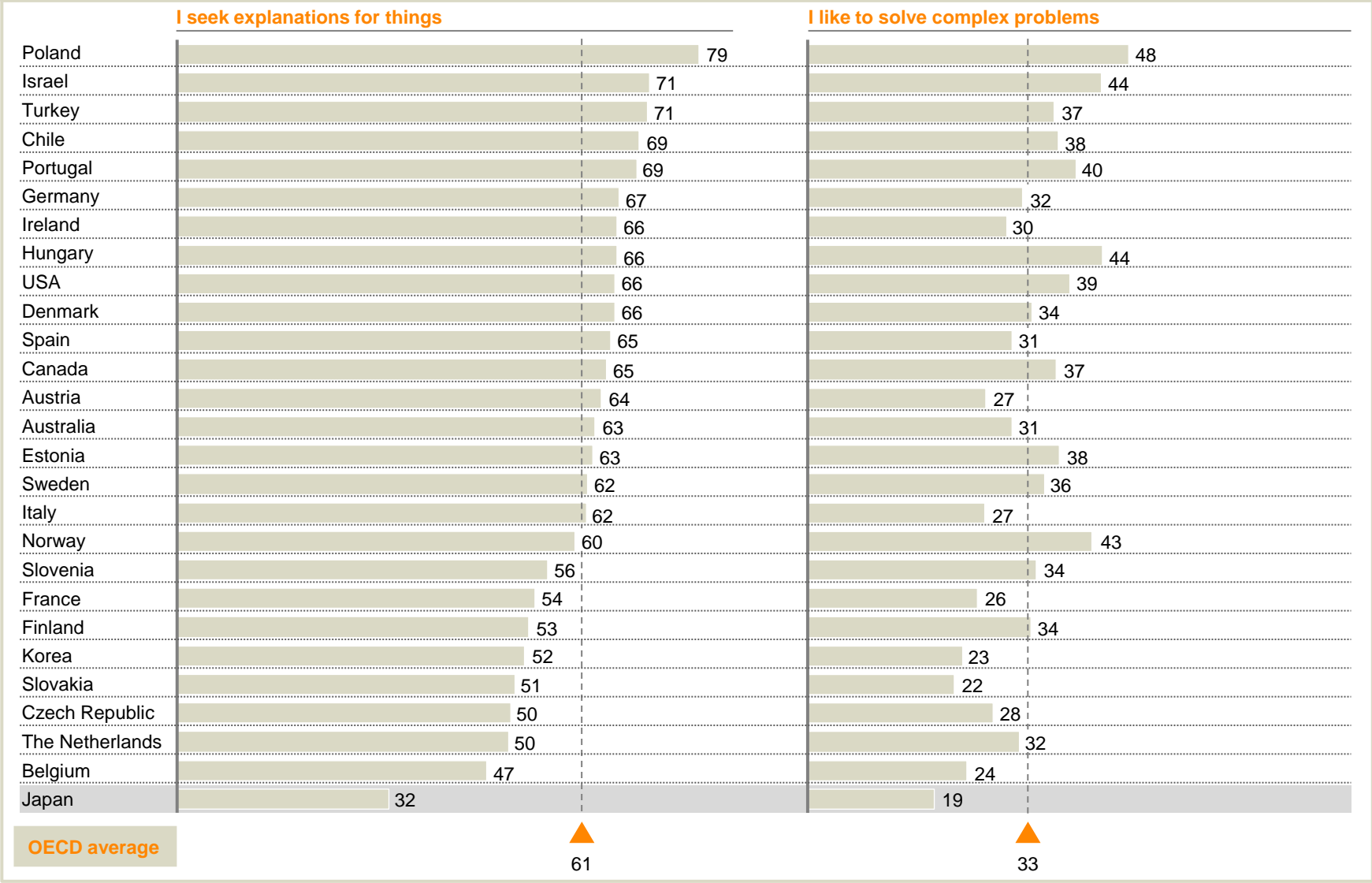


¹ Labor force defined as individuals 18 to 64 years old.

