

# **Business Conditions of Japanese-Affiliated Companies in the Bay Area**

July 2014

The Japanese Chamber of Commerce of Northern California (JCCNC)  
JETRO San Francisco



# Survey Method

“Survey of Japanese-affiliated companies in the Bay Area” is carried out by JCCNC (Japanese Chamber of Commerce of North America) and JETRO (Japan External Trade Organization) every other year. The 2014 survey is the 12<sup>th</sup> conducted .

\*A similar investigation is always conducted in Southern California in the same time period.

## Objective

- To offer plans that will **facilitate local business activities** through investigation and analysis of current activities and economic status of Japanese-affiliated companies in the bay area.
- To outline the contributions made to the local economy by Japanese-affiliated businesses, and discuss areas of concern and obstacles in business development to state and/or local governments, with the purpose of **improving the business environment**.

## Definition of Japanese-affiliated companies

A company that fits any of these criteria:

- 1) A local corporation with more than 10% of its shares owned by a Japanese company (includes indirect investments).
- 2) A branch office with its headquarters in Japan, where employees from Japan may be assigned.
- 3) A business founded and operated by a Japanese person.

# Survey Method

## Geographic range of the Bay Area

10 counties including: San Francisco, San Mateo, Santa Clara, Alameda, Contra Costa, Marin, Napa, Solano, and Sacramento counties.

## Survey Method

An email is sent to each survey participant. The participant will access the survey by clicking on the URL link, where he/she will fill in the answers. However, some surveys were sent via postal service and filled out by hand, upon participant request.

## Duration of Survey

February 10, 2014 to March 20, 2014

## Coverage Percentage

719 Japanese-affiliated companies were identified in the bay area. Surveys were sent to 476 companies which representatives agreed to participate. 390 completed, valid surveys were received (survey collection rate=81.9%, coverage rate of 719 identified companies=54.2%).

# Survey Structure

## **1. General information**

A “snapshot” of bay area’s Japanese-affiliated companies. Information such as number of existing branches, location of company, type of business, volume of sales, and pace of business establishment in the foreign market.

## **2. Business conditions**

A look at business confidence of Japanese-affiliated companies. Information such as sales and profit, as well as earning projections.

## **3. Contribution to local economy**

Assess contributions of Japanese-affiliated companies to the Bay Area and California economies. Information such as number of employees and estimated cost of labor. This may be used to make proposals to state government. Information regarding employer-sponsored health insurance (considered one of the strengths of Japanese-affiliated companies) was also surveyed.

## **4. Business Environment**

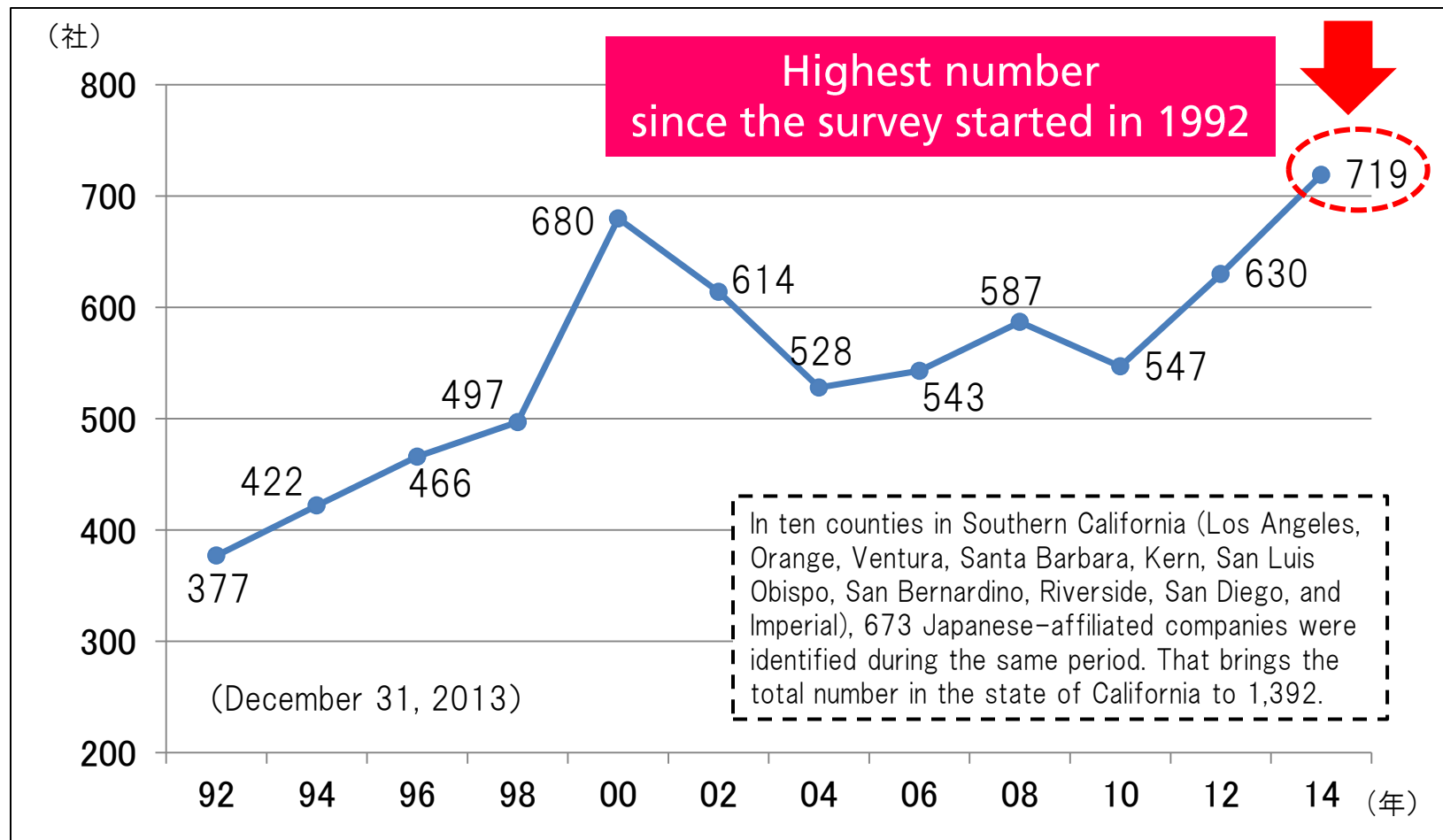
Bay area’s appeal as a place to do business, as well as problems and concerns. This may be used to make proposals to state and local governments to improve the business environment. Additionally, this information will shape JETRO and JCCNC’s strategies for business support.



# I . Overview of Japanese Companies in the Bay Area

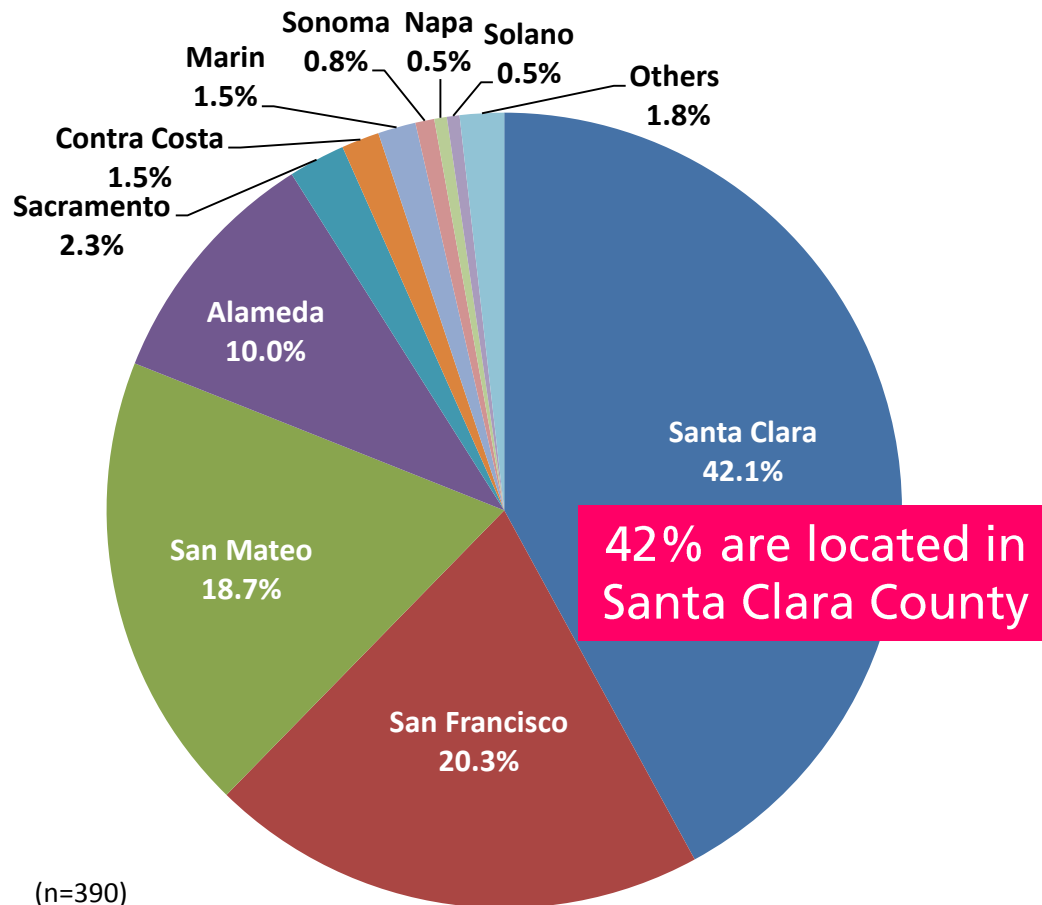
# I-1. The Number of Japanese-Affiliated Companies

As of December 2013, 719 Japanese-affiliated companies were identified in the Bay Area, an increase of 14.1% from the 2012 survey. The latest number marks the highest since the inception of the survey in 1992.



# I—2. Geographic Distribution

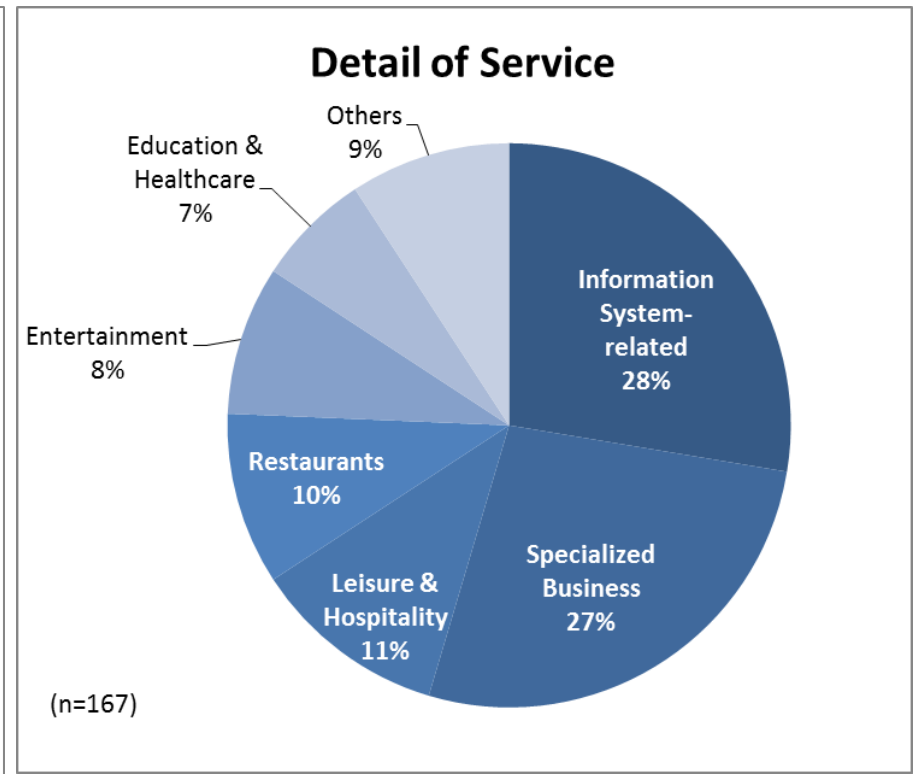
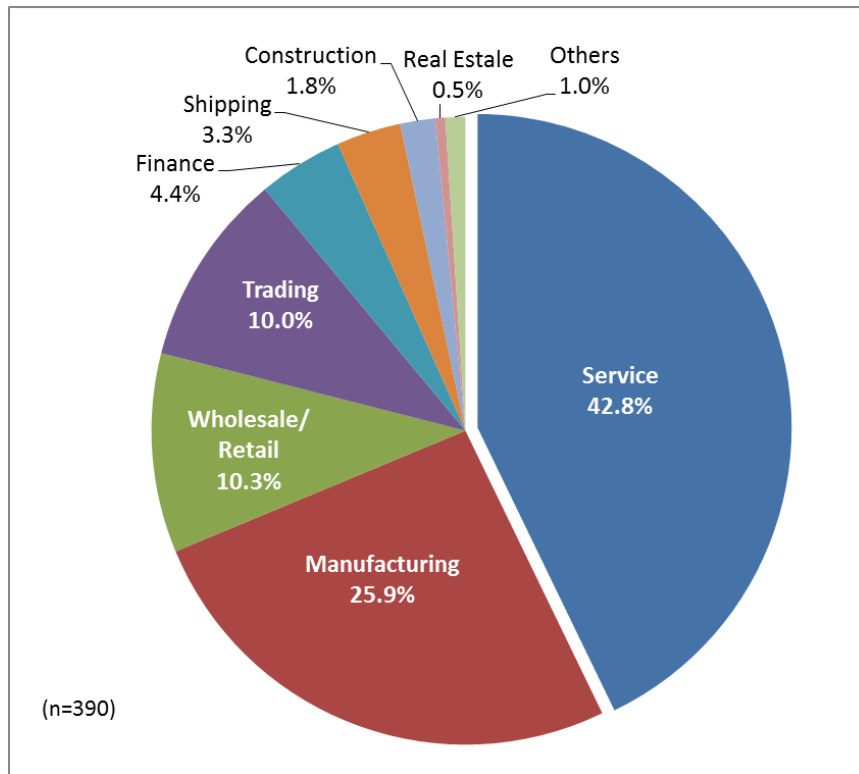
Of 390 companies, 42.1% are located in Santa Clara County, which covers the majority of Silicon Valley, followed by 20.3% in San Francisco County, and 18.7% in San Mateo County. Together, these three counties account for more than 80% of all companies.



County	Main City
Santa Clara	San Jose, Santa Clara, Sunnyvale, Palo Alto, Cupertino, Mountain View, Campbell
San Francisco	San Francisco
San Mateo	Redwood City, San Mateo, South San Francisco, Burlingame, Daly City, Foster City, San Carlos
Alameda	Berkeley, Emeryville, Fremont, Hayward, Oakland, Union City

# I—3. Industry Distribution

“Service” accounts for almost one-half, or 42.8%, followed by 25.9% for “manufacturing,” and 10.3% for “wholesale/retail.” “Manufacturing” companies in the Bay Area tend to focus on research and development, as well as the discovery and evaluation of new technologies, rather than actual production.

