mipro

The Mipro Guide to Starting a Business in Japan

～Drawing up a Business Plan～

外国人のための起業ガイドブック
（事業計画書策定編）

To those who read this Guidebook

The Mipro Guide to Starting a Business in Japan describes what foreign nationals need to do in starting a business in Japan mainly as company manager (proprietors) by theme. The series of the guidebooks consist of eight titles: “Preparations for Startup,” “Startup Q&A,” “Status of Residence,” “Obtaining Authorization,” “Drawing up a Business Plan,” “Tax Edition,” “Establishing a Company,” and “Public Insurance and Employment Management.”

If you are a foreign national planning to start a business in Japan, you should draw up a business plan when you have determined the direction of the business and worked out the outlines of a plan and timetable for the startup after conducting a study concerning the status of residence, developing a business concept, and considering how to raise funds. The plan should summarize the specifics that you have studied until then. A business plan is a plan of implementation that describes, in a coherent manner, specific actions that should be taken in order to realize your ideas and visions.

This guidebook explains and describes the specific items that you should include in a business plan, the points to which you should give consideration when drawing up a business plan, and the manner of writing it. Other matters relevant to the business startup process will also be mentioned as appropriate. However, for details, refer to the other series on the respective subjects.

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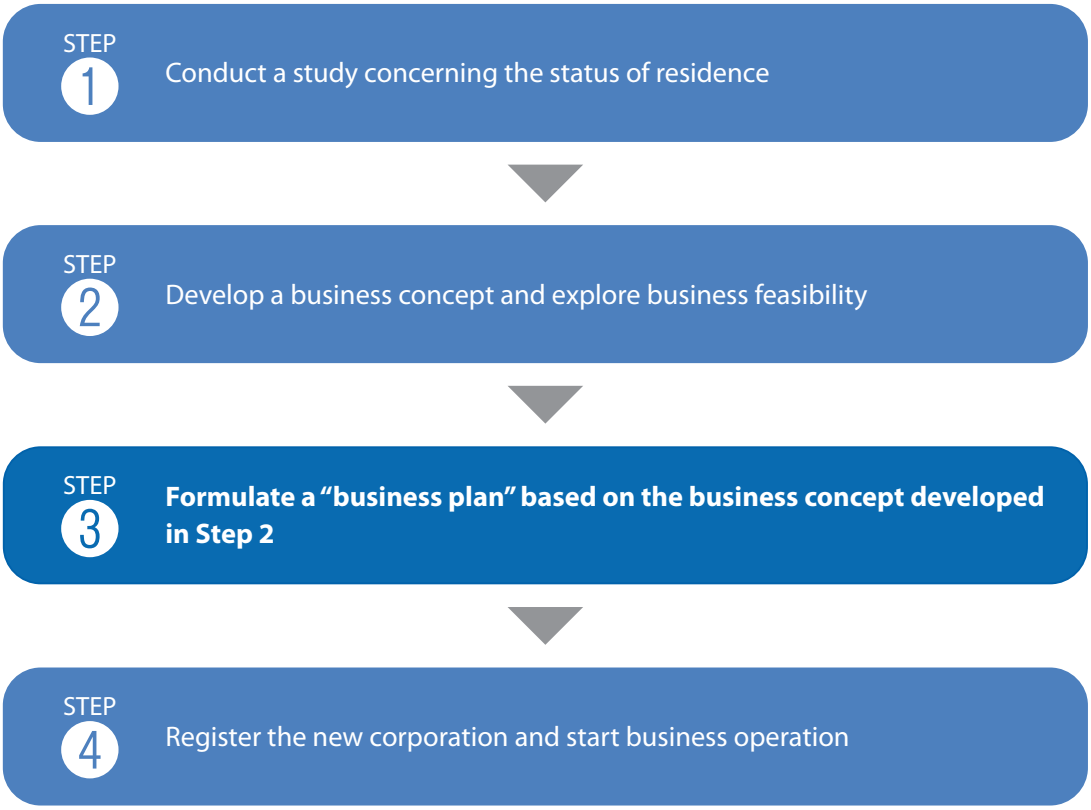
I Position of a business plan in the startup process

The startup process may vary depending on whether you start a business as a sole proprietorship or by setting up a corporation. When you plan to start a business by setting up a corporation, the standard process is as follows.



This guidebook provides explanations concerning a "business plan" developed in **Step 3**. A business plan describes how you plan to conduct which sort of business going forward. The purposes of drawing up a business plan are (1) to objectively evaluate your planned business and (2) to map out the vision of how to realize a business that can be recognized by stakeholders as a going concern.*

*A going concern is a company operating on the premise of continuing to exist and conduct business activity for the foreseeable future.

