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A process model for creating a brand in Japanese small business

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Abstract

Purpose: This paper examines the process through which small firms with few management resources build their brands. We have considered small firms in the manufacturing industry for this case study. Building an in-house brand involves management strategy, business planning, and management evaluation in Phase 1; product development in Phase 2; customer development and distribution in Phase 3; and human resource development in Phase 4. Through this study, we have presented a specific framework for brand building and corporate growth.

Keywords : small business, creating own brand, environmental change, value creation

JEL Classification Code (up to 3-5): L10, L20, M10

1. Introduction

1.1. Background and objectives

The business environment of small firms is severe. To seize business opportunities, managers must deal with many management issues. Small firms have fewer resources than large firms and thus smaller budgets for their businesses. In the case of a subcontractor and original equipment manufacturer (OEM), they face many restrictions, and it is difficult for them to take the initiative in production volume, quality, and price. Small firms' own brand creation plays a major role in their development.

The history of research on brand building is relatively short. For example, most of the research in the field of brand management and the theories developed are about large corporations and multinational companies. As large companies have abundant management resources, theories about large

companies cannot be directly applied to small companies. Since 2000, research has gradually focused on brand building in small and medium-sized

enterprises (SMEs). However, medium-sized firms, which are similar to large firms, cannot be compared to small firms.⁷

There are few studies about the process through which small firms go through to build their own brands to survive. In many cases, the president of the company leads all decision-making in small firms because of the president's strong influence. Therefore, qualitative research based on participant observation and semi structured interviews with the president and employees can easily capture the actual management situation. The purpose of this paper is to examine the process through which small firms with few management resources build their own brands. Based on the findings, we also present a framework for small firms to build their own brands. We also hope to make practical

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recommendations about improving the profitability of small firms.

2. Definition and characteristics of small business

The definition of small-scale enterprises under Japan's Small and Medium Enterprise Basic Law is a company with 20 or fewer employees in the manufacturing and other sectors and a company with five or fewer employees in the commerce and service sectors.

There are two characteristics of small businesses in Japan. The first is that the president has a strong influence over the organization and makes almost all decisions. In addition, they have few management resources and specialize in a particular field of business. The president of a small business prioritizes immediate production, sales, and other daily operations. The president can assess the company's situation based on the operating status of the plant and office. The second is strategy and tactics. The president excels in tactics and deals with business issues quickly. However, they are not good at developing strategies and business plans to deal with medium- to long-term management issues. This is because small companies place the highest priority on operations that respond to customer demands.

3. Literature review

Research on brand building has been conducted in the field of brand management (Aaker, 1996). In brand management research, there are many theories about large companies with abundant management resources and few theories about SMEs (Keller, 2003; Krake, 2005; Juntunen et al., 2010). In recent years, there have been several studies on the process and evaluation of branding in SMEs. Juntunen et al. (2010) presented a case study on brand building based on the growth stage of two SMEs. Centeno et al. (2013) investigated a

conceptual model of SME brand building by conducting interviews with 30 SMEs. Kennedy and Wright (2016) analyzed the case studies of 10 Irish microenterprises and their brand development process.

Some studies have also evaluated the branding of SMEs. Yin Wong and Merrilees (2005) evaluated the components of SME branding strategies by conducting eight case studies. Berthon et al. (2008) presented the differences between SMEs and large organizations based on their brand management practices. Spence and Essoussi (2010) evaluated brand management in SMEs by conducting interviews and a literature review. Igata et al. (2018) evaluated and analyzed the branding of SMEs from the perspective of Kansei Engineering.

Nonaka (2007) states that the essence of knowledge-creating firms is the tacit knowledge of employees and utilization of subjective insights, intuition, and ideals. The author emphasizes the importance of learning Japanese knowledge creation techniques for organizations seeking to compete on knowledge. Teece (2018) highlights that there is a requirement to study the interrelationship between the business model's impact on organizational design and dynamic capability of firms, which constrains the feasibility of their strategies. In particular, an in-depth understanding of business model innovation, adoption, and change is important for dynamic capability. Traoré et al. (2021) examined knowledge brokerage strategies among knowledge and technology transfer organizations (KTTOs) by examining data with respect to 212 Canadian KTTOs. Hepp (2022) examines the dynamics of technological change, industrial clusters and firms.