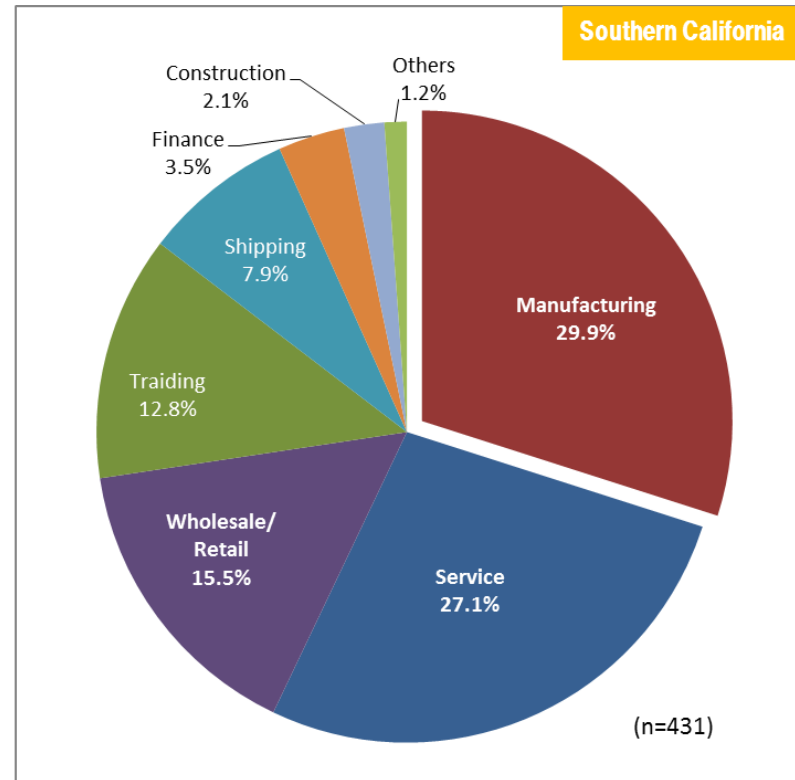
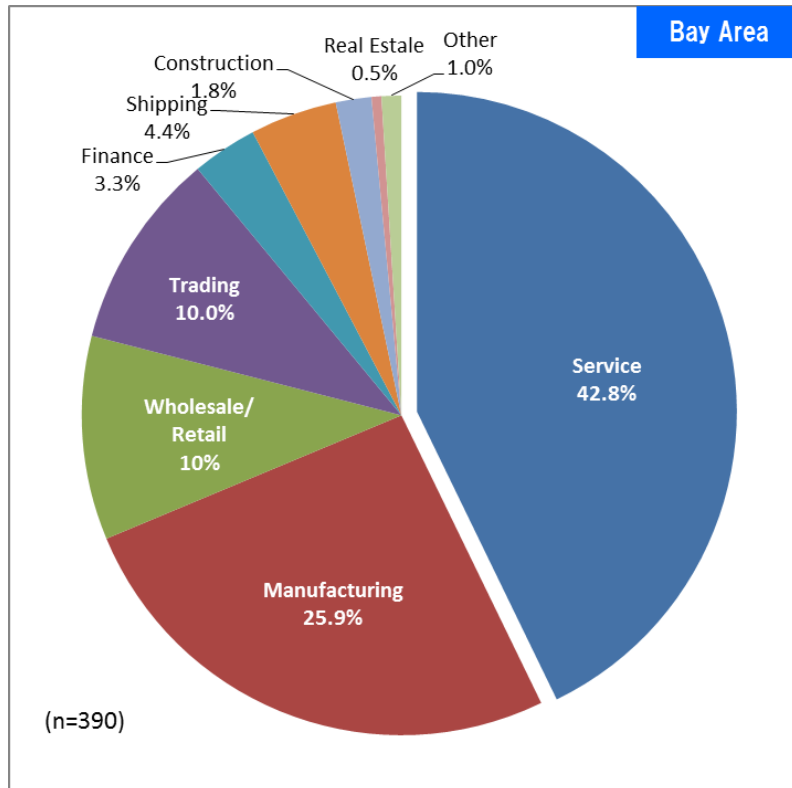


①“Service”, ②Manufacturing, ③Wholesale/Retail



# I—3. Industry Distribution

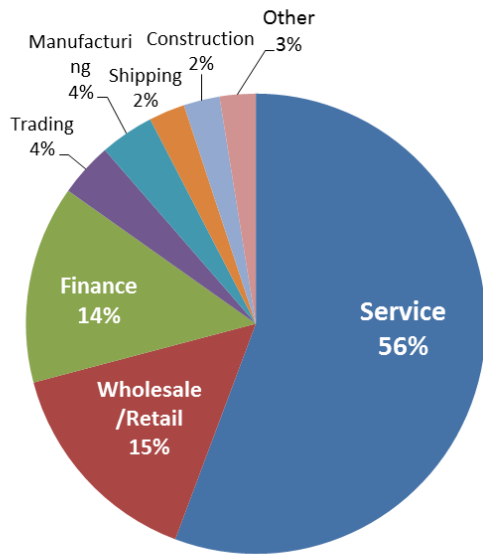
“Service” ranks at the top, accounting for nearly one-half in the bay area, while “manufacturing” and “service” are the two biggest industries in Southern California. This highlights a different set of industrial clusters in Southern and Northern California.



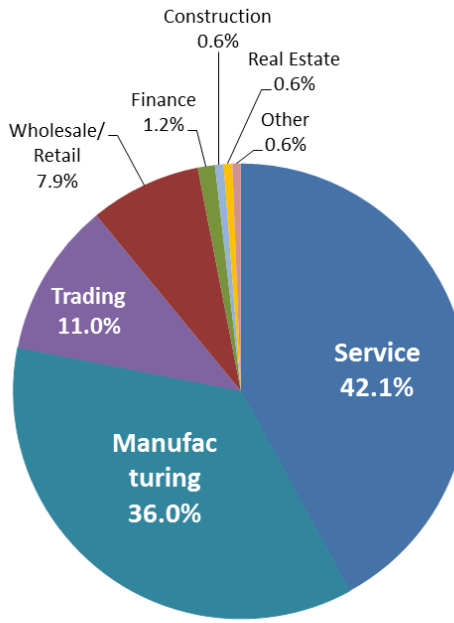
Clear difference between Southern and Northern California

# I — 3. Industry Distribution

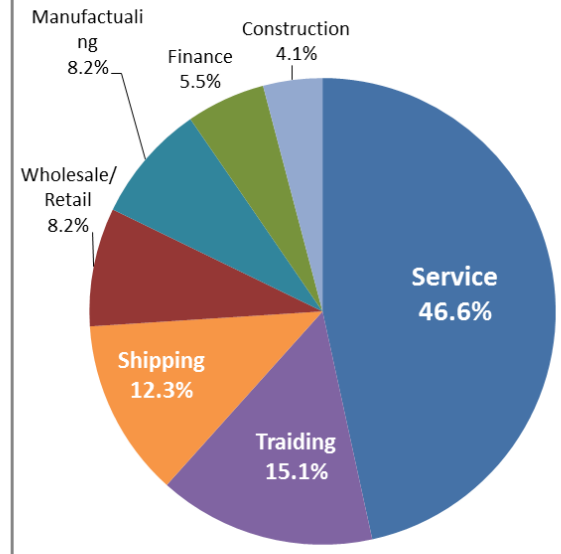
“Service” accounts for more than one- half in San Francisco, followed by San Mateo and Santa Clara. The second biggest industry in the three counties are “wholesale/retail,” “trade,” and “manufacturing,” respectively.



San Francisco



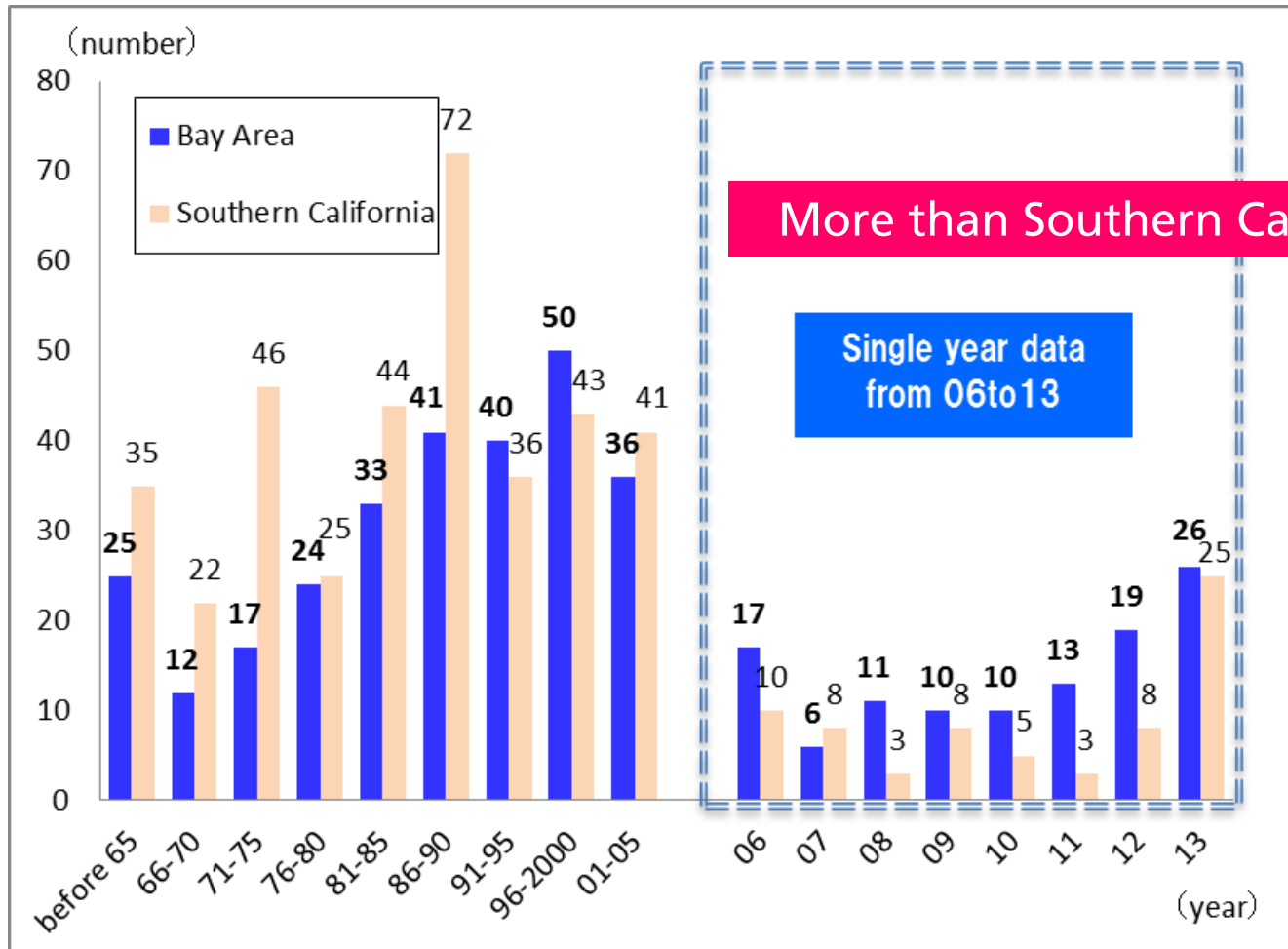
Santa Clara



San Mateo

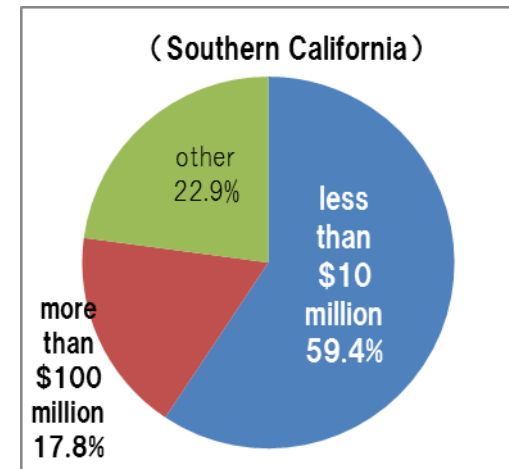
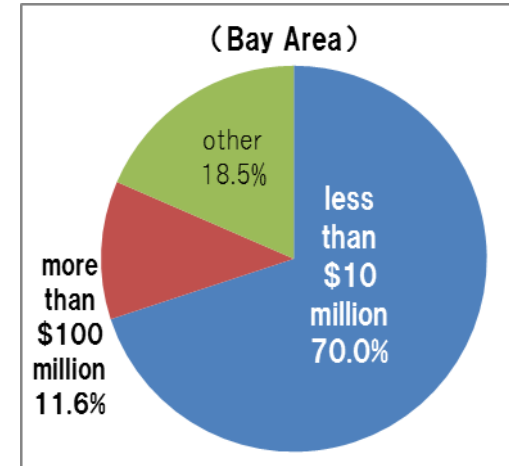
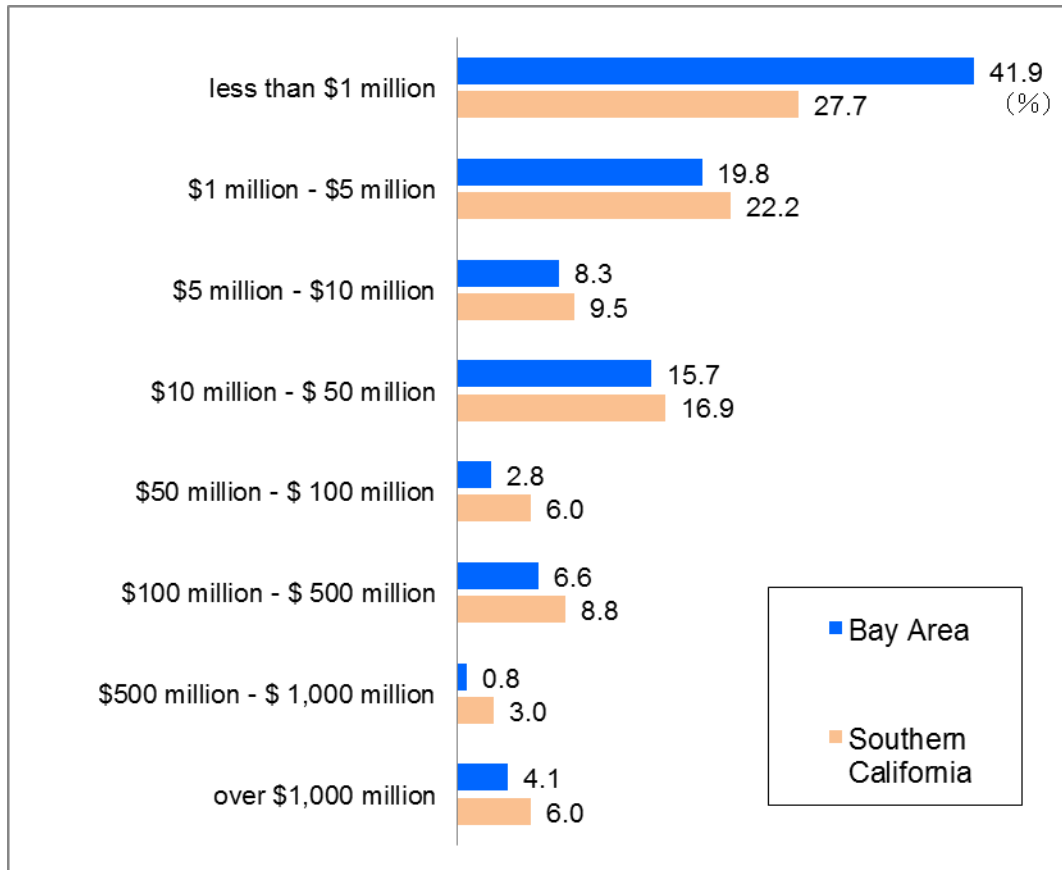
# I-4. Speed of Market Entry

The number of Japanese-affiliated companies setting up business in the Bay Area has outpaced that of Southern California. The Bay Area is increasingly attracting new businesses from Japan.