You should not necessarily draw up only a single business plan for each business. Two or more different versions of a plan may be drawn up according to your objectives. When you prepare a business plan intended to be submitted to financial institutions, for example, the plan constitutes an important basis for the potential lenders to make decisions concerning the provision of credit. Generally speaking, the more refined your business plan is, the more likely you are to be able to obtain not only loans from financial institutions but also capital contributions from other parties and financial assistance, such as a subsidy and a grant, from the national and local governments. The key to drawing up a successful business plan is to describe the originality, feasibility, reliability, profitability, and continuity of your business in a convincing manner.

In relation to the status of residence, a business plan constitutes a basis for judgment as to the presence or absence of "business continuity," one of the important criteria for local immigration and residency control authorities to decide whether or not to provide a status of residence "Business Manager" to foreign nationals planning to start a business in Japan. When you plan to start a new business, it is essential to draw up a feasible business plan that is specific and rational in substance. The residency control authorities make judgement as to continuity and stability not only in terms of the size of the company's equity capital but from a comprehensive perspective encompassing various other factors, such as its revenue, profitability, number of employees, and the status of preparing facilities. If your business is seen as likely to be derailed during the period of your residence, you will not be granted a status of residence "Business Manager." You should not only draw up a business plan for the first year of operation but also prepare business plans for several years ahead in advance as appropriate and submit all those plans accompanied by a trial balance sheet prepared by an expert such as a tax accountant or an SME (small and medium enterprise) management consultant.

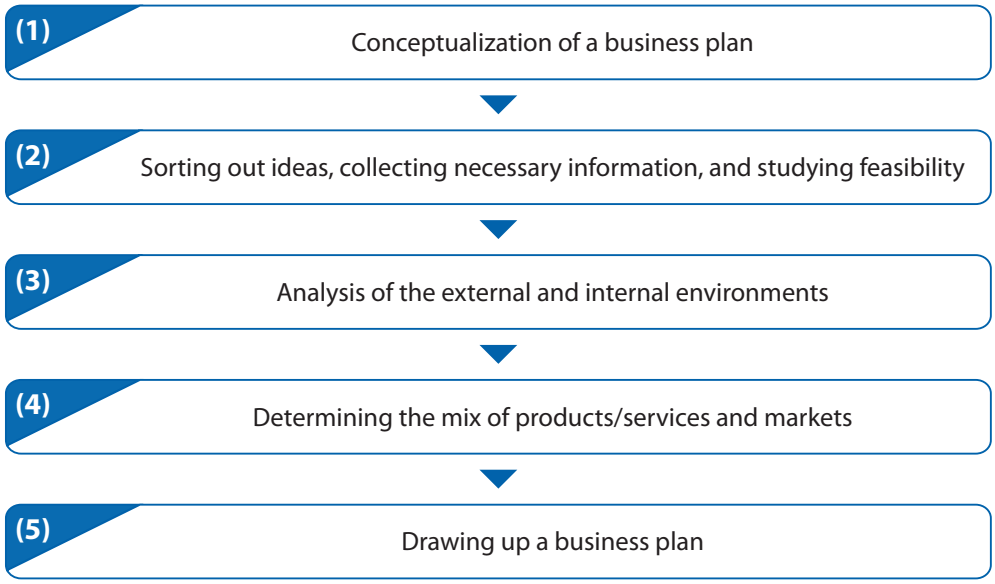
As explained above, a business plan serves as an important compass for conducting business. Therefore, it is important to make sure that your business plan is an objective and convincing one so that you can obtain understanding and sympathy from third-party persons whichever pattern of writing you may adopt.

Drawing up a business plan is important regardless of the business sector or the type of business. While the specifics of the plan may vary depending on the business sector or the type of business, for the sake of convenience, this guidebook is intended in principle for those who plan to start a business in the sector of commerce, such as retail trade. Therefore, if you are using this guidebook to prepare a business plan for manufacturing business, you should substitute some terms with others as necessary (e.g., substitute "product procurement" with "product manufacturing").

II Drawing up a business plan

1 Procedures for drawing up a business plan

When drawing up a business plan, the following procedures should be taken as a general rule.