The president of an SME has a large influence on the organization and leads many management decisions. Therefore, many qualitative studies are based on semistructured interviews with and participant observation of the presidents of SMEs. In addition, there are few SME brand management studies on Japanese firms. Furthermore, there are no process studies on small Japanese firms' brand building. Therefore, this paper examines the process of building one's own brand by conducting a case study of



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Japanese small firms. We clarify the actual situation under which small firms create value through learning and growth. We also present a dynamic framework that categorizes the process of building one's own brand into four stages.

4. Method

In SMEs, especially small businesses, the president has a great deal of influence over the organization and often leads management decision-making. Small firms are also more sensitive to information leaks. Although information leaks can have a significant impact on their earnings, they are not proactive to information disclosure. Therefore, it is difficult to grasp the actual management situation through quantitative analysis of a questionnaire survey.

Qualitative research that is based on semistructured interviews with presidents and employees is likely to grasp the actual management situation. There are few previous studies on small firms. In this paper, we conduct semistructured interviews with presidents and employees, as well as participant observation, over a 6-year period. We believe that a case study is an effective research method for clarifying the causal relationship between corporate behaviors under certain circumstances.

The case study focuses on two small Japanese firms whose performance declined because of changes in the business environment. We identify a process model that small firms can use to build their own brand for value creation. The subjects of the study are the following two small firms. Case A is a small apparel company with 19 employees. Although it was a subcontractor, it started building its own brand and enhanced its product planning and development capabilities. Case B is a small company that manufactures wooden interior goods. The company was able to build its own brand and is now selling its products directly to customers.

5. Case study

5.1. Company A

5.1.1. Business overview

Company A is a small apparel company in Japan with 19 employees. The company applies elaborate embroidery to stretchy fabrics, such as socks and leggings. The company was founded in 1966. In 1982, the company was incorporated, and its main factory was built. The current president joined the company in 1999 and became president in 2009. The company has the technology that applies precision embroidery to highly elastic fabrics. There are approximately 1,000 products available. It can produce approximately 7,000 to 9,000 pieces of high-precision embroidery in fixed positions per day. The company uses its own production tools and systematically updates its production equipment. The company's embroidery is of high quality. The company's quality is supported by the high technical skills of its local craftsmen.

The company's production technology has three characteristics. The first is the technology to embroider along the longitudinal stripes of stretchable fabrics. The second is the technique of stretching the frame of the sock before embroidery to achieve high precision. The third is the technology for transferring embroidery paper designs to digital data. The company uses a cell production system. One person oversees the entire process, from sock framing to embroidery and inspection.

5.1.2. New product development and efforts to build its own brand

In 2016, the company experienced a decline in branded embroidery orders and the company's revenues due to weak demand in the luxury branded apparel industry as a whole.



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In March 2017, the company developed a new management plan that addressed several key issues. The most important element was the development and sales promotion of new products. The company's employees love embroidery work. They are highly motivated to contribute to the embroidery business and voluntarily work to improve operations. In recent years, there has been almost no employee turnover. The president values the relationship of trust with employees. The president has been promoting good management and factory improvements by incorporating employees' opinions offered at staff meetings.

A planning meeting was initiated to create the company's original design embroidery. During the meeting, themes are set and opinions are exchanged. Prototypes of new products that employees would like to create are developed. The prototypes are completed through repeated exchanges of opinions and evaluations. The company's product design is inspired by the facial expressions and body movements of animals.

In March 2018, the company created its own website and released its embroidery designs. Orders for embroidery of socks and hats for schools and sports clubs are increasing. In September 2018, the company exhibited its original products in a comprehensive exhibition. The products were original socks and leggings with multiple types of embroidery. The visitors' response was positive. In November 2018, the company participated in one of the largest business meetings in Japan, which was well received. This was the turning point in building the company's own brand. In December 2018, the company further developed its products by starting an embroidery project that focused on the story of its products. The company labeled its own products with materials, brand names, and prices.

In November 2018, the company had another meeting with a leading Japanese retailer. As a result, in May 2019, the company's products were displayed on the sales floor of that leading retailer and sales began. Embroidery processing is subject to fluctuating

demand. The lead time is short, the number of setups increases, and it is difficult to adjust supply.

In October 2020, the company registered its trademark as "Ohanashi Socks" (Ohanashi means story in Japanese). In February 2021, the company enhanced the design and aimed for a high-quality, low-cost product. In March 2022, the product was sold in many stores in a chain that specializes in socks.

5.2. Company B

5.2.1. Business overview

Company B is a small company with 12 employees. The company's business area is the manufacture and sale of wooden interior furniture. It is an OEM with high-mix, low-volume production. The company's main products are wooden-framed mirrors, hanger racks, and magazine racks. The company manufactures its products in its own factory using solid wood as raw material.