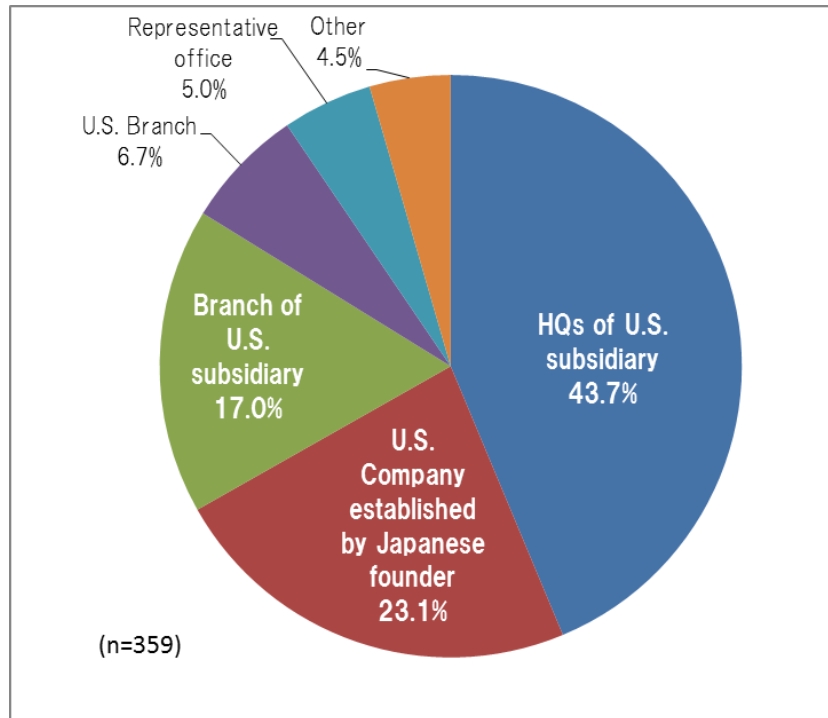
# I—5. Total Sales

Small businesses concentrate in the Bay Area. Those with sales below \$10 million account for 70% in the Bay Area, and 60% in Southern California.

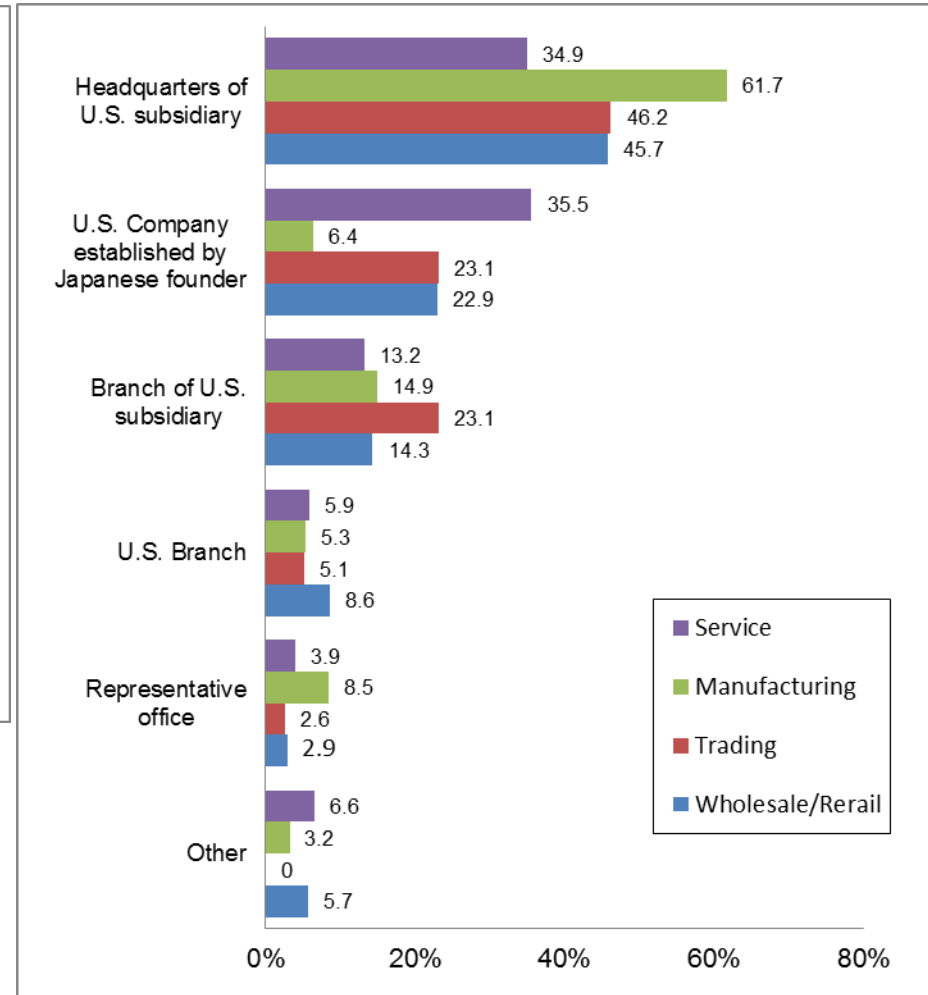


# I—6. Type of Company/Method of Entry

Of 359 companies, more than 70% are affiliated to Japanese companies, and 20% are those set up by Japanese nationals.



**70% are affiliated to Japanese companies**

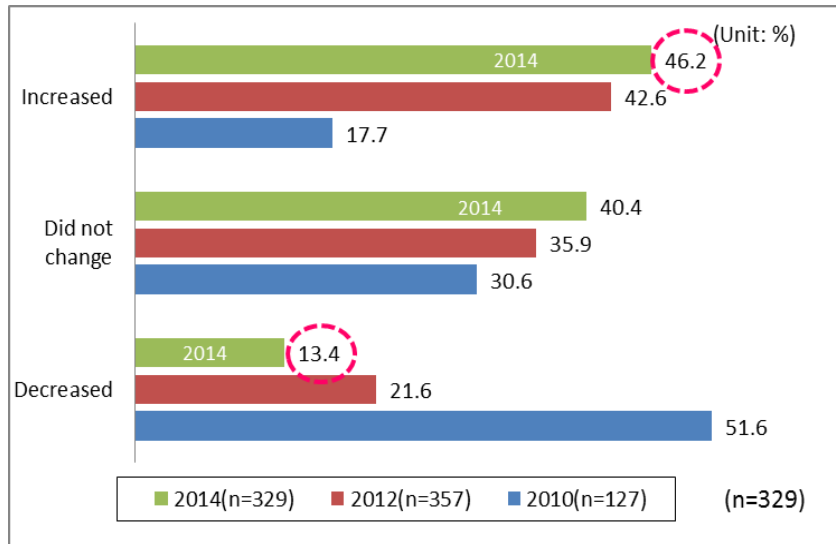




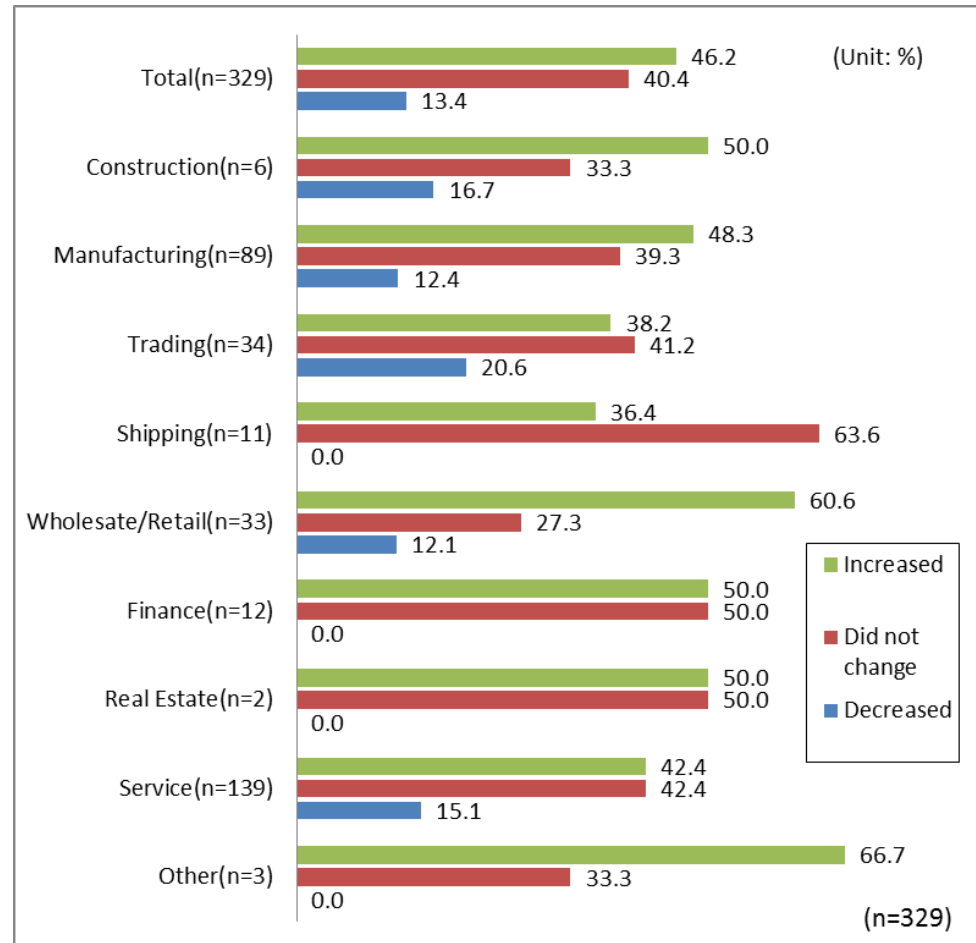
## Ⅱ . Business Condition

# II-1. Sales

46.2% of Japanese affiliated companies are expecting sales "Increase" (3.6 points increase from the previous survey in 2012), 13.4% are expecting "Decrease" (8.2 points decrease). The 2012 survey showed great improvement in sales from the recession, and the 2014 survey showed even further improvement.



3.6 point increase on sales  
"Increase"



## II-2. Profitability Change

Profitability of Japanese-affiliated companies improved to pre-recession level in 2008. 58.0% of the companies are in the "Black" (up 5.5 points), and 15.0% are in the "Red" (down 3.4 points).

Year	Black			Did not change	Black + Did not change	Red		
	Total	Extremely Positive	Positive			Total	Negative	Extremely Negative
92 (n=215)	49.8%	49.8%		13.5%	63.3%	36.7%	36.7%	
94 (n=249)	48.2%	48.2%		11.2%	59.4%	40.6%	40.6%	
96 (n=261)	60.1%	15.7%	44.4%	13.8%	73.9%	26.1%	18.4%	7.7%
98 (n=206)	56.9%	0.5%	56.4%	20.4%	77.3%	22.8%	16.5%	6.3%
00 (n=264)	63.6%	13.6%	50.0%	16.3%	79.9%	20.1%	14.0%	6.1%
02 (n=299)	49.5%	6.0%	43.5%	17.1%	66.6%	33.4%	22.7%	10.7%
04 (n=204)	53.5%	6.4%	47.1%	20.1%	73.6%	26.5%	22.1%	4.4%
06 (n=207)	57.0%	6.3%	50.7%	26.1%	83.1%	16.9%	13.0%	3.9%
08 (n=178)	59.0%	4.5%	54.5%	26.4%	85.4%	14.6%	10.1%	4.5%
10 (n=124)	42.7%	2.4%	40.3%	23.4%	66.1%	33.9%	25.0%	8.9%
12 (n=354)	52.5%	3.4%	49.2%	29.1%	81.6%	18.4%	16.1%	2.3%
<b>14 (n=326)</b>	<b>58.0%</b>	3.7%	54.3%	<b>27.0%</b>	85.0%	<b>15.0%</b>	13.5%	1.5%

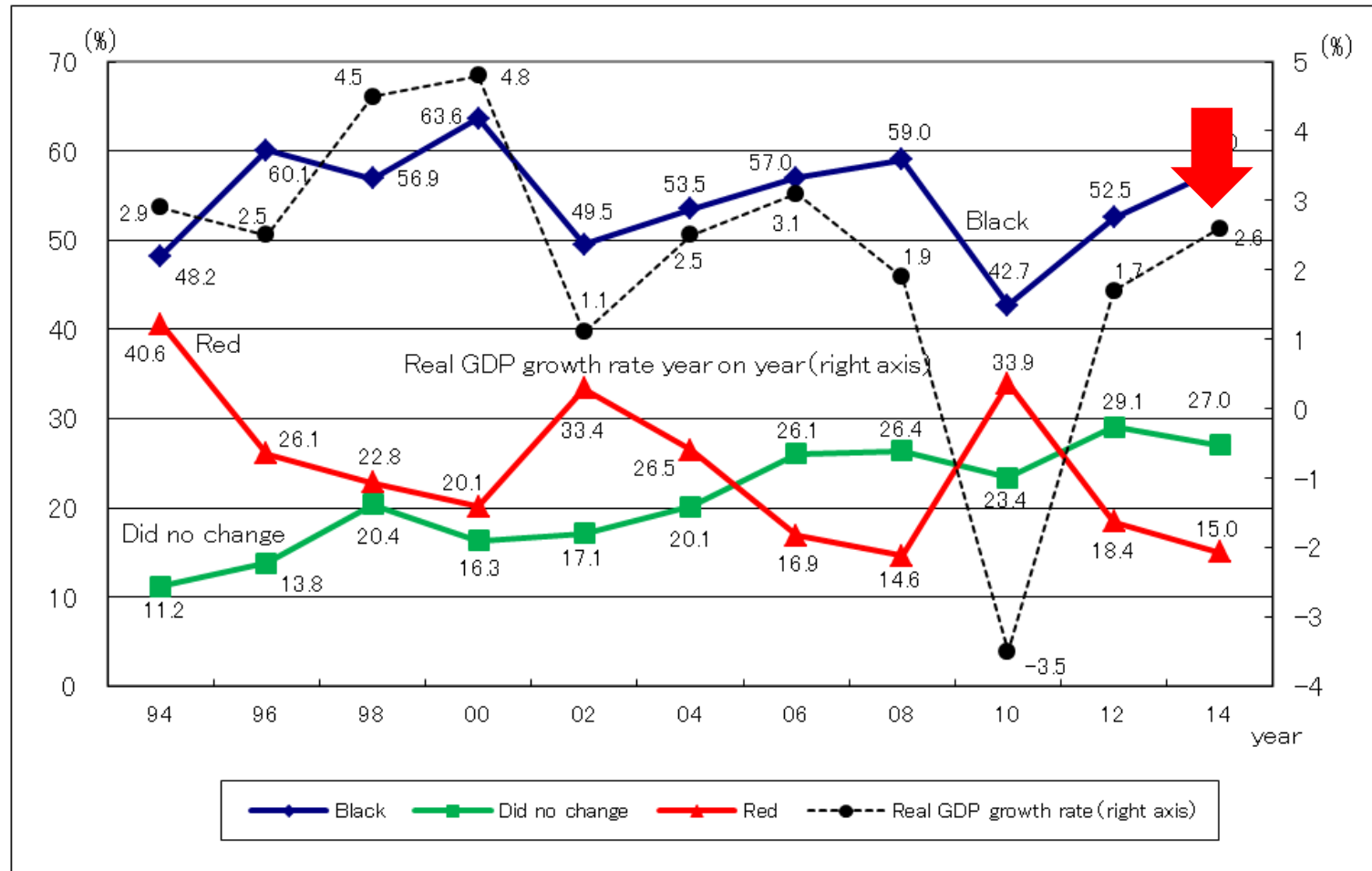
※「n」 indicates the number of companies which answered the question.