(1) Conceptualization of a business plan

Drawing up a business plan means giving concrete forms to the ideas (conceptualization) that you have in your mind for starting and conducting a business. In the conceptualization process, you should bear in mind the reasons for drawing up a business plan, including to whom the plan will be presented and for what purposes it is intended, the specifics that should be included in the plan, the overall volume of the plan, and the timing of producing a finished plan.

(2) Sorting out ideas, collecting necessary information, and studying feasibility

The first step is to study the feasibility of your ideas from various viewpoints, including what sort of business you would like to start, whether there are market needs, and whether the skills and experiences that you have are sufficient for starting and conducting the business. In doing that, it is essential to identify and analyze the surrounding business environment as accurately as possible in order to arrive at a more rational conclusion.

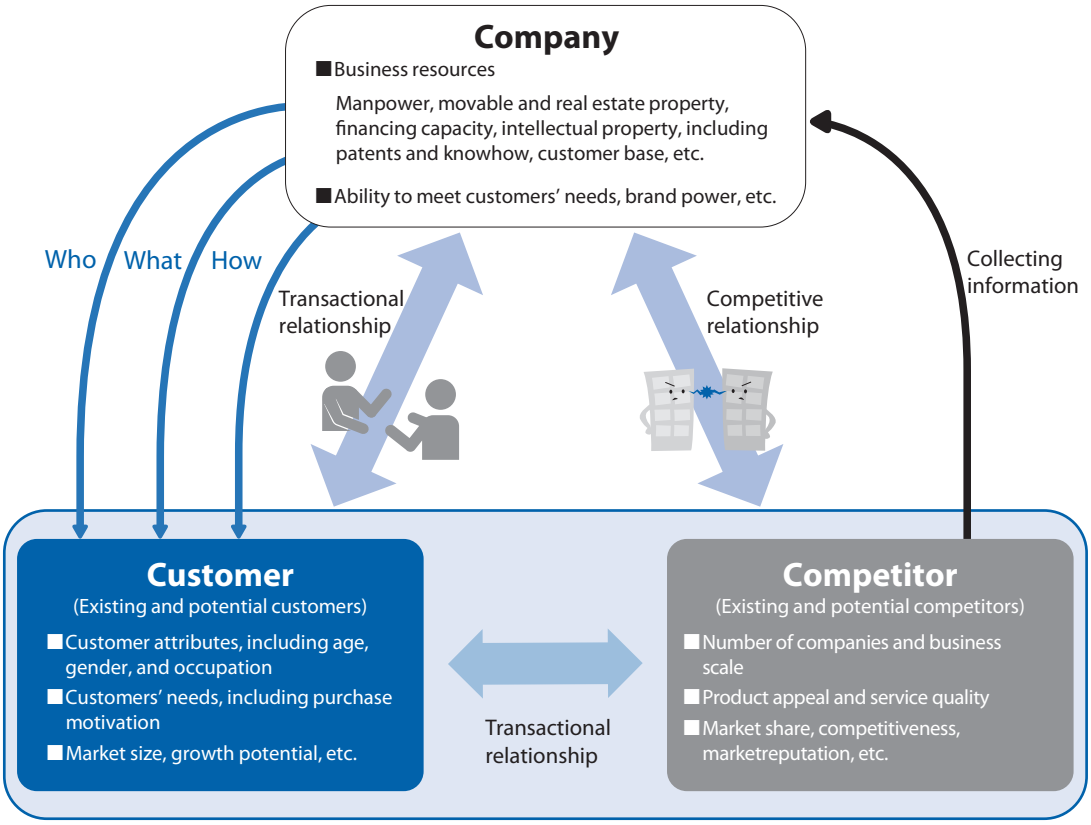
At this stage, you should collect **existing data and information on market size, prices, and competitors' activities**, among other matters. Before collecting information, you should determine the items of information that should be collected and set the timeframe for collection activity. When you have collected necessary and sufficient information, you should select the pieces of information that are useful for conducting your business and promptly move on to the following steps, such as the analysis of the findings. If you are overly absorbed in the process of collecting information, you could waste time or be overwhelmed by a flood of information.

For the analysis work, you may use "3C analysis, which is centered around the three key elements, **"Company," "Customer," and "Competitor,"** for example.

3C analysis enables you to develop business strategy through the processes of identifying, investigating, and analyzing the current situations of your company, customers, and competitors. 3C analysis gives you a full picture of your business by closely examining those three elements. In particular, it is considered to be suited for developing strategy when information necessary for starting a new business is lacking.

You should start by identifying the current situations of the three elements based on facts using the 3C modelling framework and find how to execute business strategy based on the analysis of the information thus obtained. When using this framework, it is important to examine the three elements in a well-balanced manner.

