

Care and Welfare Industries, Today and Tomorrow

In terms of investment into Japan, one of the most keenly eyed industries from this point will be that of care and welfare. As a backdrop to foreign firms scrutinizing the care and welfare business in Japan is the fact that Japan has become a society unprecedented in the recorded history of the world where the population has aged at an incredible pace. Nevertheless, the Japanese care and welfare industry still has room to grow while the entry of foreign firms into this sector has been relatively low. Even the Japanese government places an emphasis on the transformation into an over-aged society as it is expected to impact the welfare system overall. Therefore, the care and welfare markets centered upon care services are expected to grow rapidly in the coming years.



Paintings in hallway as 'landmarks' prevent people from losing way within the nursing home Sun Oaks Kurashiki. (See P. 5)

Japan, a Major Country with a Major Concern: The World's Highest Ratio of the Elderly

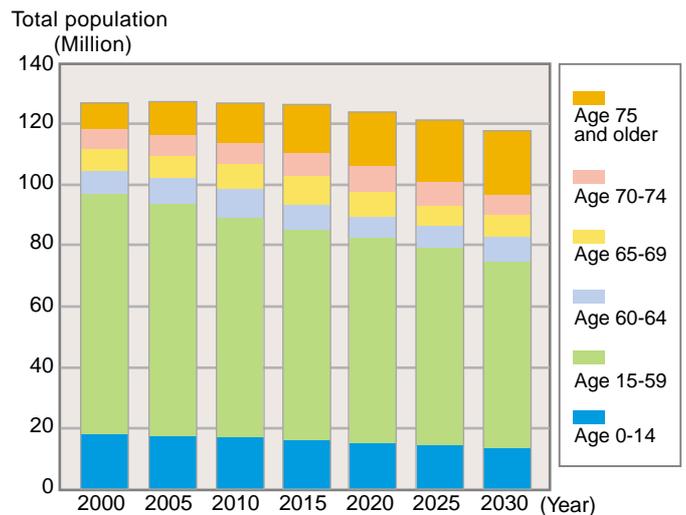
Overall, a society where the ratio of the elderly (those aged 65 and above) to the general population is beyond 20% is referred to as an aging society, while a society with a ratio surpassing 25% is called an aged society. Thus, Japanese society – with a ratio of over 25% – can undoubtedly be termed an over-aged society.

According to the Statistics Bureau of the Ministry of Internal Affairs and Communications, Japan's population projections show the total population of Japan as of October 2005 is 127.5 million. Though showing a decrease from the previous year, overall, the number of the elderly aged 65 and over grew to 32.5 million – an increase of 0.5 million over the previous year – a record high. The ratio of the elderly to the entire population reached 25.5% over the same period the previous year and thus surpassed the 25% mark for the first time. Comparison with other major countries was made. The latest data shows Italy has the highest ratio, followed by Germany, France, the U.S., and Russia.

As the ratio of the elderly to the entire population, this indicates that the level of aging in Japan is the highest among such major countries. Moreover, another notable characteristic concerning Japan is that it has rapidly aged over the past decade. In 1995, the ratio of the elderly still remained lower at a mere 20%. In 2005, the ratio of the elderly surpassed 25%, entering the aged society – with the ratio of 25% or higher. Henceforth, the population of the elderly will increase through the year. Then after that, it is expected to level out. Meanwhile, the lower

childbirth rate will decrease the population figure overall, so against the total figure, the ratio of the elderly will increase even after 2050. As a result from 2050, the ratio will be 35%, but in 2050, this will jump to 40%, where a rough calculation will show that one in every three Japanese will be an elderly person.

Fig. 1: Population projections for the future by age group

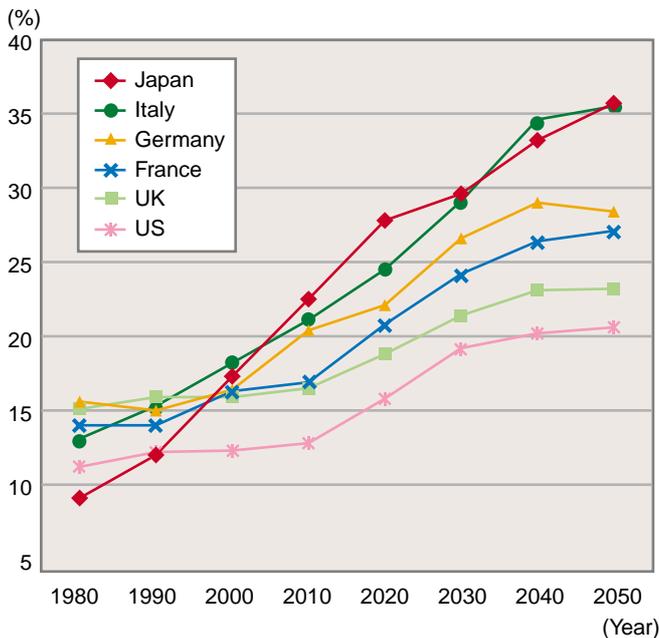


Note: The total number for 2000 includes a group of age unknown.