Earning condition is at the high level.



## II-2. Profitability Change

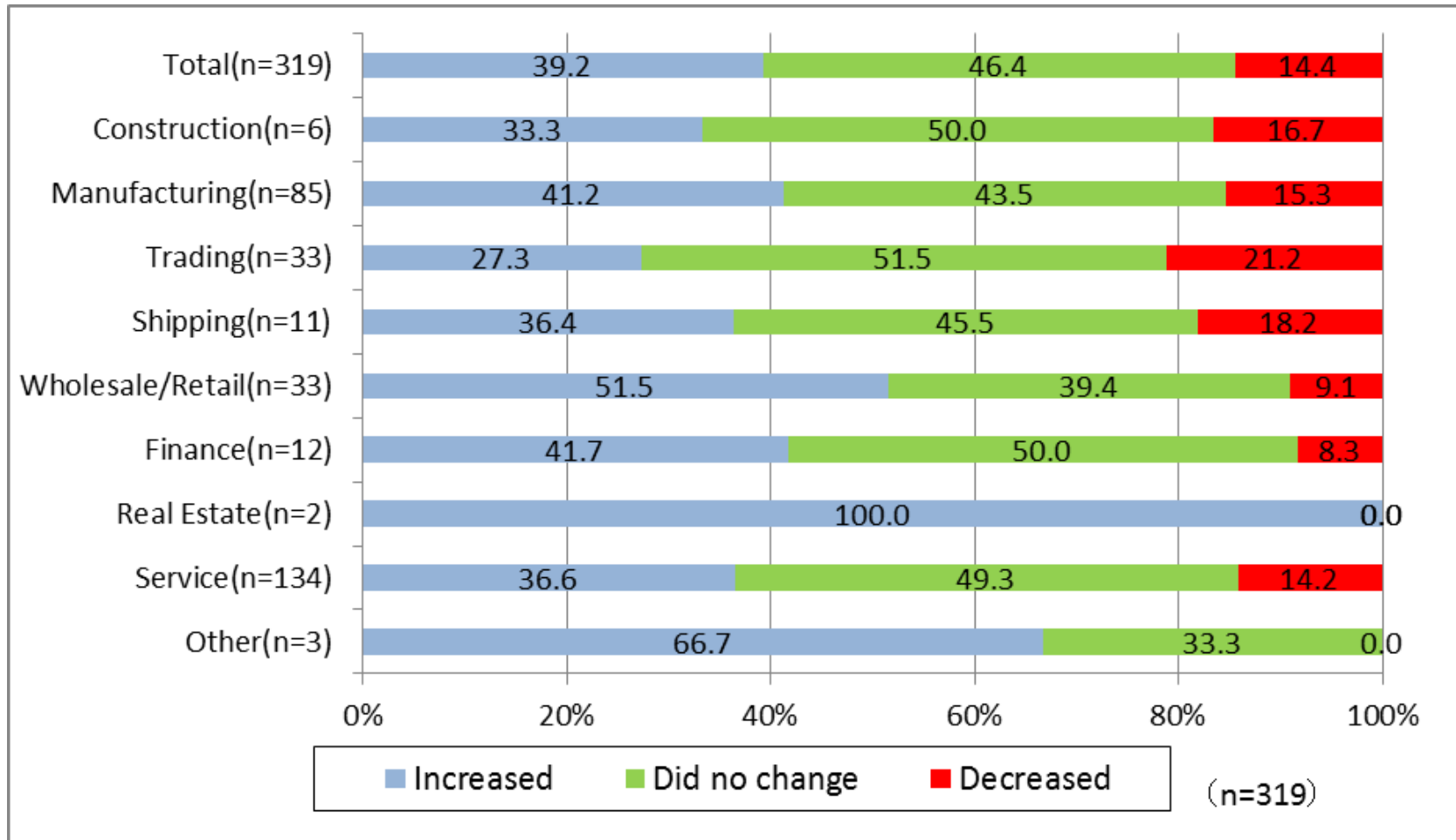
Percentage of companies in the "Black" are always above the one in the "Red" and shifts between 50-60%. That shows a strong earning condition of Japanese affiliated companies. It also interlocks with the U.S. economy and indicates the earning condition has a strong correlation with U.S. economy.



Earning condition correlates with U.S. economy

## II—3. Profitability Change

Change of earning condition also shows an economic upswing of Japanese affiliated companies. 39.2% responded their sales profit "Increased" (5.8 points up) and 14.4% answered "Decreased" (5.0 points down).

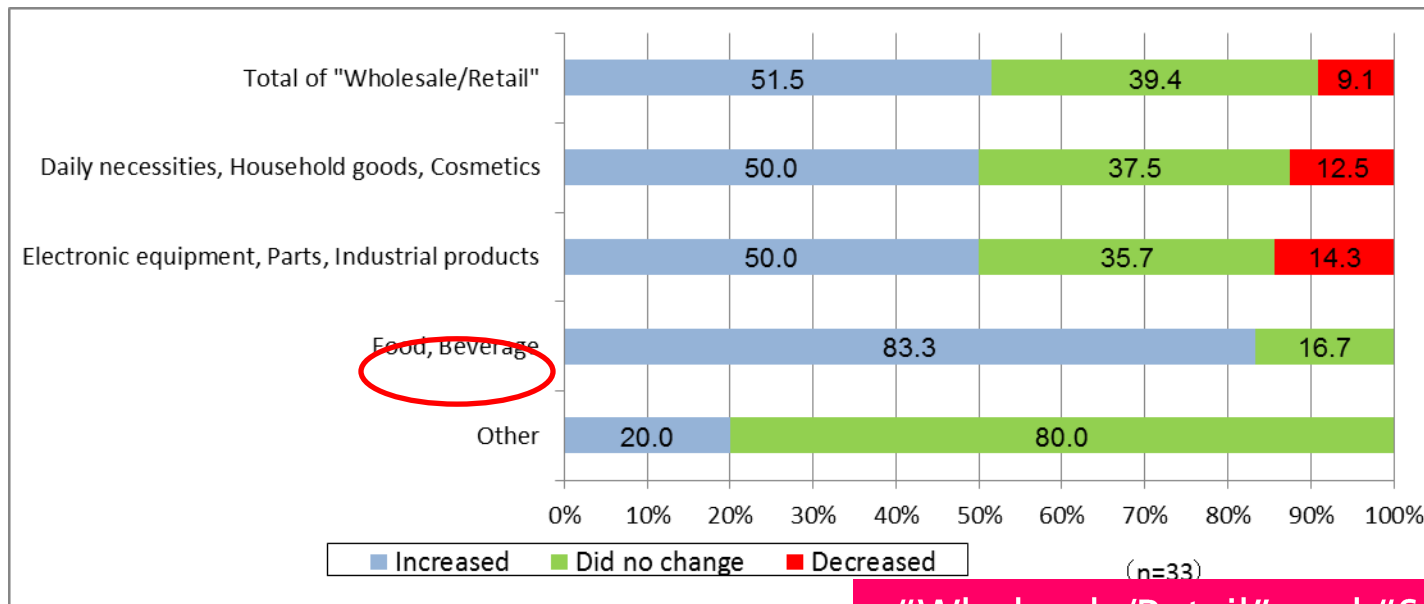


Earning condition of Japanese- affiliated companies is on an upswing.

## II—3. Profitability Change

Earning condition of "Wholesale/Retail" and "Service" has greatly improved. 17.0 point increase for "Wholesale/Retail" and 9.2 point increase for "Service." In the "Wholesale/Retail" category, "Food and Beverage" shows the strongest increase.

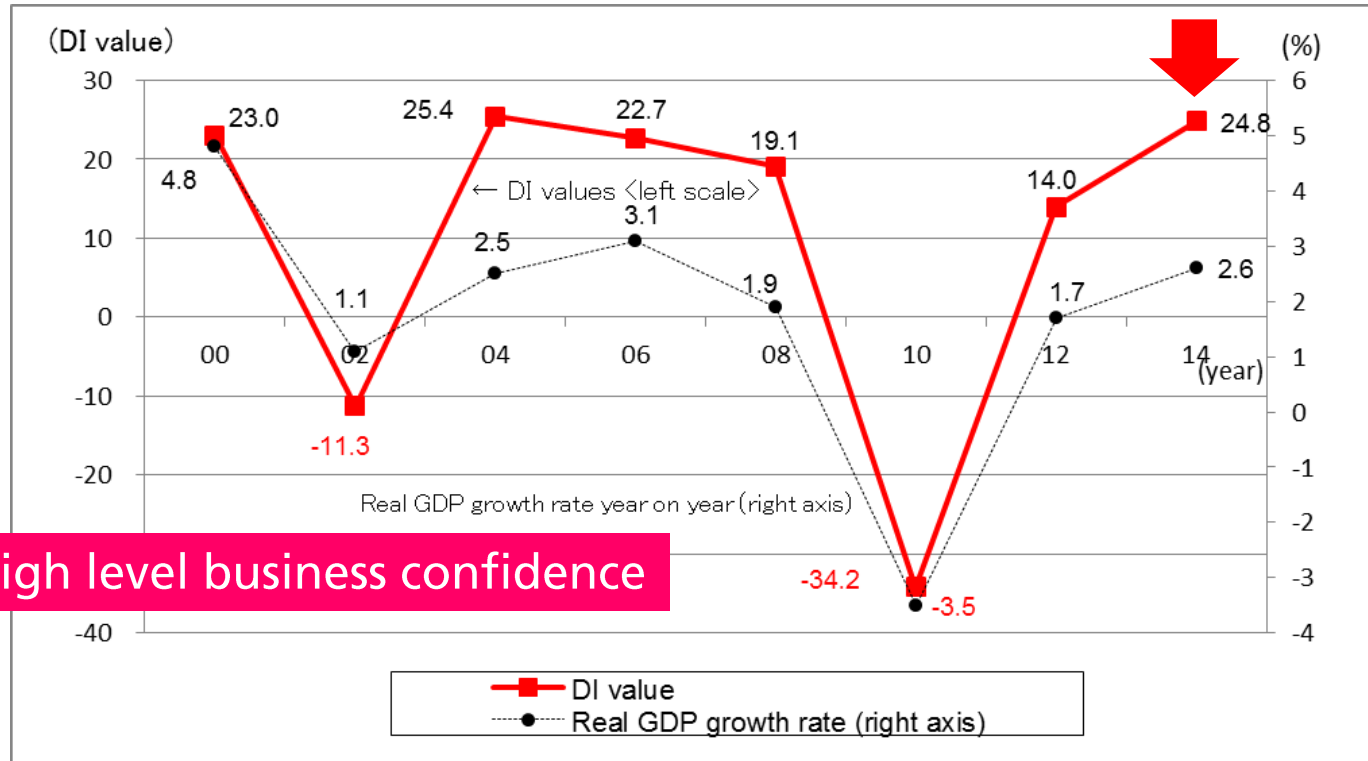
	"Increased" compared to previous year			"Decreased" compared to previous year		
	2012	2014	Improvement	2012	2014	Improvement
Manufacturing	36.4%	41.2%	4.8	17.0%	15.3%	1.7
Trading	31.1%	27.3%	-3.8	22.2%	21.2%	1.0
Wholesale/Retail	34.5%	51.5%	17.0	27.6%	9.1%	18.5
Service	27.4%	36.6%	9.2	24.2%	14.2%	10.0



"Wholesale/Retail" and "Service" show great improvement.

## II-3. Profitability Change

Diffusion Index(DI) indicates the upbeat of earning conditions as well. The DI is 24.8, an increase of 10.8 points.



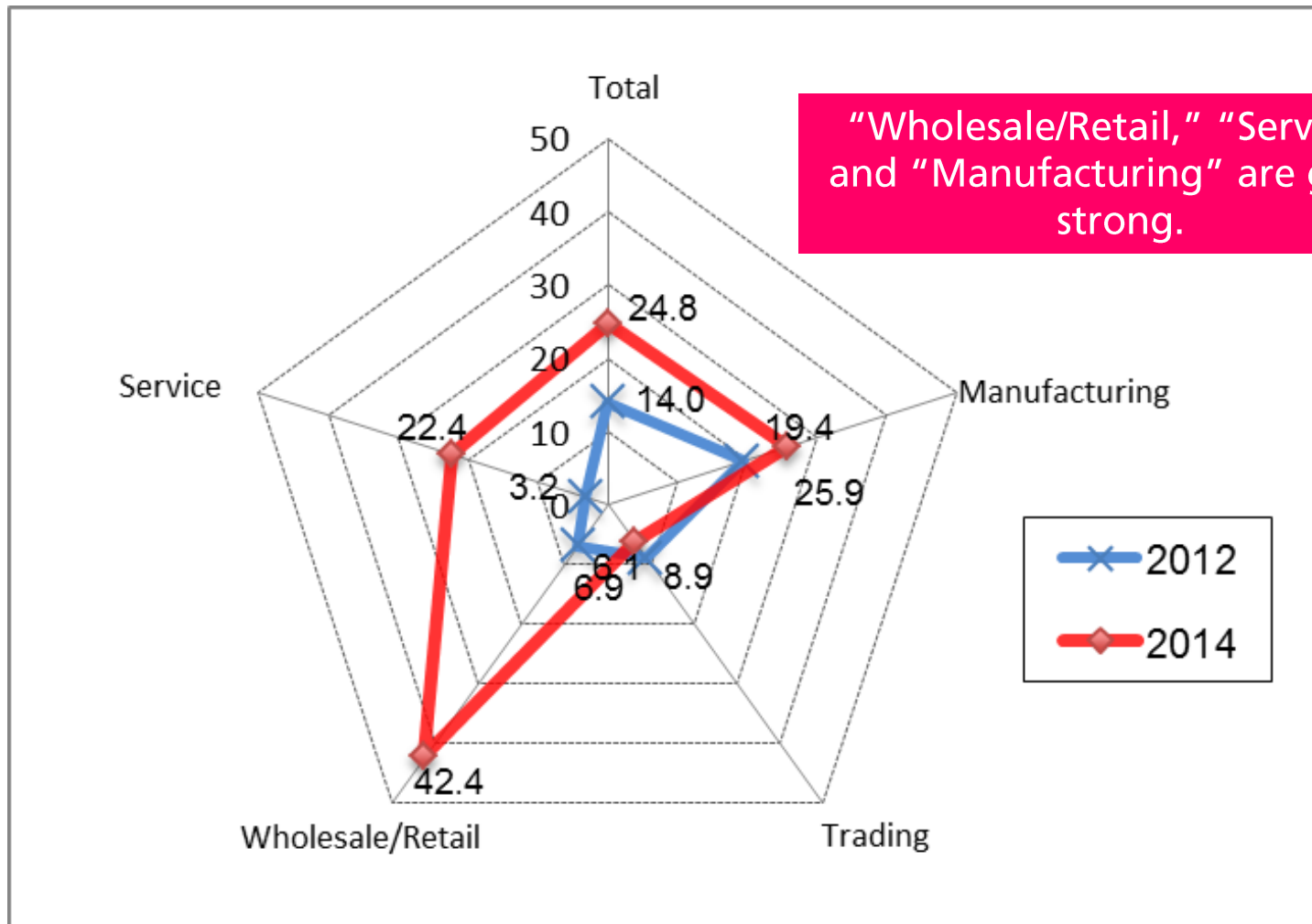
Diffusion Index (DI) is a degree of percentage of the companies with "Increased" sales profit minus the percentage of companies with "Decreased" sales profit. It is a method of summarizing the common tendency of business confidence.