The current president's father founded the woodworking factory in 1959 to manufacture shovels and hardware handles; the current president joined the company in 1981. The company operates molding machines and painting robots. The company has been supplying products to medium-sized furniture wholesalers. In recent years, the company has developed its own brand, and since 2016, it has also been operating an online store to sell its products directly to customers.

5.2.2. New product development and efforts to build its own brand

In 2012, the company experienced a downturn in business performance. To recover, the company started an OEM business. The company produced from one piece to match the frequency of customer orders. However, it did not generate profits. Since February 2016, the president's wife has been running the company's online sales store. Sales were low at first,



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but the online store now accounts for about half of the company's sales.

The company's factory uses an integrated production system—from raw material processing to product finishing. The company is committed to quality control. The company is also very attentive to its customers, which has earned the company the support of its customers. Customers can freely select products from a variety of sizes, colors, shapes, and materials. Custom-made products are also available. The company is improving the management of its online store by analyzing customer visitation trends, onsite behavior, and purchase results.

On the top page of its online store, the company communicates its manufacturing philosophy to customers. Recently, the company has been using social network sites to enable real-time information exchange. In 2016, the company participated in a small exhibition to promote its own-brand products. In 2017, the company registered its own-brand products as a trademark. In March 2018, the company exhibited at Japan's largest lifestyle products exhibition for the first time. In April 2017, the son of the president and two younger employees began a factory improvement circle. They are working on the company's product specifications, work standards, and cost control. Both the company's OEM and own-brand online store businesses are doing well. The company's employees are enthusiastic about factory improvements, which help the company produce high-quality products. There have been few customer complaints about product quality.

In April 2018, the company raised its product prices after a major Japanese logistics company significantly increased its shipping costs. As a result of this price increase, orders from the OEM business declined. However, orders for its own-brand online store business increased. In addition, the company revamped its general catalog of wooden interior products and promoted them to customers. Since June 2018, a product planning and development project has been promoted by the president's son, two young employees,

and outside experts. In addition to developing new products and building its own brand, the company also aims to achieve efficient distribution and sales. In the new product development, the company pursued product functionality.

In September 2018, the company exhibited a wooden-framed interior mirror improved by the president's son at a general-type exhibition, and in February 2019, the company exhibited it again at a lifestyle products exhibition. The company's management and employees promoted the company's appeal. In 2019, the company began to realize the results of building its own brand; earnings from the OEM business have improved a bit, and the online store sales business is performing well. One of the future management issues is the efficient operation of these two businesses. One of its goals is to build an integrated system of order receipt, production, and sales.

6. Considerations

6.1. Changes in the business environment and the responses of the two companies

From its establishment until around 2000, Company A was supplying subcontracted elaborate embroidery for brand-name products because department stores and apparel companies were performing well. From around 2000, the company increased the number of suppliers because of the deteriorating performance of department stores. The company embroidered on thin fabrics, stretchable fabrics, and large pattern fabrics. The company also worked on delicate and sophisticated embroidery and produced a wide variety of products in small quantities. The company also developed embroidery techniques to achieve high quality, quick delivery, and low cost. In recent years, the popularity of Japanese socks has recovered slightly. Knit manufacturers and sporting goods stores became customers of the company. The company is now involved in the embroidery of patches and hats as well as well-designed embroidery. The



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company has developed a management plan and aims to improve profitability by building its own unique brand.

When Company B was founded, it was a woodworking factory that produced shovel handles and other parts. After Japan's recession, the Japanese furniture industry was restructured. Since 2010, the company has been mainly producing wooden interior products. They produced and sold their own high-quality products with short delivery times. In recent years, the company faced high costs due to shipping fee hikes by logistics providers. The online store sales business run by the president's wife was performing well, accounting for 50% of company-wide sales. The company's products are custom-made to order, allowing customers to freely select sizes and colors. The company's products have become its own brand and support the company's performance.

6.2. Building the brands of the two companies

This section examines the process that the two companies used to build their brands.

6.2.1. Phase 1: Business strategy, planning, and evaluation

In the case of Company A, its performance went stagnant around 2016. Orders for branded embroidery were declining due to diversifying consumer needs. To overcome this business crisis, the company formulated a new management plan in March 2017. In this plan, the president positioned new product development and the promotion of sales as mid- to long-term management issues.