Source: "White Paper on Aging Society: 2006 Edition," the Cabinet Office (Figures for 2000 are based on the "National Census," the Ministry of Internal Affairs and Communications; and figures for 2005 and thereafter are based on the "Population Projections for Japan: 2001-2050, January 2002," the National Institute of Population and Social Security Research.)

Such an over-aged society has made the development of the Japanese care and welfare system a national necessity. This sector not only requires investors from home but also from abroad. More importantly, this market can indeed be seen as a potentially attractive investment target.

Fig. 2: Population ratio of those aged 65 or older to total population



Source: "World Population Prospects: The 2004 Revision," the United Nations

Public Systems for Medical, Pension and Long-term Care Completed

In response to such a situation, what measures are being taken for the welfare of the elderly by the Japanese national government? In Japan, there are three public systems for support of the elderly, namely medical insurance, pension and long-term care insurance. Many experts say that these are among the top systems to be found in developed nations.

Regarding medical insurance, Japan first realized the National Medical Insurance system in 1961. Today, all Japanese are covered by some form of public medical insurance, shouldering from 20% to 30% of the costs involved in obtaining medical treatment, thus enabling them to obtain adequate medical care from any medical institution. Turning to social insurance, there is the pension system, which was also established early on in Japan. With the rapid fall in child-births and the increased number of aging Japanese, there are concerns about the funding for the pension system, but the national government has in place a system to support the cost of living for the elderly at a bare minimum level.

On the other hand, the welfare system in Japan was lagging behind the most. Of greatest concern to the elderly is the need for care upon succumbing to dementia or becoming bed-ridden. With the large burden being placed upon oneself or one's family, support is required both physically as well as economically. As of April 2000 a new Long-term Care Insurance system was implemented, and the fears regarding care for one or one's family was allayed for the time being.

The Long-term Care Insurance System

Upon considering entry into Japan's care and welfare business, foreign companies must first be briefed about the existence of Japan's Long-term Care Insurance system. An outline of how it is set up follows.

The Long-term Care Insurance system is to, as a public insurance plan, "provide under fair conditions all citizens with necessary care services or associated costs" to those elderly who come into need of care. The system targets the elderly aged 65 and over who have been assessed by the national government to be in need of support and care.

For those put under care at home, the insurance covers 10% of the costs for obtaining care services such as visiting nursing care, day services, nursing home short-stay services, and care management services. In addition, there are subsidies available for people to retrofit their homes to make them wheelchair accessible, barrier-free and more accommodating for the elderly.

In order to sustain the Long-term Care Insurance, Japanese nationals aged 40 to 64 must pay into the system an amount in line with their income while those aged 65 and over need to pay a set amount – both in addition to regular public medical insurance. However, the funding has reached a critical phase much earlier than was expected at the start of the system. The number of those who are using the Long-term Care Insurance since the implementation five years ago has reached 3.25 million people, much beyond the original 1.5 million user figure. Just as is the case with the pension system, the balance between the "inflow" and the "outflow" has already become skewed.

In order for the system to remain sustainable, in April 2006 the national government implemented major changes to line up and stabilize the source of funding. Modifications included changes in care categories and increases in the burden to be shouldered by the user upon entry into facilities.

Care Services Market Valued at 6 to 7 Trillion Yen

In a nutshell, the care and welfare industry encompasses an extremely wide range of activities, including care and welfare equipment, welfare vehicles, various types of homes for the aged, medical equipment, housing reform-related activities, insurance targeting the elderly and human resource development. Upon looking at the core of Japan's future care and welfare industry, the focus was placed upon the sector with the largest market – care services.

Saint-Care Corporation, established in Tokyo in 1983 and listed on the JASDAQ Stock Exchange in 2003, is one of the Top Five companies specializing in provision of care and welfare services. This company offers home-based care



Eiji Yoshida, Vice President (right) and Tsutomu Iwama, Director (with insole) of Saint-Care Corporation

through services ranging from home-visit care, bathing and nursing to catering. Eiji Yoshida, the vice president of Saint Care Corporation, highlights the attractiveness of Japan's care and welfare industry.