(Example) Sales profit "Increased" year-on-year - 39.2%, "Did not change" - 46.4%, "Decreased" - 14.4%.

DI = 39.2 - 14.4 = **+24.8** (It could be negative when business confidence is not good.)

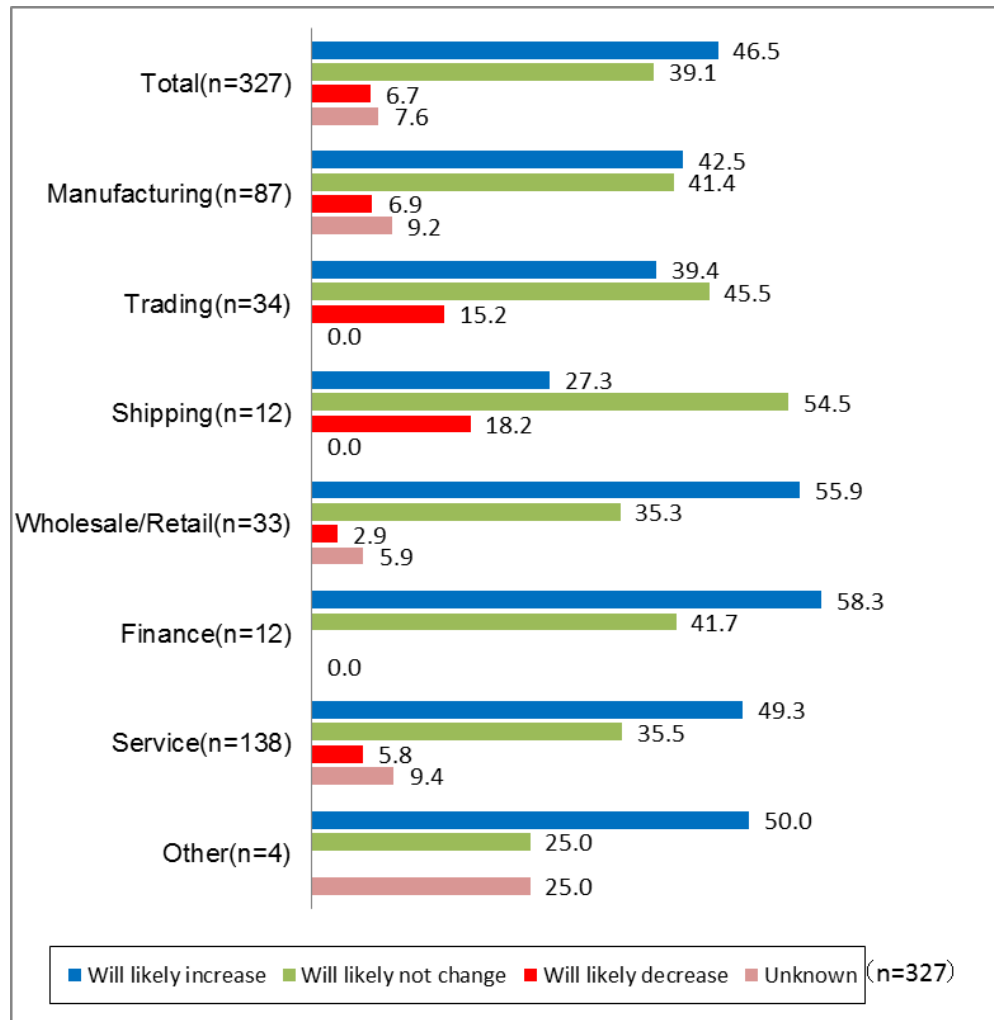
## II—3. Profitability Change

As the red line expands toward outside, "Wholesale/Retail," "Service" and "Manufacturing" has a significant improvement on DI. DI of "Wholesale/Retail" has improved 35.5 point, leading in overall profit increase.



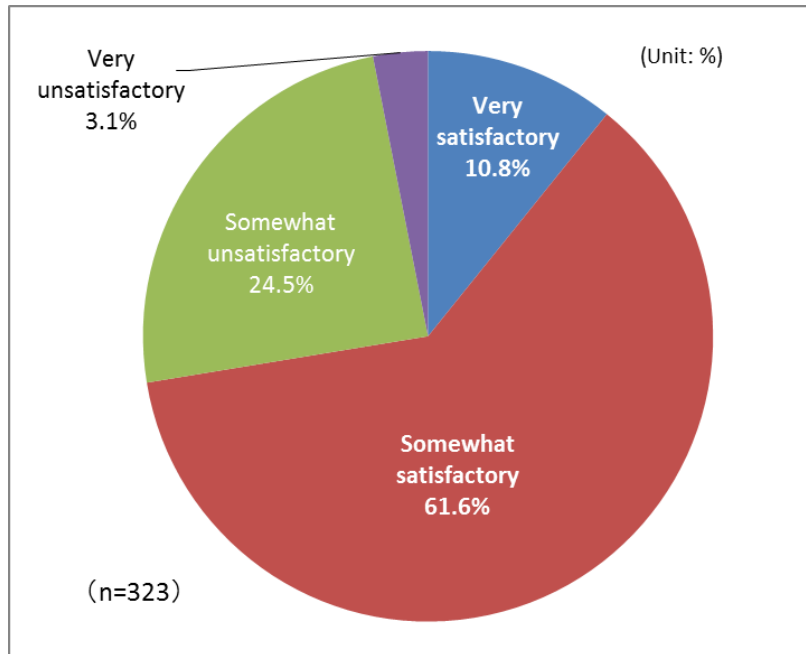
## II—4. Profit Outlook for the Next 1-2 Years

Recovering from the recession, almost one-half of Japanese-affiliated companies are expecting further profit increase. 4.1 point increase on the percentage of companies indicating that profit “Will likely increase,” and 1.6 point increase on the percentage of companies indicating that profit “Will likely decrease.”

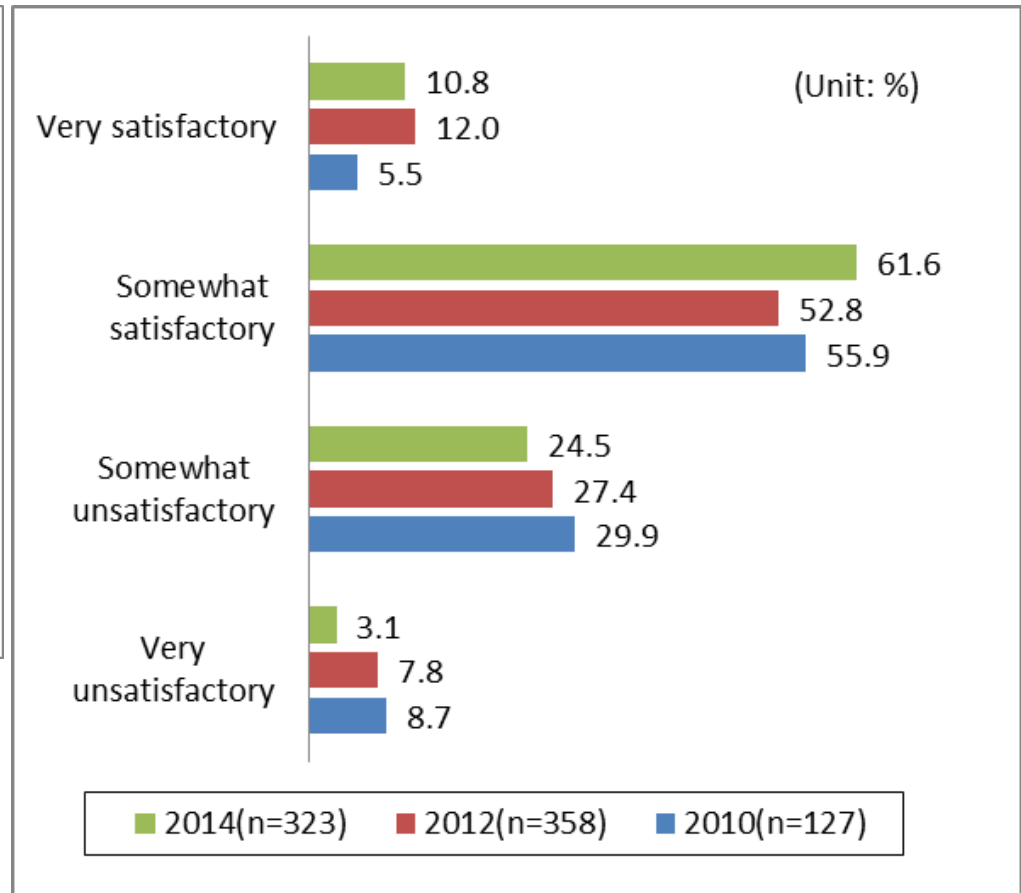


## II—5. Current Business Performance

72.4% of companies responded “Satisfactory” on the question regarding their current business performance with respect to plans and expectations made at the time of company establishment (64.8% on the previous survey and 61.4% on the one before the previous survey).

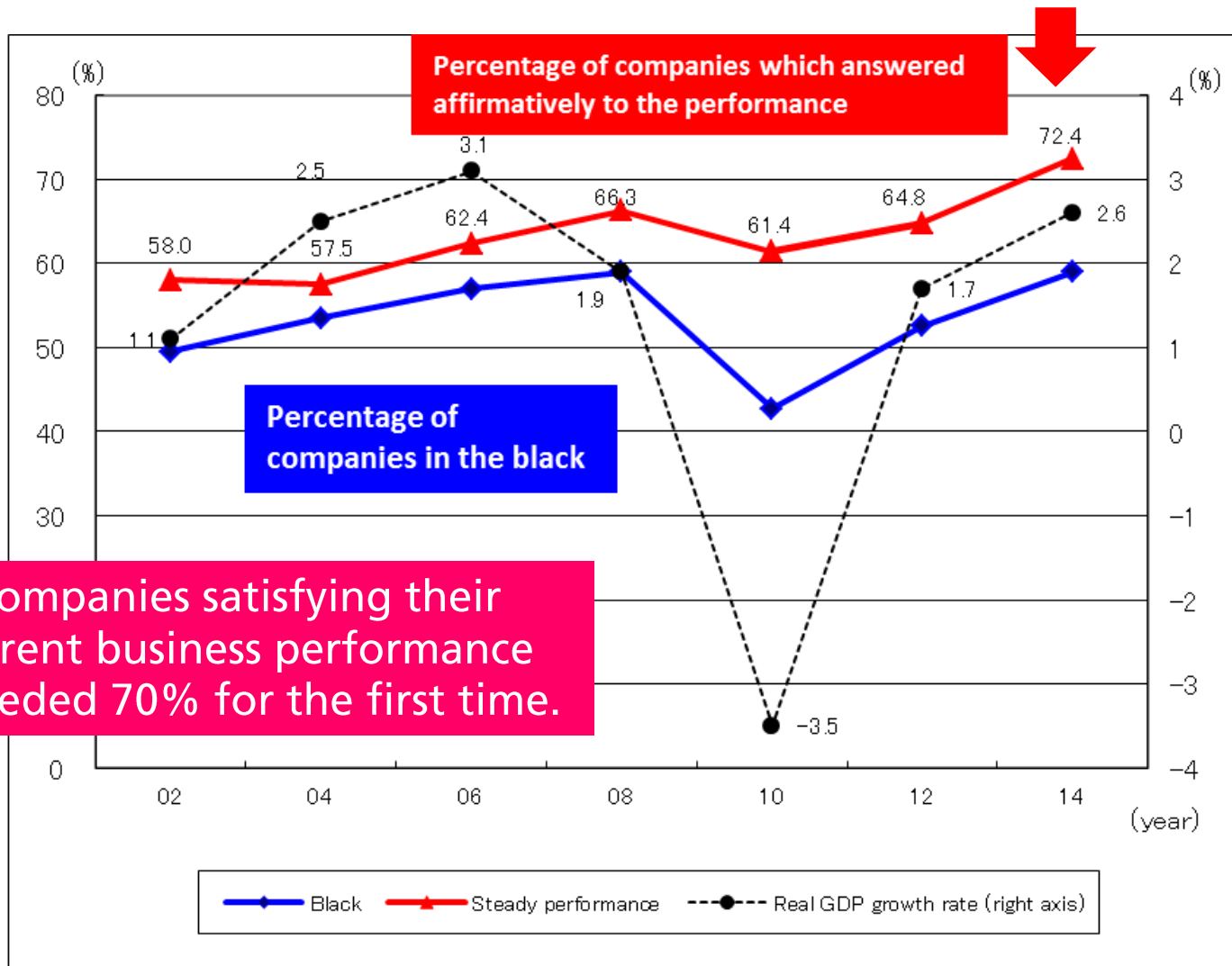


More than 70%  
responded positively.