Company B had engaged in OEM business in response to its weak performance in 2012. It then decided to build its own brand to improve profitability. The company was in crisis owing to sluggish performance. In accordance with the new management plan, the president's wife began running the company's own online shopping store in February 2016 in an attempt to support the company's earnings.

6.2.2. Phase 2: In-house product development

In the case of Company A, it planned and proposed its original embroidery products to its customers. The company proposed high-quality, advanced, and special embroidery. The company also proposed embroidery on patches and hats, which was not available before. Moreover, the company held planning meetings for the development of its products. To create original design embroidery, the meeting members exchanged opinions and identified issues based on the theme. They made prototypes and repeatedly exchanged and evaluated opinions to improve the quality. The embroidery designs were inspired by animal faces and body movements. In October 2020, the company obtained a trademark: "Ohanashi Socks." In February 2021, it planned a well-designed, high-quality, low-cost product.

Company B originally had a reputation for the quality of its products. With the increase in Internet sales, consumer purchasing behavior changed. The company devised a compatible way to offer its products online. Online customers of the store can freely select their preferred size, color, mold, and material. Custom-made product sizes were also made available. The first in-house product offered a wide variety of sizes in unique colors. The second in-house product offered a high-end product that took advantage of the material's characteristics as solid wood. Subsequently, we proposed several new products made of different types of solid wood, making it easy for customers to choose. The company is developing new customer relationships by offering products that are small and inexpensive enough to be used on desks. In addition to its mainstay wooden narrow-frame mirrors, the company is currently planning new products that utilize wood scraps.

6.2.3. Phase 3: Distribution and customer development

In the third stage, based on the in-house product development in the previous stage, the companies proceeded with customer and distribution development. Company A exhibited its original products at a comprehensive exhibition in September 2018. The



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products were well received by visitors and gave the company confidence in its new planning design and embroidery techniques. The company also had business meetings with leading retailers and mail-order businesses. This was the turning point in building its own brand. The representative of a leading retailer placed an order for the company's products. The company proceeded with the planning and development of storytelling with exquisite embroidery.

In February 2019, the company exhibited its first branded product—Story Socks—at Japan's largest trade fair for lifestyle products. Story Socks received high acclaim for its design and quality. The company exchanged information with visitors and exhibitors. The products have been sold at leading retailers and sock specialty chains in Tokyo and Osaka since 2019. The branded products did sell, although at a higher price than conventional products.

Company B also exhibited at a small-scale lifestyle products exhibition in 2016 to increase awareness of its products, and in 2017, it registered its own-brand products as a trademark. Moreover, in March 2018, it exhibited at Japan's largest lifestyle products exhibition for the first time. In addition, the sales floor of the online store's direct sales site was improved. The placement and layout of products on the web were significantly revised. The introduction of new products and web advertisements greatly increased the number of customers. The company provides friendly customer service for customers needing assistance. This includes e-mail support and a telephone consultation service. The company is also working to gain new customers by opening stores on major web shopping sites such as the Rakuten Market.

6.2.4. Phase 4: Human resource development

The fourth step is human resource development. This involves the training of management and employees and the associated improvement activities.

In the case of Company A, the president held a meeting to determine the employees' understanding of the management plan—from formulation to operation.

He believes that it is important to communicate carefully every day. Whenever he is unsure of a decision, he checks the management plan. He wants to increase the company's value by creating new products. The planning and development of new products and participation in exhibitions and business meetings provide the employees with independent opportunities to learn and grow, which are reflected in management improvements. This creates a vigorous cycle of corporate growth. The participants learned the key points of finishing their own branded products, such as applying for registered trademarks, labeling product materials and brands, setting prices, and understanding costs.

In Company B, the president's son and two young employees started a factory improvement initiative in April 2017. They have been working diligently on their product specifications, work standards, and cost controls. The company's branded business area is online store sales, and it is performing well.

The company is able to produce high-quality products because the president and employees are enthusiastic about improving the factory. There have been few complaints from customers regarding the quality of the products. The company is studying improvement plans for the online store based on daily customer trends and other data, and employees are learning through implementation and verification.

6.3. Process through which small companies build their own brand

This paper examines the brand building process based on a case study of two companies. The process of building a small company's own brand can be summarized as follows.

First, the top of Figure 1 is the starting phase. The first phase is business strategy, business planning, and business improvement. In both companies, the impetus for building their own brands was the crisis caused by poor performance. There were changes in the business environment, such as the global recession, disasters, changing consumer needs, and the spread of the Internet. They have developed management strategies



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and plans and have transformed their businesses in response to changes in the business environment. Moreover, the companies have been building their own brands.