Chart 1　3C modelling framework



It is difficult to accurately forecast how the market will play out in the future. The important thing to do is to increase the precision of the forecast based on objective data, rather than expect the future to evolve as a mere extension of the status quo or depend on intuition. In the long term, it is inevitable for products and services to become obsolete or reach the end of their lifecycles. It is important to take into consideration what should be done in the medium and long terms when your products/services have become obsolete.

The chart below shows potential means to collect information on trends related to customers, markets, and industries and to compile a collection of cases that may serve as a benchmark, and potential sources of information.

Chart 2 Methods of obtaining market analysis information

	Organization	Reference sources	URL (Available in Japanese)
Statistical data and reports published by administrative organizations, financial institutions, industry associations, etc.	Small and Medium Enterprise Agency	White papers and statistics	https://www.chusho.meti.go.jp/koukai/chousa/index.html
	Japan Finance Corporation	Management Index Survey of Micro and Small Enterprises	https://www.jfc.go.jp/n/findings/shihyou_kekka_m_index.html
	Statistics Bureau, Ministry of Internal Affairs and Communications	Surveys concerning population and households and statistics in a broad range of fields, including labor, wages, and commerce and service industries	https://www.stat.go.jp/
Economic associations	Tokyo Chamber of Commerce and Industry	List of survey results	https://www.tokyo-cci.or.jp/survey/various/
	Organization for Small & Medium Enterprises and Regional Innovation, JAPAN	Program to support startup efforts (consultations on strategy development, business plans, fund procurement, capital policy, customer acquisition, financial and legal affairs, etc.)	https://www.smrj.go.jp/venture/bace/reboot/index.html
		Tools for developing business plans	https://tsukurukun.smrj.go.jp/
	J-Net21	List of occupation-specific market survey data	https://j-net21.smrj.go.jp/startup/research/index.html
	Japan External Trade Organization (JETRO)	Basic information related to overseas marketing	https://www.jetro.go.jp/industry/foods/marketing.html
	Manufactured Imports and Investment Promotion Organization (MIPRO)	Consultations on the procedures regarding import business, establishment of companies and business startup, etc.	https://www.mipro.or.jp/
Newspapers (general newspapers and industry newspapers), professional journals, etc.	Toyo Keizai Inc.	Japan Company Handbook	https://str.toyokeizai.net/-/sol/personal/
Marketing research companies, etc.	Major research companies		

(3) Analysis of the external and internal environments

The next step is to determine the business domain* in preparation for developing marketing strategy, analyze the external environment, and to regard factors that have a positive impact on the business domain as "opportunities" and factors that have a negative impact as "threats."

On the other hand, by analyzing the company's internal resources, you should identify the "strengths" and "weaknesses" of your company. Then, you should demonstrate the company's growth potential by deftly connecting the "opportunities" identified through the analysis of the external environment with the inherent "strengths." The analysis of internal resources tends to be optimistic. It is important to conduct objective evaluation by incorporating inputs from the outside.

*A domain refers to a field of business covered by a company.

By clearly defining your company's business domain, you can clarify the field where the company's limited resources should be concentrated. In the case of a railway company, for example, the business domain may be defined as "service of transporting passengers by railways." However, as a company's business domain not only demarcates its field of business but also sets the direction of the company's future development, a preferred approach is to express the domain as an expansive concept. For example, the railway company may describe its business domain as "total service for residents in the areas along the railways," bearing in mind a future comprehensive development project for those areas, including real estate development.