"It is said that care services and welfare equipment markets combined yield a market scale estimated at 6 to 7 trillion yen. The government expenditure, some 3 trillion yen is being spent in these areas. It is not exaggerating to say that there is no other market when considering its gargantuan size as well as future growth opportunities, as promised by the speed of aging by the Japanese society."

A major managerial feature for Saint-Care is the fact that it is looking to expand in the Japanese market by aggressively gaining know-how related to home-based care from overseas, in particular from the U.S., as exemplified by a partnership with ATC Healthcare Inc. in 1997. ATC Healthcare is a world-class home care provider with some 150 bases in the U.S., and the alliance aims to further improve the level of services available. According to Tsutomu Iwama, the director of Saint-Care's Healthcare Division, "In the U.S., there is for example an effective program for the early detection of and care for patients with dementia. There is also podiatrics, a medical area that is not included in Japan's medical treatment regimen but in the U.S. it is extremely advanced. It would seem that evidence-based medicine in the U.S. is more advanced."

In 1997 – three years before the Long-term Care Insurance System was implemented in Japan – Miharuru Murakami, the president of Saint Care, inspected the care and welfare situation around the globe. At the onset, he thought of studying care and welfare services in Nordic countries that then were at the leading edge in the world. However, sensing that the strong tinges of socialism would not sit well with the Japanese, he went to the U.S. and found the image of Japan's care and welfare situation in ten or twenty years. Wishing to pioneer the transfer of know-how from the U.S., ahead of all others in Japan, he brought about the first partnership with a foreign company in this field.

A good showcase item is the Saint-Care business opera-

tion of producing custom-made insoles that match the feet, based upon data obtained from the customer by measuring the shape and type of pressure exerted on the feet and the soles, not to mention data concerning the method of walking. This business is effective in preventing stumbling by or joint problems for the elderly. This makes use of advanced technology known as 3Digital Orthotics System, offered by Quasar Group, Inc. of the U.S. with which the Japanese company has an alliance. Saint-Care has such partnerships with other companies abroad as well. "Over the next 5 to 6 years, the so-called 'DANKAI (baby boomers) generation' will make its debut into the care services market. Along with this, the customer characteristics will likely be altered drastically. New needs such as those relating to dementia, foot care, nursing care and such will surely increase," analyzes Yoshida.

Yet, Yoshida notes that there is one thing a foreign firm must do upon entering the market in Japan; that is not to put short-term profits at the forefront such as setting royalty payments too high. He advises that arrangements matching the Japanese market requirements should be set in place.

Business Model Born Out of "Med Tech Gap"

"Wound management and care" is a term unfamiliar to most Japanese. There is however a company which is working to commercialize this type of specialized medicine: Millennium Corporation, with headquarters in Tokyo (its affiliates, Millennium Holdings, Inc. and Millennium Wound Management Inc., are based in California). The company was founded in 2004 by Hiroki Tarui, the CEO and president of Millennium Corporation, who has over 16 years of experience in the U.S. managing "visiting nurse care stations."

Regarding wound care, it may be characterized as a specialized therapy dealing with wounds and pressure sores, such as those resulting from circulatory problems as seen for example in those who are bed-ridden. In Japan, such factors as chronic lifestyle diseases have spawned serious types of diabetes, these leading to an increase in patients facing problems such as serious sores and even gangrene in their extremities. The head of Millennium asserts that medicine in Japan has not been able to offer fully adequate treatment for wound management, especially in terms of technology. Says Tarui, "Some 60% of people told in hospitals that they must amputate their leg(s) need not do so if wound care is available. There was a patient



Hiroki Tarui, CEO & President of Millennium Corporation

who recovered fully after 14 weeks. Even for chronic wounds, some 80% need not undergo amputation."

Millennia has opened its "Wound Care Center" in hospitals around the country and is using this to offer programs specializing in wound management or to provide an evidence-based disease management model. Today, the company has centers located within 17 hospitals throughout Japan, including the Japanese Red Cross Medical Center situated in Hiroo, Tokyo. One may say that this is a successful business model focused on the medical technology gap to be found between the U.S. and Japan.