## II-5. Current Business Performance

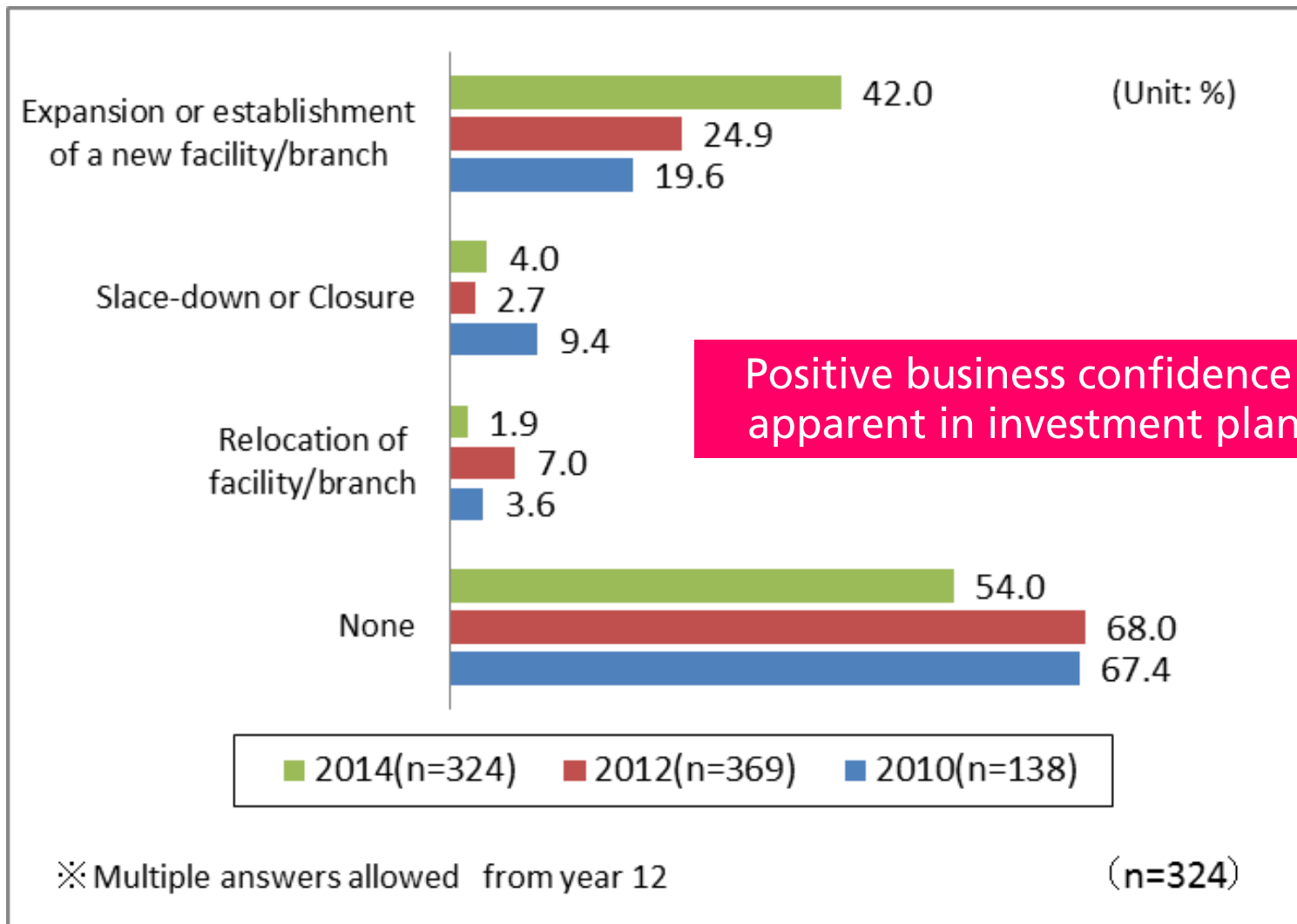
In the past, the percentage of companies that answered "Satisfactory" has fluctuated between 57.5% and 66.3%. This time, the percentage is 72.4% and exceeds 70% for the first time since this question was added to the survey.





## II—6. Investment Plan

Strong business confidence is apparent in investment plans. 42.0% are planning “Expansion or establishment of a new facility/branch” (17.1 points increase), the highest percentage since 2000.



### III. Contribution to Local Community

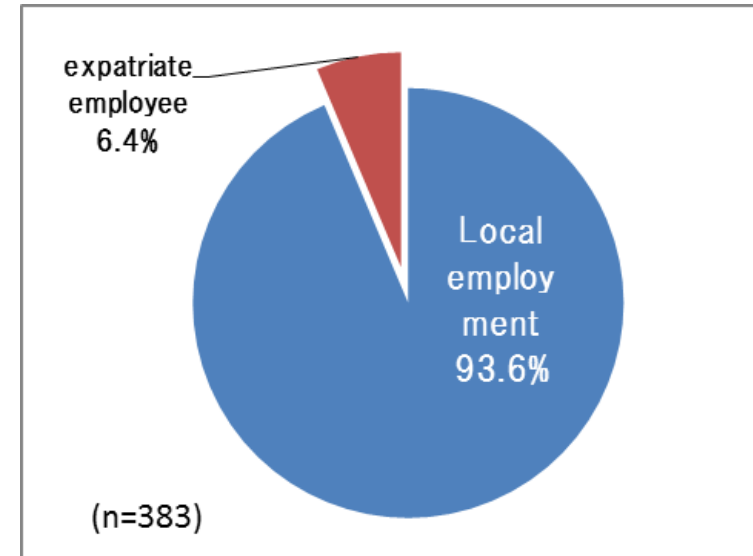
# III—1. Job Creation

The total number of jobs created by Japanese-affiliated companies in the Bay Area is approximately 39,689. About 15 local jobs are created per one expatriate employee, highlighting these companies' contributions to the local job market.

	Total (A=B+C)	expatriate employee (B)	Local employment (C)
Employment (n=383)	21,166	1,348	19,818
Employment per a company (people)	55.2	3.5	51.7
Employment in Bay Area (estimate, people)	<b>39,689</b>	2,517	37,172

\*The estimate of the total number of jobs created by Japanese-affiliated companies in the state of California

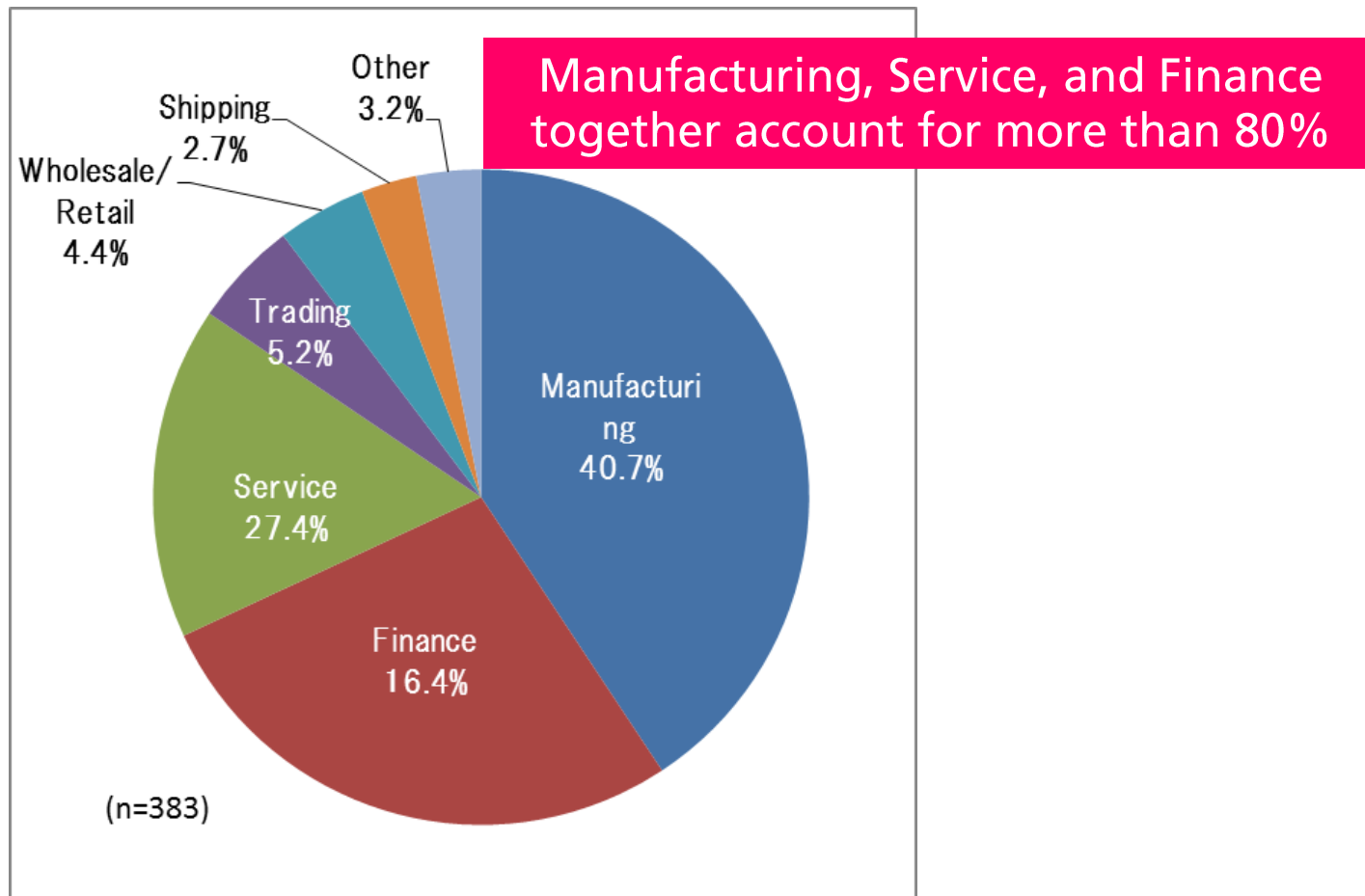
The total number of jobs created by Japanese-affiliated companies in Southern California is estimated to be 93,682. That brings the estimate of the total jobs created in the state of California to about 130,000.



**Generate 40,000 jobs in the Bay Area**

# III—1. Job Creation

Of 383 companies, "manufacturing" employs 40.7%, while "service" accounts for 27.4%, "finance" makes up 16.4%, and "wholesale/retail" comprises 5.2%. "Manufacturing," "service," and "finance" together account for more than 80%.



# III—1. Job Creation

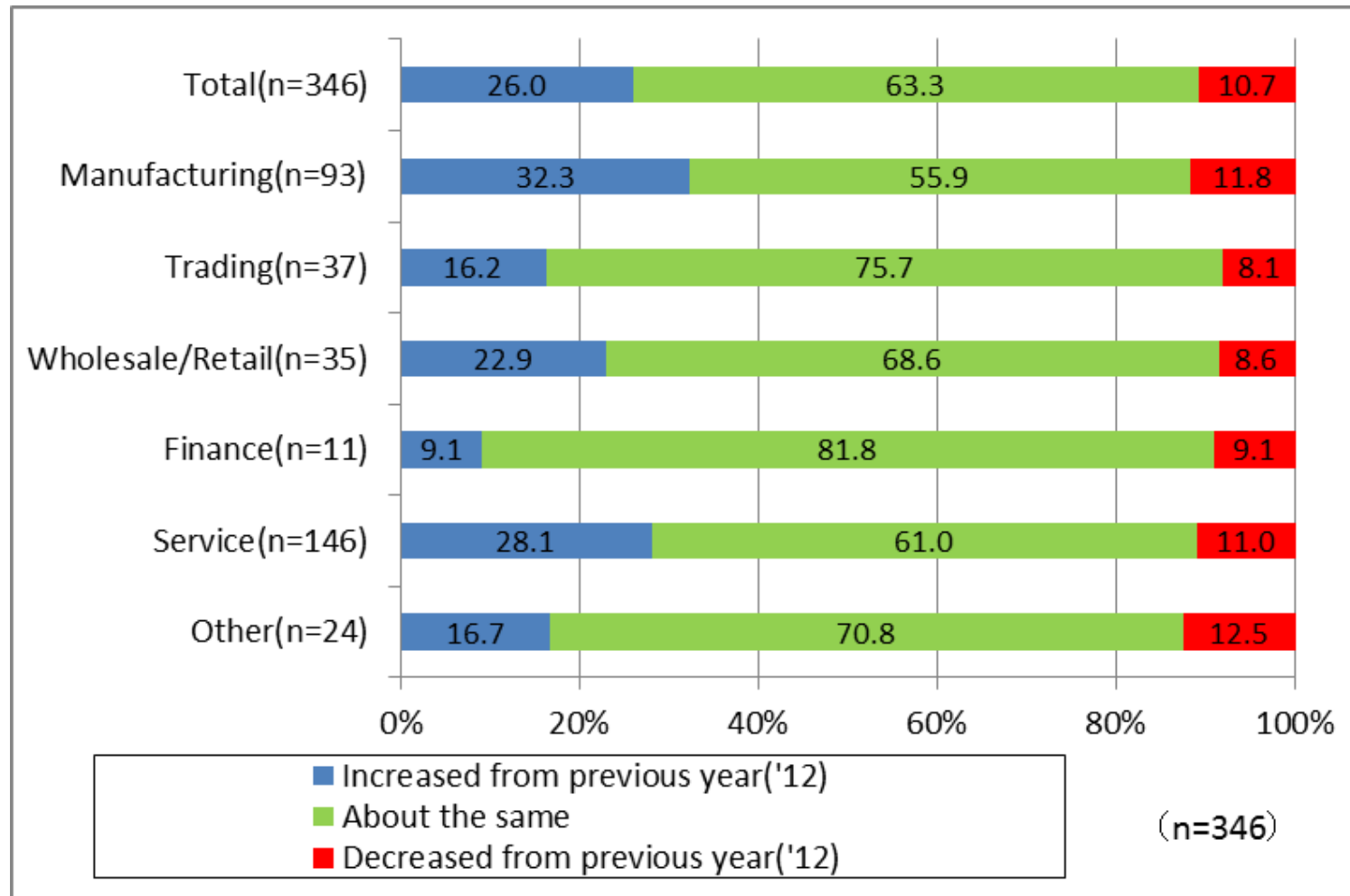
The average number of local hires at "finance," "manufacturing," "transportation," and "service" stands at 215.0 , 81.0, 39.0, and 33.1employees, respectively. The average number of expatriates is 6.0 for "manufacturing," and 5.5 for "transportation."

		Manufacturing	Trading	Shipping	Wholesale/ Retail	Finance	Service	Other	Total
Number of respondents		99	39	13	39	16	164	13	383
Total Employees (n:383 companies)		8,614	1107	579	931	3,473	5,791	671	21,166
items	local employment (people)	8,017	943	507	874	3,440	5,428	609	19,818
	expatriate (people)	597	164	72	57	33	363	62	1,348
per comp any	local employment (people)	81.0	24.2	39.0	22.4	215.0	33.1	46.8	51.7
	expatriate (people)	6.0	4.2	5.5	1.5	2.1	2.2	4.8	3.5

"Finance" has the highest local employment per company

# III—1. Job Creation

Of 346 companies, 26% said they increased the number of employees from the year before, a fall of 0.7 points, while 10.7% said they shrank their workforce, a decline of 1.2 points. But overall, the employment situation appears to remain stable.



## III—2. Salaries and Wages

The average annual salaries and wages per employee was \$86,900. The total amount of salaries and wages paid by the 719 companies was approximately \$3.4 billion.