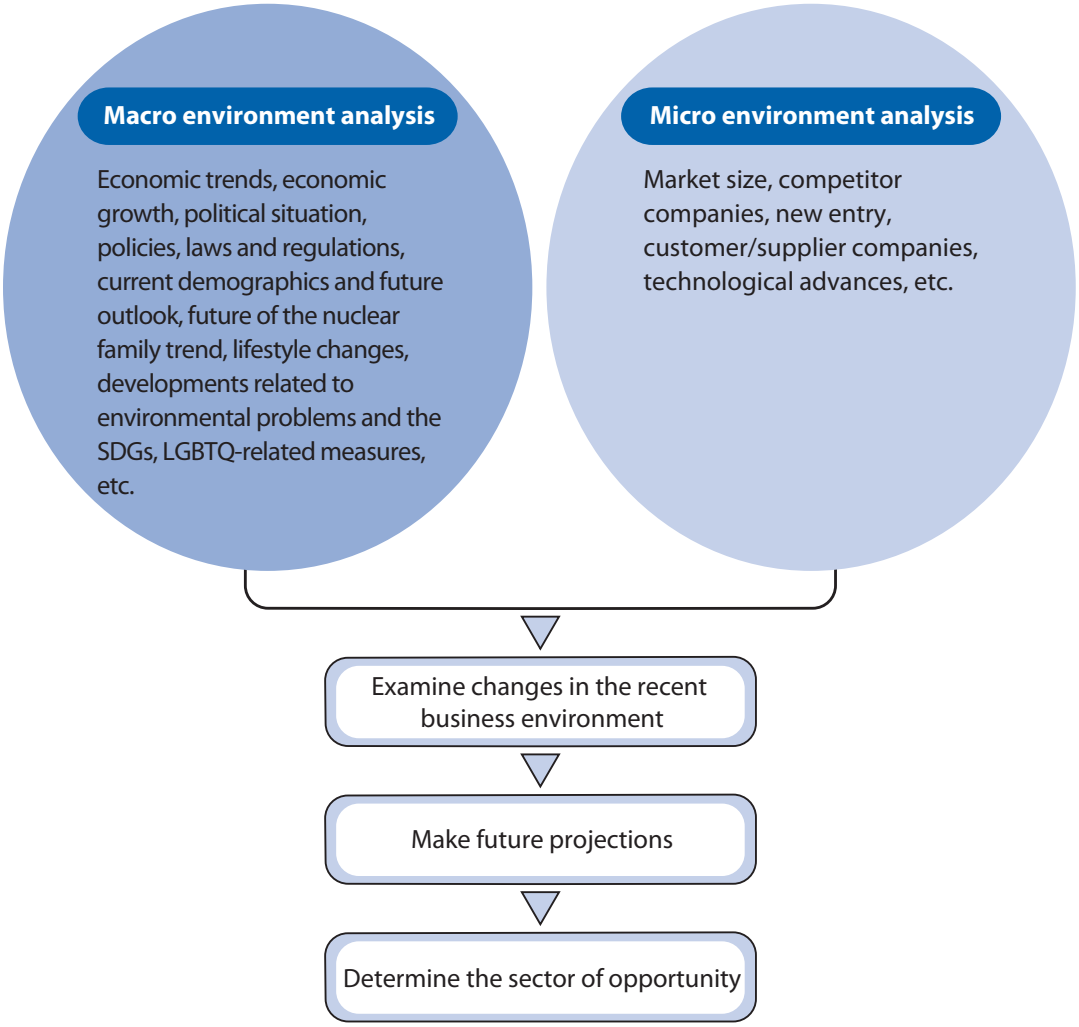
Chart 3 Examples of SWOT analysis (case of a toy shop)

	Positive factors	Negative factors
Internal environment	**Strength** ■ Good location (easy access) ■ Large store space (with a playground for children) ■ Strong product design capability	**Weakness** ■ High employee turnover ■ A shortage of staff with IT skills ■ A lack of product development capability
External environment	**Opportunity** ■ Popularization of educational toys ■ A market receptive to high-priced products ■ "Six pockets" phenomenon*	**Threat** ■ Market entry by companies from different business sectors, and increasing competition ■ Shrinking population of children ■ Weak yen (an upsurge in the cost of importing raw materials)

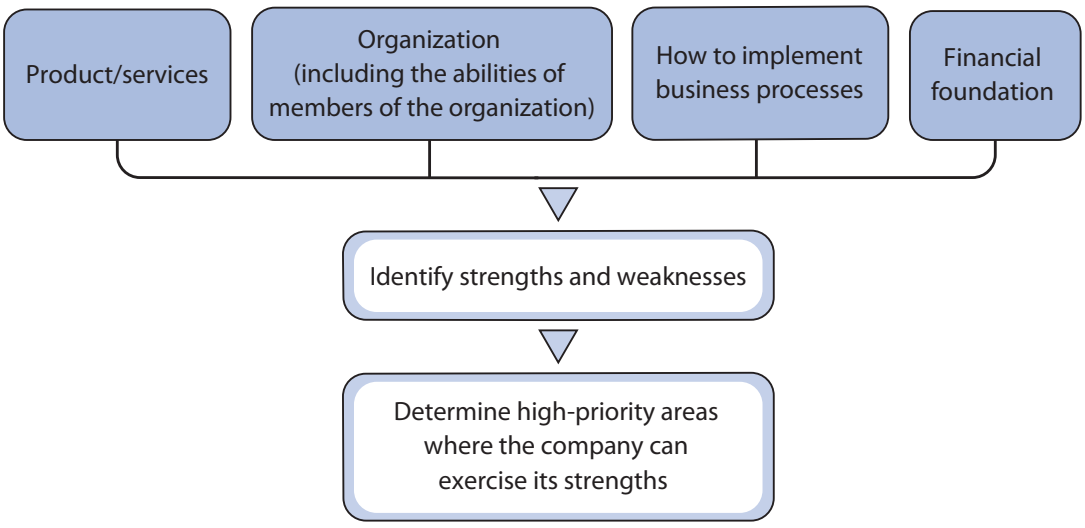
* The six pockets phenomenon refers to the situation of an only child blessed with the presence of six close relatives – the parents and grandparents on both the father's and mother's sides – who are willing to buy expensive products on behalf of the child.