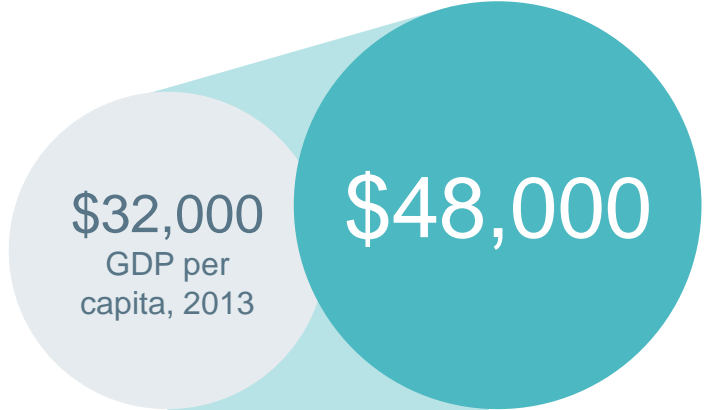
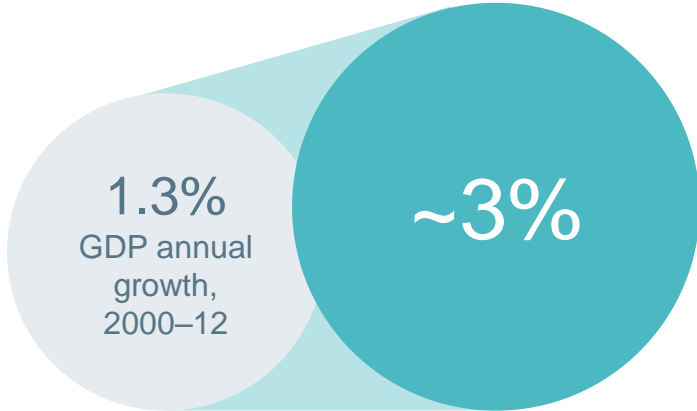
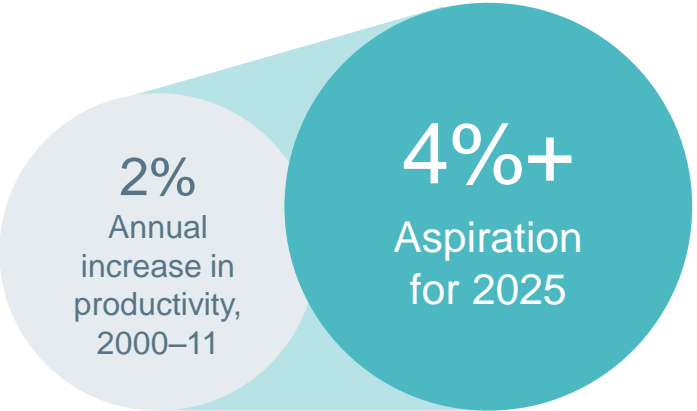
NOTE: Numbers may not sum due to rounding.

Students themselves do not feel confident to take on challenges

Percentage of students across OECD countries who reported that they "agree" or "strongly agree" with the following statements