\*Including benefits

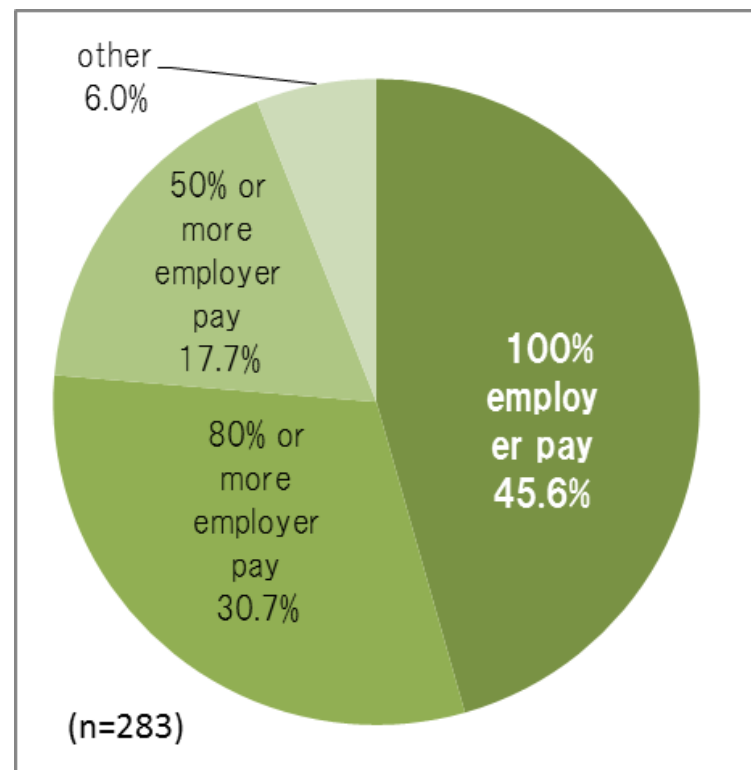
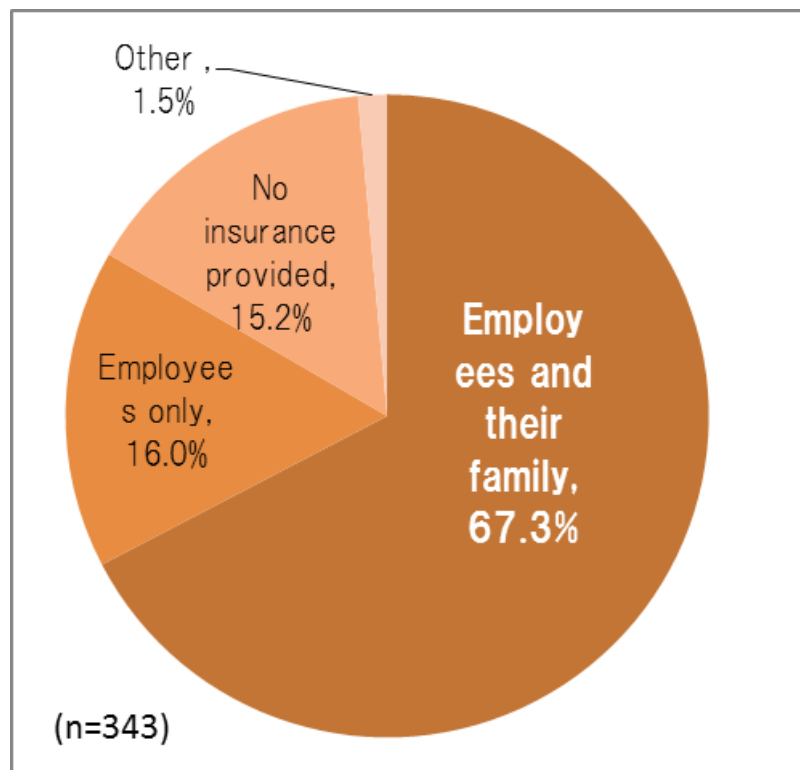
	Bay Area	Southern California
Number of respondents (company)	208	284
The average annual salaries and wages (\$K)	802,567	2,631,627
The average annual salaries and wages per employee (\$K)	86.9	84.4
The total amount of salaries and wages (estimate) (\$K)	3,448,974	7,906,761

※The total amount of salaries and wages = The average annual salaries and wages per employee × The number of companies that could be confirmed

The total amount of salaries and wages in the Bay Area is \$3.4 billion

# III—3. Health Care Coverage

Of 343 companies, 83.3% said they provide coverage for employees and their families. While a generous benefit package remains one of the strengths of Japanese-affiliated companies, the number of companies that do not provide any health care also hit the highest in the last decade.

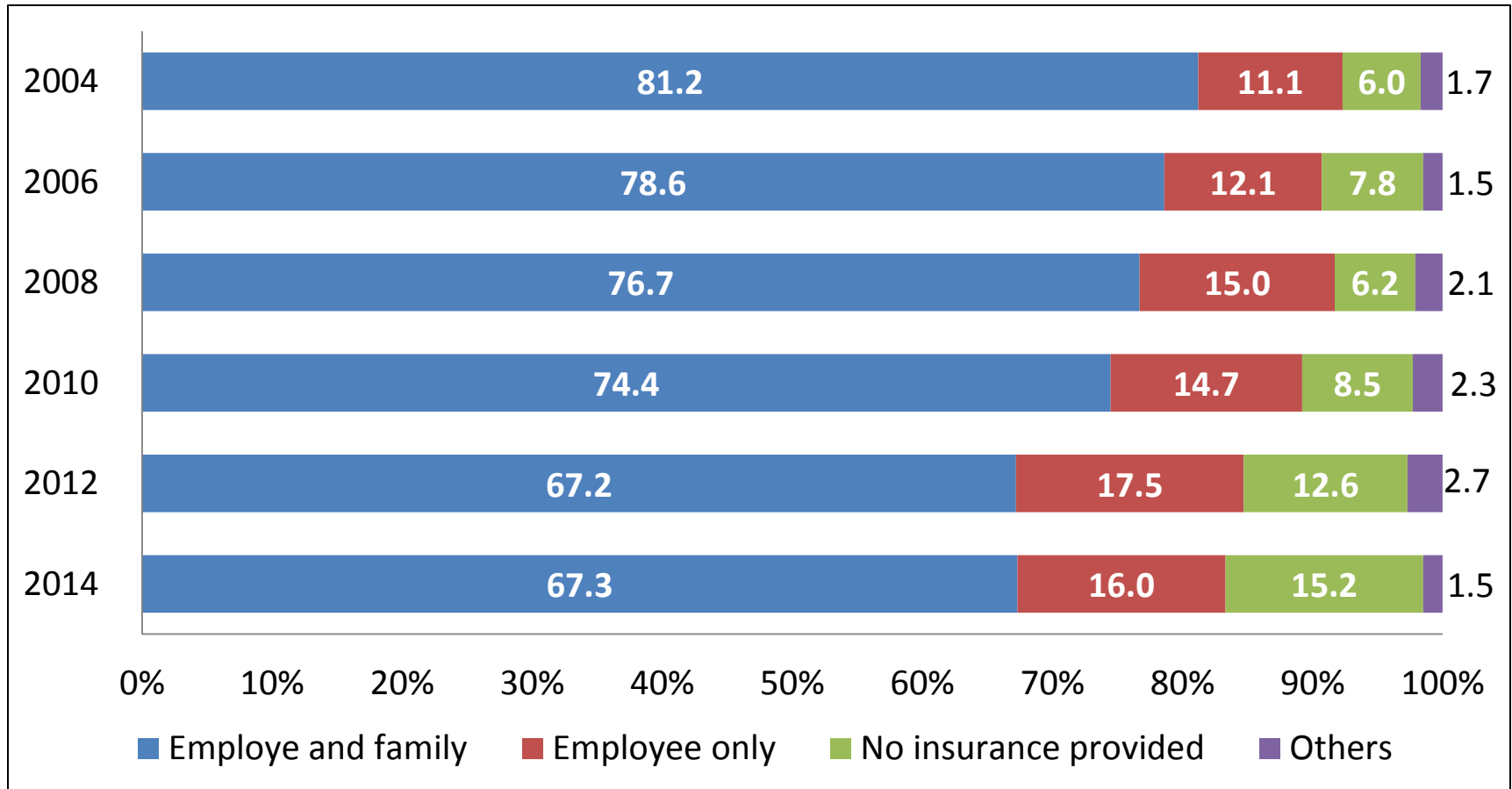


More than 80% of Japanese-affiliated companies provide healthcare coverage



## III—3. Health Care Coverage

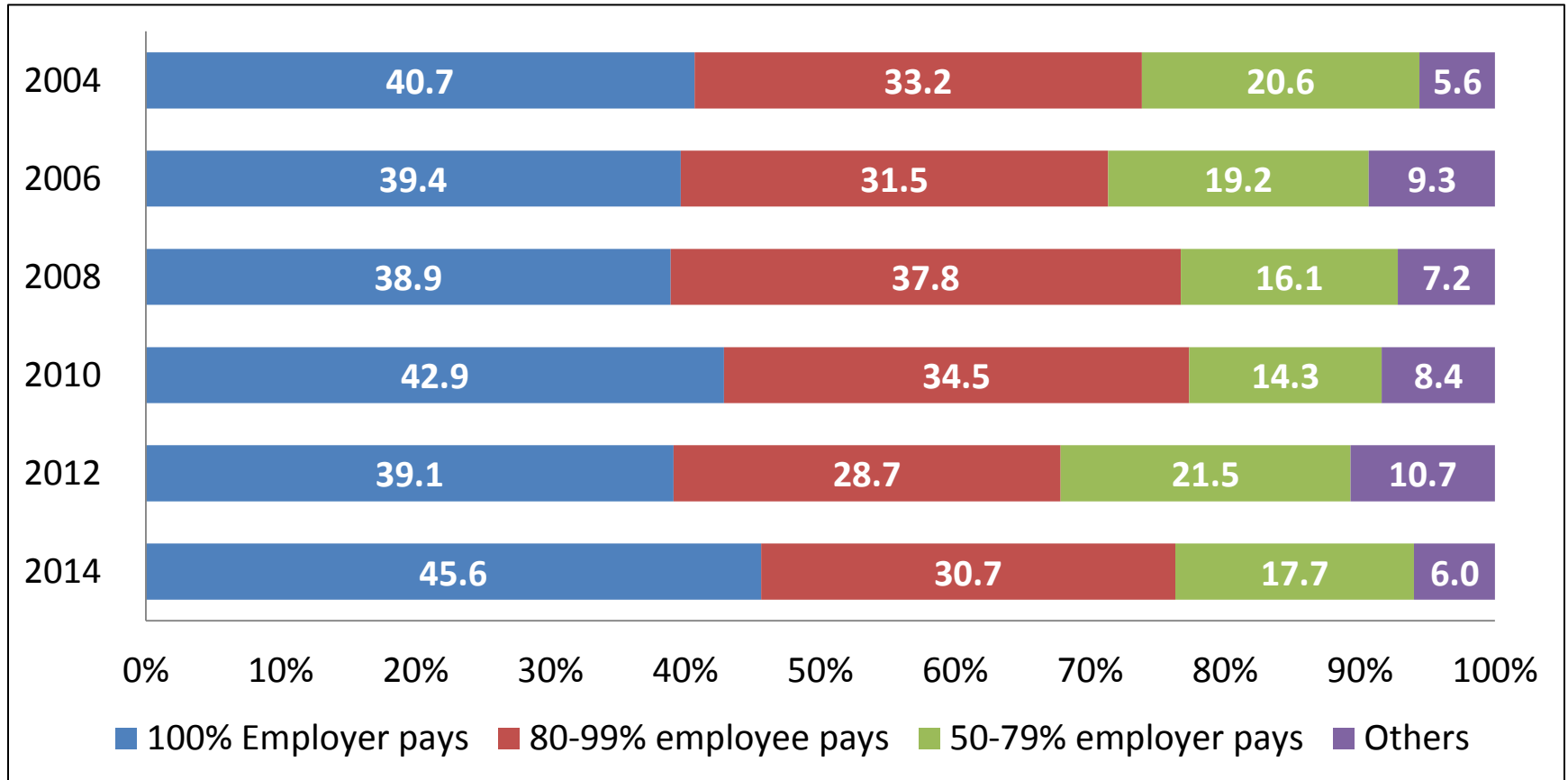
The move among companies to amend level of coverage due to cost concerns appears to have stabilized. The percentage of companies that provide health care to both employees and their families has declined 13.9 points in the last decade.



Level of health coverage has stabilized

# III – 3. Health Care Coverage

The percentage of companies that offer full health care coverage has risen 4.9 points in the last decade. Amid competition with local companies, some Japanese-affiliated companies could be beefing up their packages in order to attract talented candidates.



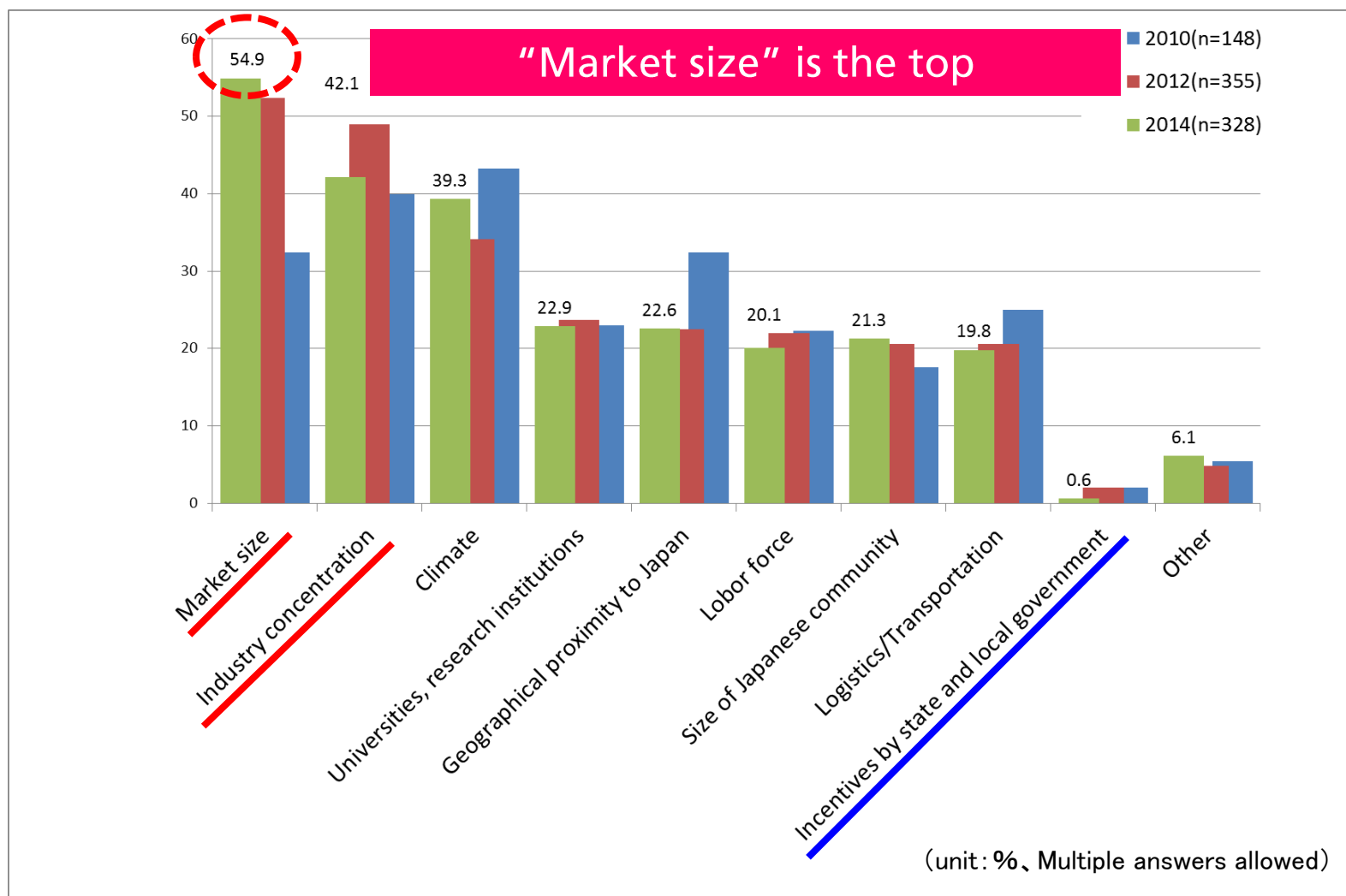
Some companies could be beefing up their packages to compete with local companies



## IV. Business Environment

## IV—1. Advantages of Operating Business in Bay Area

At the top is “Market size,” reflecting positive business confidence. “Industry concentration” comes in second. This indicates Japanese-affiliated companies are aiming at aggressively taking power and dynamism in Bay Area into product development and business management.