The procedures of the SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis are as follows. You should analyze factors related to the external environment and the internal environment, respectively, and determine the areas that provide "opportunities" to your company and the areas where the company can exercise "its strengths." At the same time, you should identify the factors that constitute the company's "weaknesses" or pose "threats" to the company and consider ways of overcoming or mitigating those factors.

1) Analysis of the external environment (identifying opportunities and threats)



2) Analysis of the internal environment (identifying strengths and weaknesses)



Regarding the analysis of the internal environment, it is important to **prioritize business areas depending on how the company can exercise its strengths** in the conduct of business and select high-priority areas, rather than exhaustively list the areas of strength. Attaching to the business plan a table of strengths and weaknesses compared with other companies may be helpful for facilitating understanding.

Relevant knowledge

"Key points for developing marketing strategy"

Based on the results of the analysis of the external and internal environments, you should consider the specifics of marketing strategy. The procedures for developing marketing strategy are as follows:

Chart 4 Procedures for developing marketing strategy

Determination of the business concept and domain	Determine the concept and domain of the business that you plan to conduct.
Market segmentation **Determine the target market**	Classify the market by segment, such as age and purchase motivation, and select the market best suited to your company's domain. (Regarding the criteria for segmentation, see p. 26.)
Determine your company's market position	Clarify the differences of your company's products/services compared with competitors' products/services
Determine the marketing mix	Product Price Place Promotion Consider the most desirable mix of the various factors necessary for achieving the targets in the market. Generally speaking, the four factors known as the "4P" constitute the most desirable mix. Recently, "**Logistics**" has also become an important factor.
Review and recheck	Is your marketing mix the one best suited to the target market? Is there consistency between the four factors? Is there not an inconsistency across all the processes?

(4) Determining the mix of products/services and markets

After determining the high-priority areas where the strengths can be exercised, the next step is to determine the mix of products/services and markets in preparation for advancing into a market. There are four mixes, out of which you should choose one that is best suited to your business strategy.

Chart 5 Mix of products/services and markets

Market	Products/services: Existing	Products/services: New
Existing	**Market penetration strategy** Launch existing products/services in existing markets	**New product development strategy** Launch new products/services in existing markets
Existing	Example: Sales of summertime beverages in wintertime as well.	Example: Automaker's launch of a new vehicle
Existing	Challenge: Increasing the public recognition of the product/service launched and stimulate buying appetite	Challenge: Developing products/services that have been adapted to changes in the needs in existing markets or that can differentiate themselves from offerings from competitors
New	**New market development strategy** Launch existing products/services in new markets	**Diversification strategy** Launch new products/services in new markets
New	Example: Sales in foreign markets of existing products/services so far sold exclusively in Japan	Example: A home appliance maker's entry into the business of manufacturing and selling furniture
New	Challenge: Strengthening not only product appeal but also the "sales capability," including sales force and sales network	Challenge: The risk of costs, including product/service development cost and marketing cost. A high risk, high return proposition

Generally speaking, new product development strategy is employed in mature markets, such as the markets for automobiles and beer. Meanwhile, diversification strategy involves significant risk in terms of cost in many cases.

Due to the impact of the COVID-19 crisis, the management and business environments have changed drastically, resulting in paradigm shifts in many business sectors. As a result, existing business models have become less effective than before, so it has become necessary to find a growth strategy suited to the new paradigms of the post-Covid era. In cases where entire domestic and foreign markets have all but evaporated due to the COVID-19 crisis, it is difficult to adapt to the situation with market penetration strategy (launch of existing products/services in existing markets). In many cases, it is essential to rethink strategy with diversification as the main possible option.