In addition, the company is promoting an "early dementia detection program" for early spotting and treatment of dementia. By asking the elderly a variety of questions via the Internet, it is said that use thereof will enable detection of dementia at an accuracy of over 90%. "Early stages of the Alzheimer's disease and the normal aging process are similar and difficult to differentiate. As a result, diagnosis and treatment in Japan is delayed. I believe the program will be extremely effective from the standpoint of care prevention," says Tarui. The program, jointly developed with an American university, is also being disseminated by Saint-Care, which has a business partnership with Millennia.

Japan's Situation the Same as That in the U.S. 20 Years Ago

By making use of the experience it has gained in the U.S., a leading country for visiting care, Millennia hopes to develop the visiting nurse sector to support Japan, and is offering consultation services for systems development regarding visiting nurse care and staff education. When asked of the difference between nursing care in the U.S. and Japan, Tarui said his image of Japan's situation today overlaps with that of the U.S. 20 years ago. "What I had learned in the U.S. over a dozen years ago has not changed at all since then, whether in terms of thinking or methodology. I am sure the lessons learned can be applied to Japan today because the nursing care system in Japan is lagging behind the U.S. by about two decades. I honestly believe this to be the case."

The Ministry of Health, Labour and Welfare (MHLW) is expected from 2008 to switch Japan's medical payment method from the conventional "itemized" billing to a comprehensive assessment one. It will be changed to the Diagnosis Procedure Combination (DPC) method where the billing will be based upon calculation of medical payment using a formula provided by MHLW for a day's regimen taking into account treatment such as surgery as required by the illness or symptom, rather than calculation of adding up items like medication, diagnosis and such.

"In the U.S. in 1983, the 'itemized' billing system was

changed over to the Diagnosis Related Group (DRG) one still in use, a 180-degree turnaround. The same thing will be happening in Japan. It should be noted that as a 'side-effect' of the DRG system the home health care system developed. Unlike Japan where nursing care was regarded as an extension of monitoring care for the infirm and the elderly, the U.S. nursing care was developed under the medical care insurance (Medicare) system. This made a great difference."

Comparing the average days of being hospitalized in Japan and the U.S., it is 20 to 26 days in Japan versus 4 days in the U.S.; in order to shorten the average in Japan to that approximating the one in the U.S., there is a need to construct an infrastructure formed from community-based care, called visiting nursing care. The government is also expending efforts. Care and welfare services in Japan will henceforth certainly center around visiting nursing care.

Tarui adds, "There is no Long-Term Care Insurance in the U.S. as in Japan and thus a market for such care is yet unformed – when I say market, I mean a substantial one, like Japan's Long-Term Care Insurance system, which is one of the world's biggest. There are now 4.2 million elderly people covered by long-term care insurance. Most of these people are outpatients of some medical institution. Moreover, those not going to a hospital require preventative care. The business market here is also huge. Considering that the U.S. has two decades' worth of know-how and a portfolio of private insurance products they will be in a good position to develop this market. From the U.S. perspective, it is an attractive market and golden opportunity."

U.S.-Style Home for the Aged in Japan

Kurashiki, a city located in Okayama Prefecture, is home to a for-profit nursing home that was launched jointly by a Japanese manufacturer and an American care services provider. "Sun Oaks Kurashiki" was set up as a 50:50 company by Sanyo Electric Co., Ltd. – known in Japan as a producer of consumer electronics – and Emeritus Corp., a Seattle-based powerhouse in the field of assisted living. Katsuyuki Sano, the president of Sanyo Emeritus Co., Ltd. explained the reason for the joint investment effort. "Sanyo Electric has a New Business Development HQ for planning and developing new business operations. Sanyo Electric's executive, when on a tour of the U.S., showed a keen interest in Emeritus Corp. with its network of nursing homes throughout America, and this led to the deal being born. Upon contact, Emeritus made an offer that fit the plans which Sanyo Electric had."

Sun Oaks Kurashiki opened in April 2000, simultaneously with the implementation of the Long-term Care Insurance in Japan. It was characterized as an American-style



Katsuyuki Sano, President (left) and Tsunamasa Ikeda, Customer Center Team Leader of Sanyo Emeritus Co., Ltd.

operation, offering new services that emphasized individuality and respect for freedom, something quite unlike conventional care facilities and nursing homes. The new services were called "Assisted Living & Flexible Assistance" – that is, not services provided on a blanket basis but tailored to meet individual needs of the respective member. The pamphlet indicating that the home aims to be a high-level one that offers status to its members rang true upon inspection of the facilities. The building has interiors reminiscent of a proper hotel and all of the living quarters in the building are standalone units that guarantee comfort and privacy. It has recreation and hobby facilities complete with personal computers, karaoke rooms, board games, ping-pong tables and a rooftop garden among other things – not to mention a 24/7 year-round care system run out of the care station (a la nurse station) to be found on the second floor.