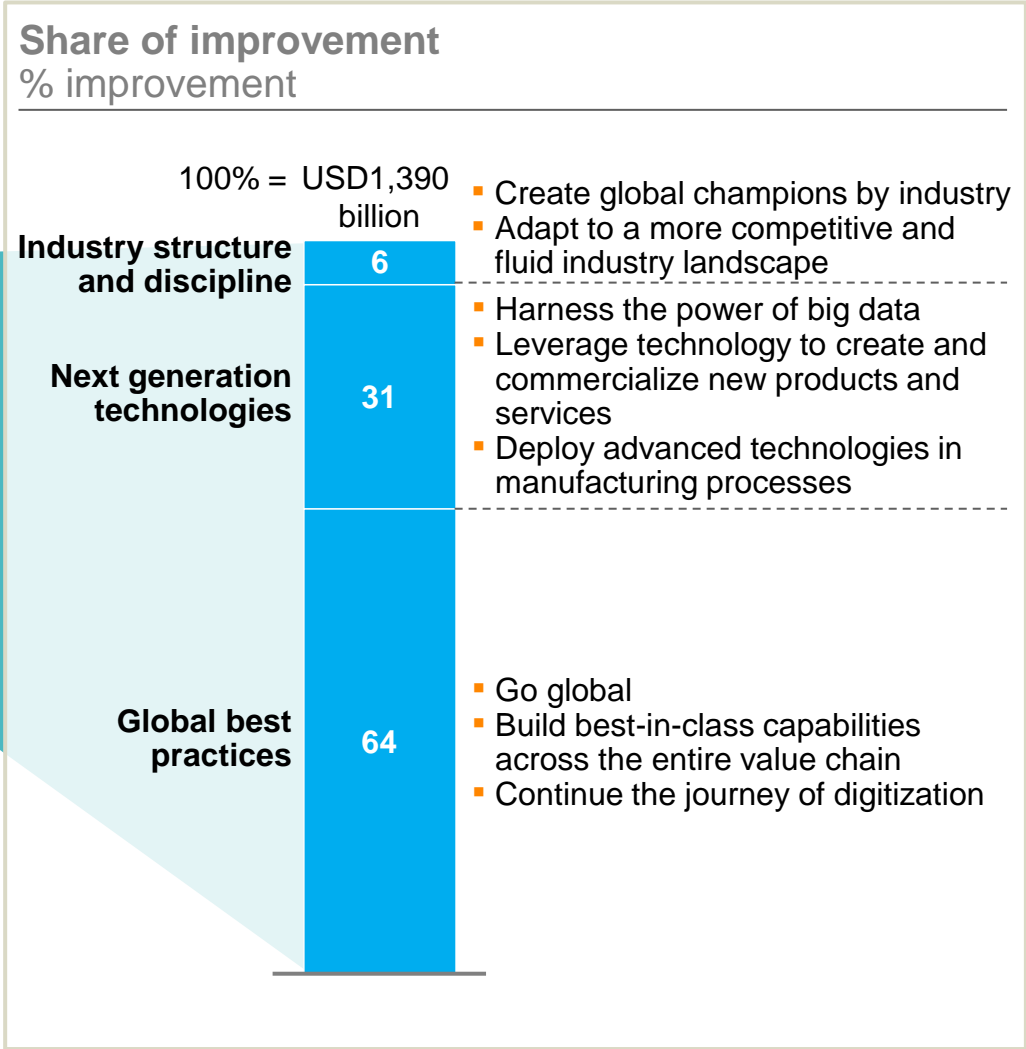
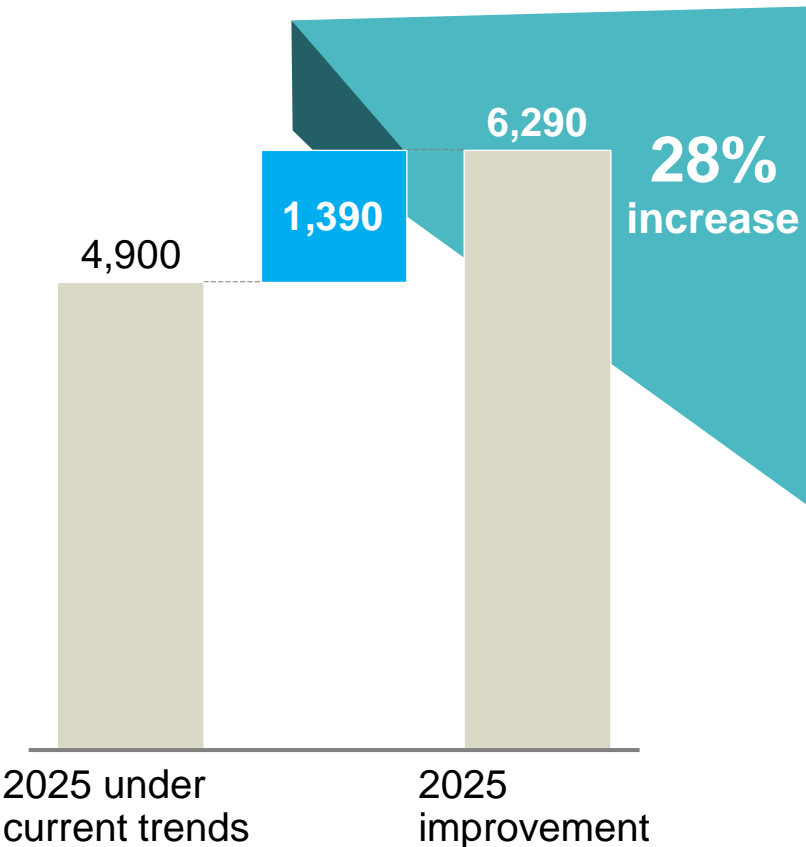
Accelerating productivity growth would change the outlook for Japan's economy over the next decade



The private sector can accelerate productivity growth by adopting best practices and new technologies to increase value add