There are four pattens of diversification. As all those patterns involve risks, it is desirable to mitigate the risks by taking advantage of the synergy achieved in terms of production, sales, technology, and management. The characteristics of the four patterns of diversification are as follows.

A) Horizontal pattern

Under the horizontal pattern of diversification, companies launch new products/services in existing or similar markets while taking advantage of the technologies and knowhow that they have so far acquired. The companies can expect to achieve synergy effects by using existing technologies and facilities.

Example: Production of commercial vehicles by a passenger car maker

B) Vertical pattern

Under the vertical pattern of diversification, companies launch new products/services in markets similar to existing ones, such as markets located more upstream or downstream in the value chain. Compared with the horizontal pattern, the vertical pattern entails a heavier burden in terms of the acquisition of necessary technologies and facilities. On the other hand, while it is necessary to cultivate knowhow, it is possible to take advantage of relationships with existing business partners.

Example: An apparel maker's entry into the apparel retail sector, which is located downstream in the apparel value chain (forward diversification) and entry into the raw materials supply sector, which is located upstream (backward diversification)

C) Concentric pattern

Under the concentric pattern of diversification, companies launch new products and services centered around existing technologies and knowhow that constitute their strengths in new markets. Marketing expertise is essential to this pattern of diversification.

Example: A camera maker's entry into the medical lens sector

D) Conglomerate pattern

Under the conglomerate pattern of diversification, companies enter sectors not related to either existing products/services or existing markets. Compared with the other three patterns, the conglomerate pattern realizes weaker synergy effects from existing technologies and markets and involves higher risks.

Example: A convenience store operator's entry into the financial industry

When you have decided to pursue diversification strategy, the pattern of diversification that you should choose varies depending on what kind of synergy you expect. The important thing is to select the diversification strategy best suited to exercise your company's strengths. For example, if you seek production synergy or technology synergy, you should choose horizontal diversification. If you seek sales synergy, you should choose vertical diversification. You may gain useful insights from example cases of successful or failed diversification by other companies that are available on the internet.

Relevant knowledge

"Market positioning and competitive strategy"

The strategy that companies should adopt in the market varies depending on what market position they aim to gain relative to competitors. Philip Kotler, an American marketing scholar, summarized this point as shown below.

Chart 6 Market position and competitive strategy

	Position	Strategy to be adopted
Leader	The company with the largest market share	**Expanding market size, and maintaining and expanding market share** For the market leader, expanding market size leads directly to an increase in its sales. The market leader should seek to expand market size, and protect, maintain, and expand market share by approaching new customers and new fields, including foreign markets.
Followers	Companies that enter markets led by other companies and that follow their successful models.	**Pursuing superiority, promoting differentiation, and making continuous improvements** Markets targeted by followers are ones that have already been developed by other companies, so there is intense competition in those markets. Followers cannot establish market superiority unless they can differentiate themselves from other companies. Followers should find their own strengths and differentiate themselves by taking advantage of the strengths. At the same time, they should seek to expand market share by continuously making improvements and by enhancing customer satisfaction.
Challengers	Companies aiming to become the leader	**Pursuing differentiation from the leader and attracting customers from followers** Challengers should provide unique products/services not available from the leader, capture market segments where followers have superiority, and advance into trade areas that other companies have not yet entered (replacement).
Nichers	Companies that are inferior in business resources but that are superior in originality	**Pursuing specialization and aiming to become the leader in limited market segments (niches)** Nichers should adopt a strategy that delivers high profitability by taking advantage of unique products/services to create market niches that are difficult for the leader and challengers to enter.

When deciding which of the above strategies to adopt, it is important to make clear what market position your company would like to gain and select a strategy suited to the market environment. In the case of small and medium-size enterprises (SMEs), business resources are usually limited, so prioritizing products and market segments and allocating resources to high-priority products and market segments is more efficient than launching a great variety of products or allocating business resources to many market segments. Many factors are involved in the market strategy decision. When you are in doubt over the decision, you should consider consulting an expert, such as an advisor at a local chamber of commerce and industry or an SME management consultant (see p. 44, III). It is also advisable to make routine efforts to build a network of personal connections by participating in meetings for exchange between people from different business sectors, for example.

(5) Drawing up a business plan

Below, we explain the practical processes of drawing up a business plan. Generally speaking, a business plan is comprised of the "business concept" section, "specifics of business" section, "financing plan" section and "profit and loss plan" section. There is not an official format or template, but when drawing up a business plan, it is important to always keep in mind who the readers are and to make sure that what you would like to communicate is clearly and accurately conveyed to the readers. First, we show a sample business plan, and then we explain the points of attention for drawing up a business plan on an item-by-item basis.