Nursing homes in Japan lag behind their counterparts in the U.S., so the service know-how brought in by Emeritus is quite extraordinary. A prime example is the famous works of art to be found throughout the hallways and elevator waiting areas within the building – as Sano notes, "People who may have difficulties with memory are better at remembering visual items rather than letters. Should they get confused and lose their way within the building, they can use the paintings as 'landmarks' to find their way back. This is one aspect that we have adopted as is from Emeritus."

Having both disabled and non-disabled people live under the same roof is also a concept, called normalization, that was brought into Japan. At Sun Oaks Kurashiki, membership is availed to all types of aged people, from those able to live on their own through those classified in the Level 5*.

Currently, of the 90 people living there, those who are healthy comprise half the population. That those who are unable to live on their own comprise the other half is something that bucks the trend for Japanese nursing homes, but it may be said that this reflects the American way of thinking about life in old age. Although in December 2002 the capital participation by Emeritus ended, thus making Sanyo Emeritus a wholly-owned subsidiary of Sanyo Electric, it is still

attracting much attention as a new way of running a for-profit nursing home in Japan.

* Level 5, under Japanese Long-term Care Insurance, is a category which covers those requiring the highest level of care due to the seriousness of physical conditions.

Leveraging the MONODZUKURI Culture of Hiroshima

It is not just the national government that is fervent about dealing with the issue of welfare for the elderly. To start with, the main players regarding care and welfare services are local public entities and municipalities. There are some local bodies aiming to invite foreign companies in order to promote care and welfare services at the prefectural or municipal levels. One of these is Hiroshima Prefecture, which Hiroshima has started to push for expansion of medical and welfare business as a joint industry-academia-government effort while trying to enhance investment into the prefecture for this field.

Three years ago the Hiroshima Prefectural Government established an "International Business Promotion Office" to support investment by foreign firms into Hiroshima's industry as well as to help local firms expand overseas, thereby invigorating industries within the prefecture. Of the 47 prefectural governments, such a specialized section is a rarity, indicating the determination with which Hiroshima Prefecture is pushing for investment.

It is not yet well known that "Peace City" Hiroshima offers a location with a superb investment climate for foreign companies. Yet Hiroshima as a region is one (the amount of product shipment is 7.4 trillion yen, being ranked as No. 1 in western Japan) of Japan's foremost industrial regions. From before World War II, it was booming due to heavy industry such as steel-making, automobile production and shipbuilding. It has at its foundation a build-up of highly-advanced technology based upon the MONODZUKURI (craftsmanship) culture. Leading-edge industries such as manufacturers



Masashi Tamagaki (left) and Takaki Itou, Senior Managerial Staff of International Business Promotion Office, Commerce, Industry and Labor Department, Hiroshima Prefectural Government

of telecommunications equipment have gathered in Hiroshima, resulting in excellent companies with high value-added technology making even more appearances in a variety of fields..

According to Masashi Tamagaki, the senior managerial staff of International Business Promotion Office in Hiroshima prefectural government, the MONODZUKURI culture

has deep roots in the region and its positive attributes are to be highlighted. He notes, "Since core industries such as steel-making and shipbuilding were the cornerstones, processing technology such as those for steel and metal in particular are areas of forte. Furthermore, with a company like Mazda being a local entity, a variety of auto parts makers are situated in droves here and support the car production

A Closer View

Electric Pot for Monitoring Use, as an Example of New Entry into Care Industries

In Japan, where concentration of the population in cities and "trend toward nuclear families" has been progressing, the population of the elderly residing in rural areas is extremely high in terms of ratio. For the children of these elderly who have moved their base of living to the urban settings, a major source of worry is a parent living alone in the countryside. But here in Japan, one can find an innovative product that accurately reflects this nation's status as a "gray" society. This product is "Mimamori (Monitor) Hotline/i-pot" offered by Zojirushi Corporation a company headquartered in the city of Osaka.

The i-pot, in a nutshell, is an electric pot which incorporates a wireless communications device. The elderly living in rural areas use this electric pot to have a cup of tea. This pot provides information as to usage like the power switch being turned on or the water being poured, which is sent via the Internet as email to the mobile telephone or the personal computer of a caring relative of the elderly. Upon seeing this email, the relative can confirm the well-being of the elderly living alone, relieved that this person is doing well that day.