Value added

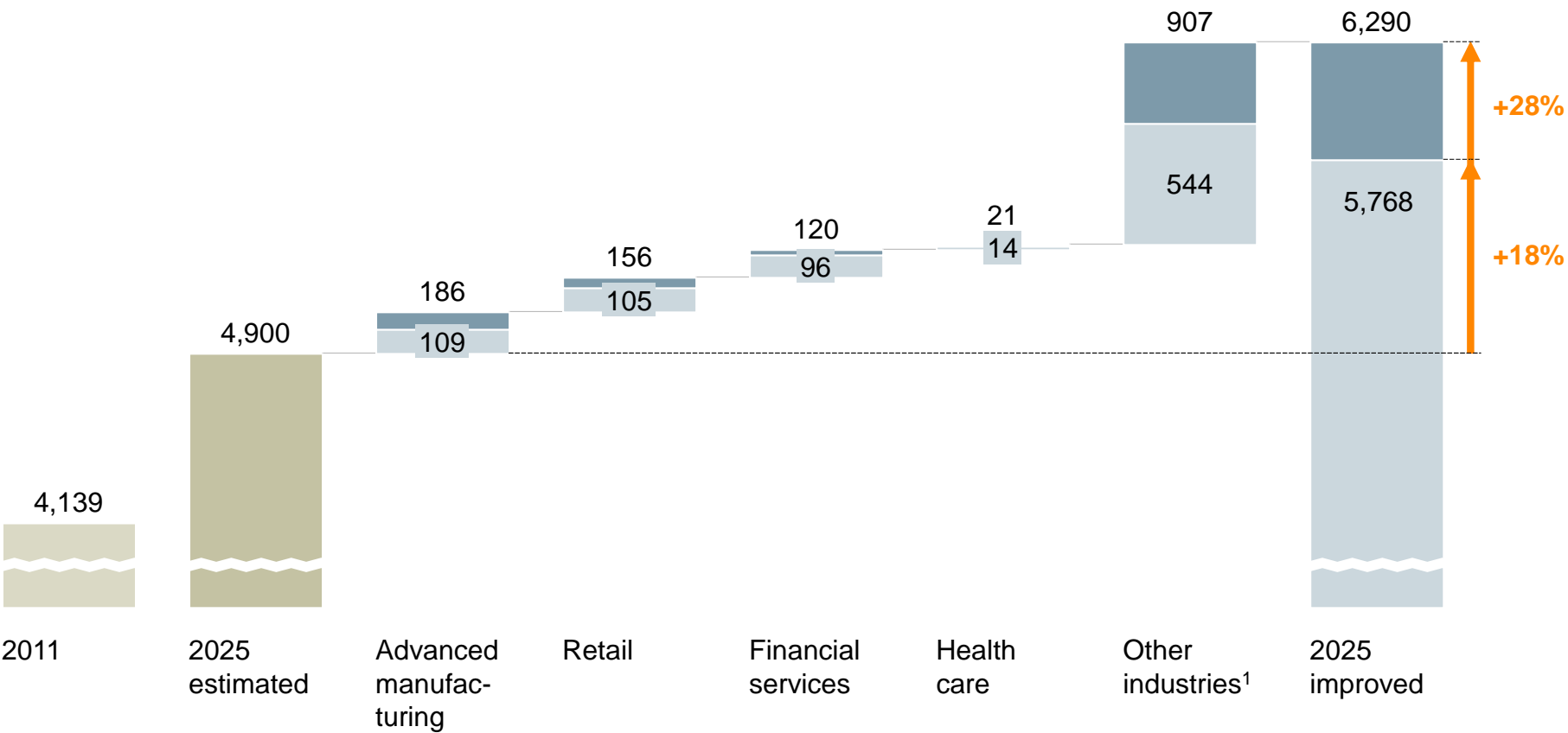
USD billions; 2009 PPP



Productivity initiatives in specific industries can help Japan increase value added by up to 28 percent above the current trajectory