The second phase is in-house product development. A planning meeting is held with both inside and outside stakeholders of the company to gather opinions. They make prototypes and go through a trial-and-error process to commercialize their products. The companies' in-house product development and quality improvement efforts are closely related to building their own brand. In addition to their historical background, the companies make their own products while reaffirming the "feelings" and "values" embedded in the products they offer.

In the third phase, based on the in-house product development in the second phase, the companies proceed with customer development and distribution development. They then participate in exhibitions and business meetings and seek evaluations of your products from the participants. Moreover, they promote information exchange to understand the needs of customers. If there is an order from a company, they respond to it. They also open a store at exhibition events. The information obtained here can become a turning point in the company's growth.

The fourth phase, human resource development, involves the education of management and employees. Education is provided through practice and execution in the management strategy and planning, new product development, and customer development and distribution development phases.

Moreover, improvement activities, such as 3S (sorting, setting-in-order, and shining: Japanese methods for factory improvement) and factory development, are also promoted. Because small companies have few management resources, daily work practice is often the avenue for training. Moreover, it is important to be aware of the experience and knowledge that can be gained from new product and customer development from the management plan and view it as an opportunity for growth.

The next step in Phase 4 is to return to Phase 1. In the process of advancing from Phase 1 to Phase 4, the knowledge and experience learned by management, employees, and the organization are fed back to Phase 1. Thus, the management strategy and plan are reviewed to improve management. In any phase of this cycle, it is essential to constantly review the company's own brand building process. The first and most important step in building one's own brand is to provide one's own "thoughts" and "values." Without the company's "feelings" and "values," its products and services will not penetrate customers with high supply levels.

The next most important aspect is communication. This includes internal communication between management and employees and among employees, as well as communication with customers and suppliers. As the cycle of the brand building process is repeated, communication with all stakeholders deepens through the "thoughts" and "values" that are incorporated into the company's products and brand. This knowledge is also fed back to the organization. As employees and the organization learn more through repeated cycles of the brand building process, trust is created. This includes the trust created by the business track record and trust in the quality of the company's products. Moreover, as the cycle continues and employees and the organization learn more, profitability increases. As the company provides customers with products and services that incorporate the company's aspirations and values, communication is deepened and trust is created, which will inevitably reflect in the company's business performance. Finally, there is motivation. As these cycles permeate the organization, employees become more motivated. This leads to a desire to contribute to the company and a sense of belonging.

This four-step process of building a company's own brand and its repeated cycles are concrete steps for small companies with limited management resources to be successful in building their own brands. The function of each of these steps needs to be consciously executed. The cycle is also repeated consciously. With each repetition, the level of building the company's



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brand increases, and the learning level of the organization deepens. Along with the learning level, management, employees, and the organization will grow.

7. Conclusions

Compared with research on large firms, there is little research on small and medium-sized firms and even less on small firms. Small firms have very few management resources, and their presidents are often highly influential and lead decision-making. Few studies have presented a specific development framework based on a small company's brand building process. Although most of the existing studies on brand building for SMEs include medium-sized enterprises, it is difficult to apply them to micro and small enterprises.

In addition, only a few studies have pointed out the specific functions of brand building and the relationships among these functions. There is no study about the creation of value and credibility through learning that is realized by building a company's own brand or motivating the members of the organization. Therefore, we have presented a specific framework for the process of brand building and corporate growth.

Only a few academic studies have also focused on the process that Japanese small firms use to build their own brands. Because of the uniqueness of small firms, where managers are highly influential and make most decisions, we employ qualitative research that is based on semi structured interviews with managers and participant observation.

We then attempted to construct an inductive theory through case studies. In doing so, we referred to Japanese management theory and knowledge creation theory. Further elaboration of the theory is needed in the future.

The two companies used for the case study have progressed through each stage of building their own brands, learning and growing through this cycle repeatedly. By consciously repeating the four steps, from the management strategy, management planning,

and management improvement stages through the in-house product development stage to the customer development and distribution development stages and then to the human resource development stage, the organizations have become places where they learn from each other and grow together. Both management and employees are gaining confidence in their ability to contribute to society through the value creation of their own products for which they have built their own brands. Small companies with limited management resources are required to change to proactive and strategic management and to grow into an organization that deepens learning by building its own brand.

A limitation of this study is that it does not examine its application to other industries. A future study can apply the framework of the process model for building a company's own brand to small companies in the service industry. Future work can also apply the model to international firms and firms in other countries.

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