According to Hiroshi Shinya, the Special Products Manager of Zojirushi, who is in charge of Mimamori Hotline Service, "There is an untold story behind the birth of this product. The i-pot product development was triggered by a sad incident which occurred in the Ikebukuro district of Tokyo. A son suffering from an illness and his elderly mother who had been caring for him were both found dead, a month after they had passed away. A certain doctor who heard of this tragedy in the news was shocked. He wanted to see if anything could be done. One of the companies he contacted was Zojirushi, a home products manufacturer. It resulted in the development being launched."

The materialization of the idea of embedding a mobile telephone within the pot (using DoPa: packet data communications for mobile terminals) was made possible by the technological support offered by mobile carrier NTT DoCoMo Kansai and device manufacturer Fujitsu Ltd. Naoki Yamashita, Zojirushi PR Group Submanager, noted, "It is not that the business structure of 'care and welfare, first and foremost' at the company had led to the launch into this field, yet the new concept of merging the features of household products and of Internet technology resulted in the birth of an item of use to the aging society." The Mimamori Hotline Service was started in March of 2001, but the five years since then has seen some 3,000 new contracts. Most of those who signed up, aged in their 40s and 50s, can be found in urban areas.

A major specialized producer in Japan of rice cookers and electric pots, Zojirushi indeed is an entrant into the care and welfare sectors from a different field. But considering that major firms from the outside are few and far between in Japan's care and welfare market, the i-pot effort is perhaps an indication that there are many and varied approaches available when considering the huge market potentials.

In concluding, it may be worth mentioning that the i-pot and the concomitant hotline service received the "Net KADEN [Consumer Electronics] 2005" runner-up award, which is provided under the aegis of the Japanese Ministry of Economy, Trade and Industry.



Hiroshi Shinya, Special Products Manager (with i-pot, right) and Naoki Yamashita, PR Group Submanager of Zojirushi Corporation

process. Such a manufacturing-oriented culture as a basis forms a platform for promotion of business internationally."

Moreover, not only is it attractive as a production base but also as a market. There are over 20 million people living within a 200-km radius in Hiroshima Prefecture, accounting for a GDP equaling US\$800 billion. If the radius is doubled to 400-km, then the GDP will approximate US\$2 trillion, a massive market – with a GDP nearly matching that of Germany.

Successful in Attracting Biomedical Venture Businesses

From 2005, the International Business Promotion Office has expended much effort to encourage foreign firms to invest in Hiroshima's biomedical and welfare fields. "A major business opportunity is being brought forth in the biomedical and welfare fields due to our aging society. By introducing technology and know-how from abroad, it is hoped that Hiroshima can open up the way for development of new medical and welfare equipment and products by making use of its technological prowess in the form of manufacturing," Says Tamagaki. "Hiroshima, in particular, as a prefecture has within its mountainous areas or isolated islands one of Japan's highest level of 'aged' households; this makes such areas even more isolated and the life of the elderly there more difficult – there must be more that can be learned from abroad in terms of care services," added Takaki Itou, the senior managerial staff of International Business Promotion Office in Hiroshima prefectural government.

Hiroshima is also pushing forward with industry-academia-government cooperation that targets promotion of the regional economy through intra-prefectural trade enhance-

ment and joint efforts among companies. In the biomedical and welfare fields, there is an effort called Hiroshima Medical Venture Consortium (HMVC) centered upon efforts by Hiroshima University's faculties of medicine and dentistry. HMVC promotes the establishment of biomedical venture businesses.

The International Business Promotion Office has already succeeded in bringing Schiller AG, a Swiss-based medical equipment manufacturer, into Hiroshima (the company's first foothold in Japan) and has also brought about joint research efforts and marketing partnerships between European companies and firms in Hiroshima. Further, it will assist Hiroshima companies interested in the biomedical and welfare fields by organizing a tour of the world's foremost medical equipment and technology exhibition, "Medica." At the same time, it will also arrange to send a tour of advanced medical equipment companies to Switzerland, so as to create more opportunities for Hiroshima-based companies to meet up with foreign companies. In addition, this fall it plans to send a delegation to Europe, followed by bringing European – especially Swiss – companies to Hiroshima, in order to organize commercial talks and information exchange venues.

It should furthermore be noted that Hiroshima Prefecture currently has a support system including subsidization of office rental costs and favorable tax treatments as to business land purchase for foreign companies interested in establishing a presence therein.

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