Value added
\$ billion, 2009

High range
Low range

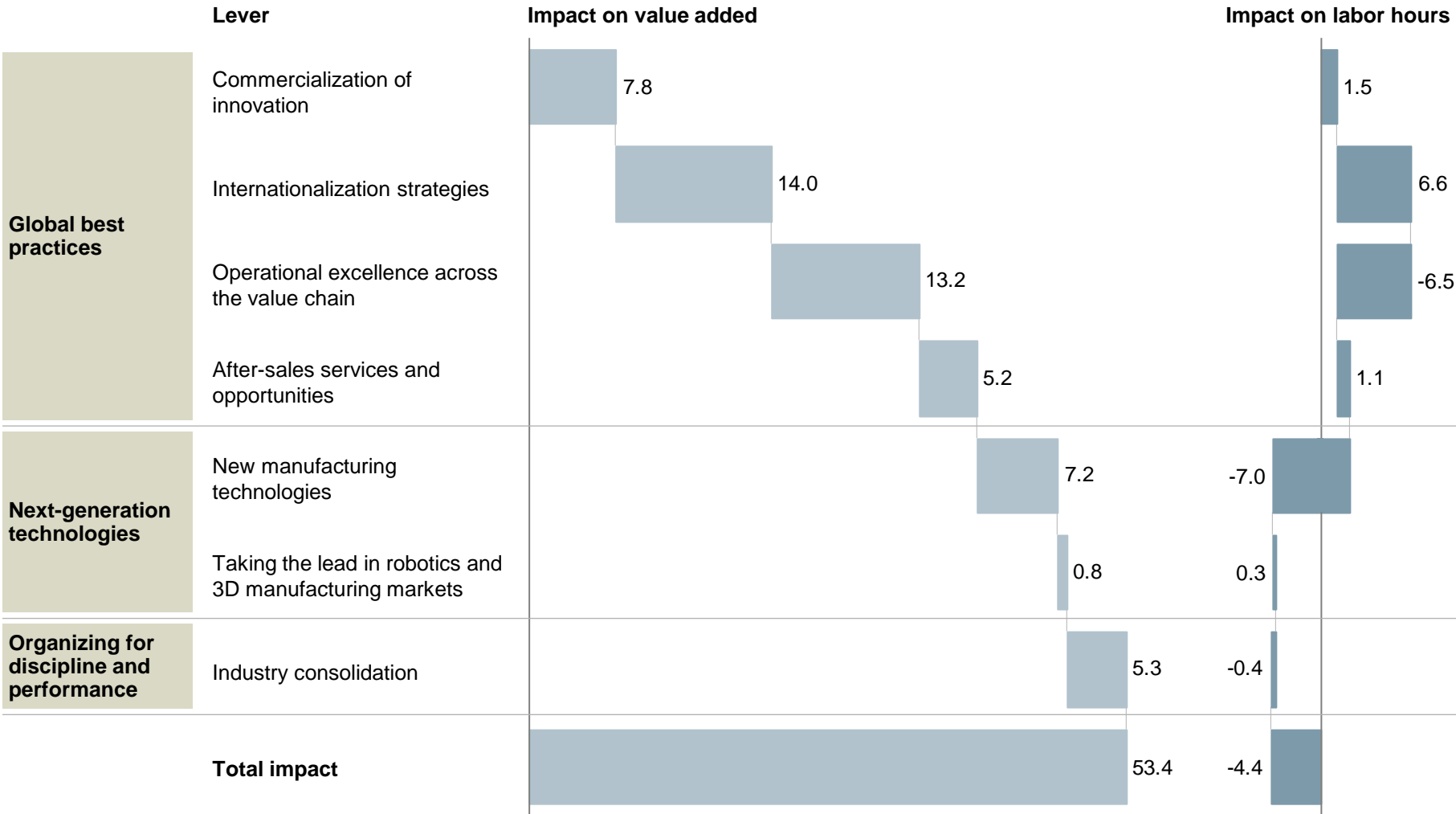


¹ Increases in value added and productivity in the sectors examined in detail were used to extrapolate gains in similar industries (e.g., gains in advanced manufacturing were applied to all manufacturing).

NOTE: Numbers may not sum due to rounding.

Productivity levers can help Japan boost value added in manufacturing by more than 50 percent in 2025