## IV—1. Advantages of Operating Business in Bay Area

Compared to the Bay Area, more Japanese-affiliated companies in Southern California chose “Market size” as an advantage to operate business since there is a larger market than in the Bay Area. “Industry concentration” and “Universities, research institutions”, which ranked relatively high in the Bay Area, are not attractive factors in Southern California.

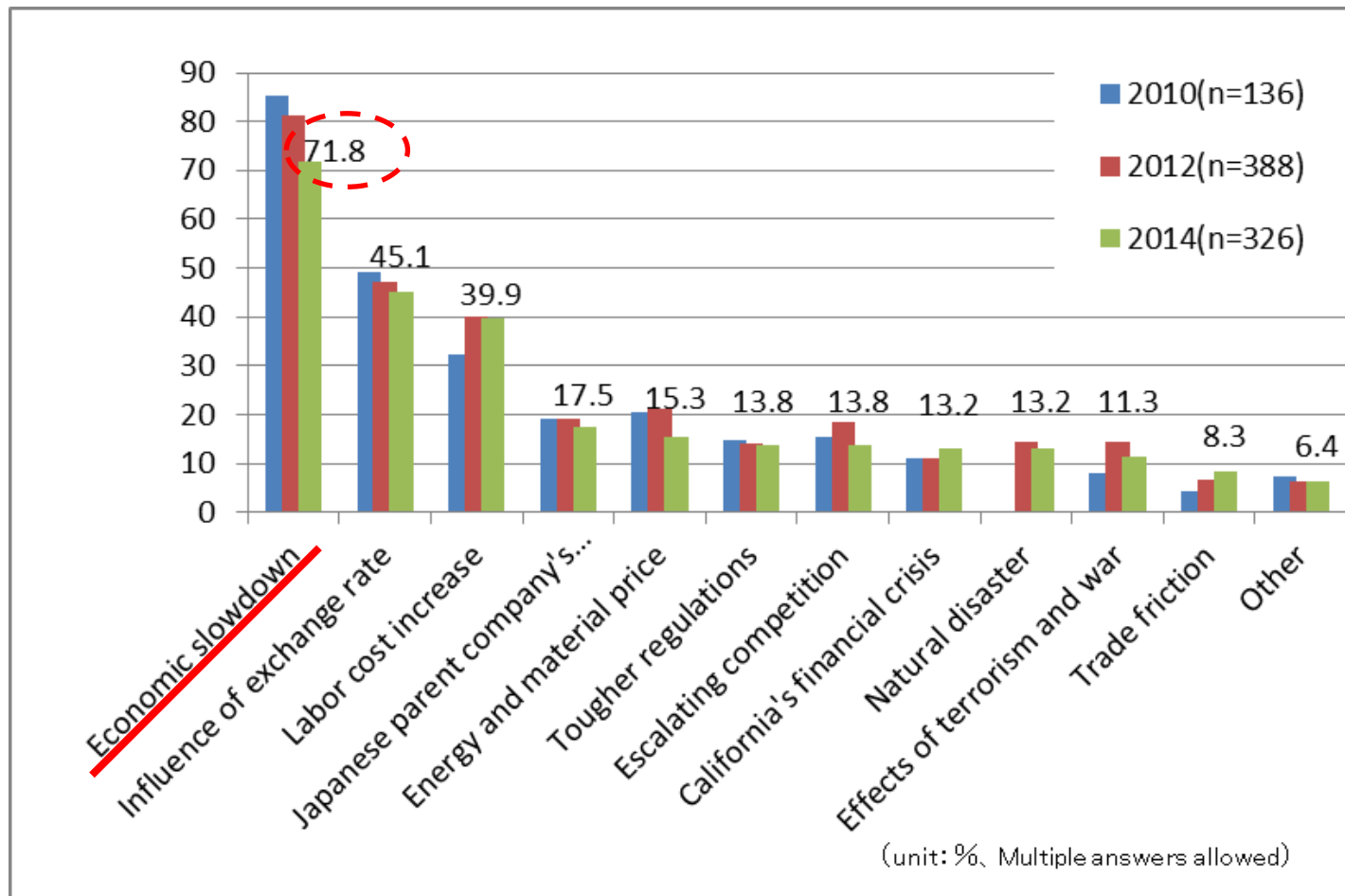
	Bay Area		Southern California	
Market size	54.9	①	59.3	①
Industry concentration	42.1	②	15.1	⑦
Climate	39.3	③	35.2	④
Universities, research institutions	22.9	④	6.1	⑧
Geographical proximity to Japan	22.6	⑤	25.1	⑤
Size of Japanese community	21.3	⑥	38.1	②
Labor force	20.1	⑦	18.2	⑥
Logistics/Transportation	19.8	⑧	35.9	③
Incentives by state and local government	0.6	⑨	2.4	⑨
Other	6.1		3.8	

※unit:%. Numbers mean the ranking in each region.

“Industry concentration” is also a strength of the Bay Area

## IV—2. Concern with Future Business Operation

The biggest concern of Japanese-affiliated companies is “Economic slowdown.” Concern about “Influence of exchange rate” also remains. In a positive business climate, “Labor cost increase” is becoming a major concern, due in part to increase in health insurance cost.



## IV—2. Concern with Future Business Operation

In both the Bay Area and Southern California, the top concern is “Economic slowdown.” “Labor cost increase” ranked third in the Bay Area, and second in Southern California with a 20 point increase.

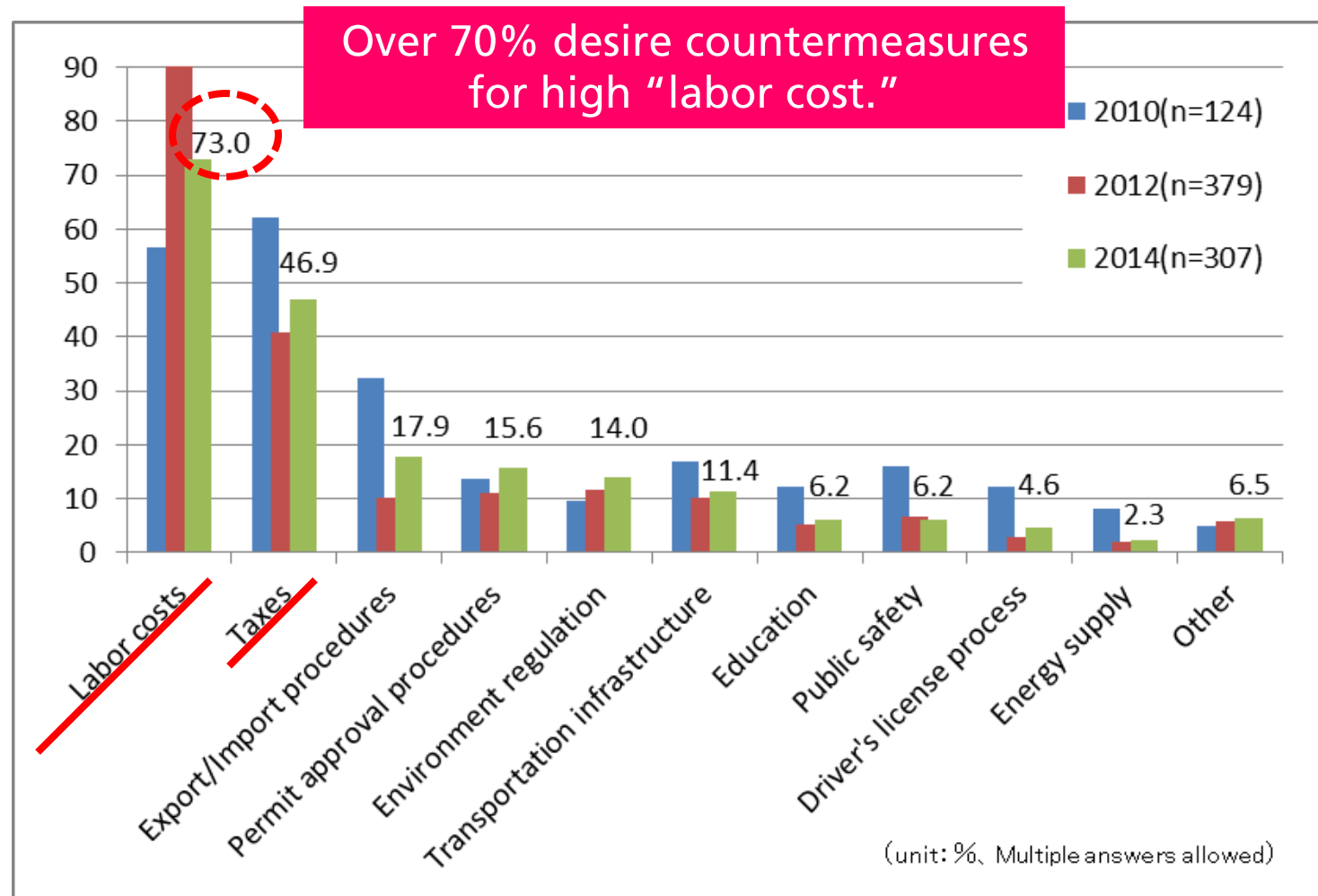
	Bay Area		Southern California	
Economic slowdown	71.8	①	75.9	①
Influence of exchange rate	45.1	②	45.0	③
Labor cost increase	39.9	③	47.4	②
Japanese parent company's business performance	17.5	④	11.1	⑩
Tougher regulations	17.2	⑤	20.4	④
Energy and material price	15.3	⑥	20.4	④
Escalating competition	13.8	⑦	19.7	⑥
California's financial crisis	13.2	⑧	11.3	⑨
Natural disaster	13.2	⑧	12.3	⑧
Effects of terrorism and war	11.3	⑩	13.0	⑦
Trade friction	8.3	⑪	7.4	⑪
Other	6.4		4.7	

※unit:%. Number means the ranking in each region.

“Labor cost increase” is a major concern in Southern California.

## IV—3. Concern with Operating Business in California

The percentage of “Labor cost” is extremely high. High labor cost in California resulting from profit increase of local enterprises, and increase of employer-sponsored health care cost and labor regulations are a burden for Japanese affiliated companies.





## IV—3. Concern with Operating Business in California

“Labor cost” is the largest concern in all industries. Considering more than 80% of companies in construction, manufacturing and shipping are concerned about labor cost, they could be forced to pay high expenses for manual labor.

	Total (n=307)	Constructi on (n=6)	Manufactu ring (n=84)	Trading (n=37)	Shipping (n=10)	Wholesale /Retail (n=31)	Finance (n=7)	Real Estate (n=2)	Service (n=127)	Other (n=3)
Labor costs	73.0	83.3	81.0	67.6	80.0	77.4	57.1	50.0	68.5	66.7
Taxes	46.9	50.0	40.5	45.9	40.0	58.1	42.9	50.0	49.6	33.3
Export/Import procedures	17.9	33.3	20.2	24.3	40.0	29.0	0.0	0.0	9.4	66.7
Permit approval procedures	15.6	16.7	15.5	10.8	20.0	19.4	0.0	50.0	16.5	0.0
Environment regulation	14.0	33.3	14.3	21.6	20.0	22.6	14.3	50.0	7.1	33.3
Transportation infrastructure	11.4	16.7	6.0	16.2	30.0	12.9	28.6	0.0	11.0	0.0
Public safety	6.2	16.7	0.0	0.0	0.0	16.1	14.3	0.0	9.4	0.0
Education	6.2	0.0	0.0	13.5	0.0	3.2	0.0	0.0	10.2	0.0
Driver's license process	4.6	16.7	1.2	10.8	10.0	3.2	0.0	0.0	4.7	0.0
Energy supply	2.3	0.0	2.4	2.7	0.0	6.5	0.0	0.0	1.6	0.0
Other	6.5	16.7	7.1	0.0	0.0	0.0	0.0	50.0	8.7	33.3

(注) Numbers mean rates = companies which chose / companies answered. The gray part show 50% or more.

**“Labor cost” is a the biggest concern for all industries.**

## IV—3. Concern with Operating Business in California

“Labor cost,” “Taxes,” “Export/Import procedures,” “Permit approval procedures,” and “Environment regulation” ranked high. The gap of the percentages of “Labor cost” in the Bay Area and Southern California became smaller than the previous survey.

	Bay Area		Southern California	
Labor costs	73.0	①	67.8	①
Taxes	46.9	②	42.8	②
Export/Import procedures	17.9	③	19.5	④
Permit approval procedures	15.6	④	21.6	③
Environment regulation	14.0	⑤	14.0	⑥
Transportation infrastructure	11.4	⑥	14.9	⑤
Public safety	6.2	⑦	8.7	⑦
Education	6.2	⑦	3.0	⑩
Driver's license process	4.6	⑨	4.4	⑨
Energy supply	2.3	⑩	5.1	⑧
Other	6.5		3.2	

※unit:%. Numbers mean the ranking in each region.

**“Labor cost” is 5.2 points higher in the Bay Area than in Southern California.**

## IV—3. Concern with Operating Business in California

Items	Specific case
①Labor cost	<ul style="list-style-type: none"> <li>•Rising labor costs pulled by improved performance of local companies</li> <li>•The burden of soaring medical insurance premiums</li> <li>•Increasing welfare costs forced by the competition with local companies</li> <li>•Responding to practice and legislation in consideration for workers</li> <li>•Despite the high salary, some say “there are not enough outcomes they expected”</li> </ul>
②Taxes	<ul style="list-style-type: none"> <li>•High corporate tax rate</li> <li>•complexity of the tax system</li> </ul>
③Export/Import procedures	<ul style="list-style-type: none"> <li>•Specify HS code during procuring machine and raw materials which are not in the United States</li> <li>•The time required for the X-ray inspection. The cost to ship 1 night in some cases</li> <li>•Risk of detention in Customs</li> </ul>
④Permit approval procedures	<ul style="list-style-type: none"> <li>•Time to approval</li> <li>•Too many number of licensing such as state, county, and municipal</li> <li>•The number of inspectors is reduced with budget cuts, so difficult to make business plans</li> <li>•Rise of application fee</li> </ul>
⑤Environment regulation	<ul style="list-style-type: none"> <li>•The cost to comply with the treatment standards for waste, exhaust and drainage</li> <li>•Capital investment and maintenance for processing and monitoring</li> <li>•Expensive drainage rights</li> <li>•Replacement of trucks that are excluded from the emission standards in the tightening of regulations</li> </ul>
Other	<p>High business costs. (「Bay Area is higher than other regions whatever you do to」)</p> <p>Working visa (「Difficult to dispatch strategically from Japan」)</p> <p>and so on</p>

“Specific case” is one that was reinforced by hearing to some respondents.