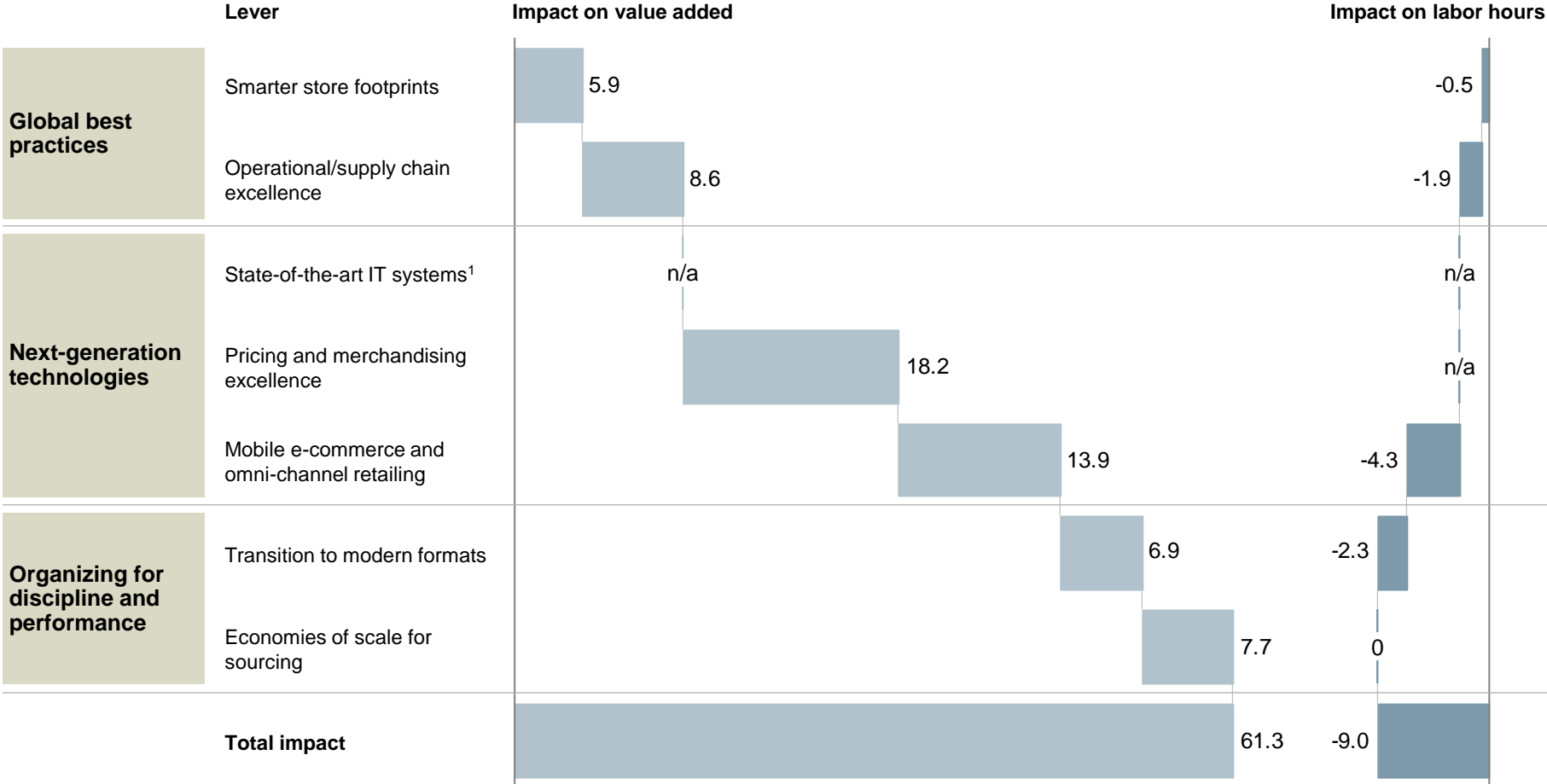
%



NOTE: Numbers may not sum due to rounding.

Productivity levers can help Japan's retail sector boost value added and make more efficient use of labor by 2025

%



¹ This allows retailers to capture additional value added from scale and operational efficiencies. It can improve operations, supply chains, pricing and marketing strategies, e-commerce, and purchasing.

NOTE: Numbers may not sum due to rounding.

Japan's society and policies must adapt to support the transformation

New talent sources



- **Women:** Encourage more to enter the workforce and facilitate their success
- **Senior:** Retain experienced workers as they age by providing flexible schemes, part-time jobs and changing the workplace environment
- **Immigration:** Address supply constraints by rethinking immigration policies

Education (develop global leaders)



- Building on top of the strong outcomes on hard skills (e.g. math and science), **instill the innovative and global mindset** needed in a 21st-century economy
- Create a true **education-to-employment pipeline** to identify where labor will be needed and match labor supply with demand

Entrepreneurship (spark innovation)



- **Create an ecosystem** that allows entrepreneurs to flourish, linking them to financial institutions, investors, and the educational system
- **Facilitate an increase in funding available** for entrepreneurs by easing the investment process and providing financial incentives
- Promote an entrepreneurial mindset with campaigns of success stories

Market-oriented reforms for global competitiveness



- **Deepen global trade ties**, particularly with growing markets, to provide an internationalization platform for Japanese companies
- **Adopt global standards**, particularly in software and R&D intensive manufacturing, to facilitate increase exports into global markets
- Promote competition by allowing companies to enter and exit the market (e.g. eliminate subsidies for unproductive firms)