Sample business plan

Business Plan

◆Overview of the company and the career background of the proprietor

1) Overview of the company

("Business name" (registered or to be registered) and whether it has "Trade mark" or not should be described.)

Representative	
Company name	
Business name	
Trade mark	Yes (Registered Not registered) No
Date of establishment	Month/date/year (Already established Planned to be established)
Address	〒

2) Career background of the proprietor

(The jobs and tasks so far performed, and the qualifications and skills so far acquired)

Month year	

◆Overview of the business

1) Business concept

1. Motivation for entrepreneurship

2. Outline of the business

(The overview should be explained concisely. For details, see p.17 2) 1.)

3. Market environment (opportunities and threats) and internal factors (strengths, weaknesses and advantages)

4. Objectives

5. Challenges for achieving the objectives and the approach to resolving them

2) Specifics of the business

1. Concrete specifics of the business

2. Strong points

3. Sales plan

A) Trade area and target scale of sales

B) Sales personnel

C) Sales method

D) Promotion method

Major customer companies

(in the case of business-to-business commerce)

Name of the customer company	Address	Target share	Terms of trade and other noteworthy items
		%	
		%	
		%	

4. Procurement plan

Major suppliers

Supplier name	Address	Target share	Terms of trade and other noteworthy items
		%	
		%	
		%	

5. Facility and equipment plan

6. Manpower plan

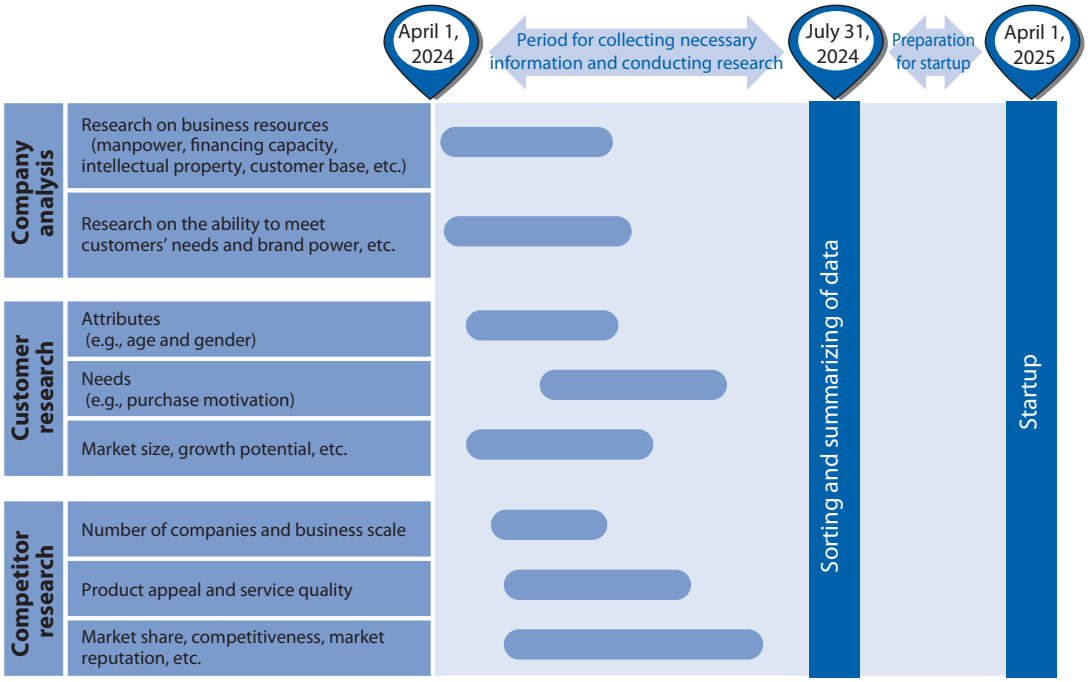
(e.g., permanent employees and part-time employees)

As for the method of calculating the appropriate number of employees, see p. 29, 6

	Permanent employee		Part-time employee
Job A	Position a Position b Position c	persons persons persons	 persons
Job B	Position a Position b Position c	persons persons persons	 persons
Job C	Position a Position b Position c	persons persons persons	 persons

7. Business timetable

Timetable for the period leading to startup (example)



3) Financing plan

(1,000 yen)

Necessary funds		Procurement method	
Item	Amount	Item	Amount
< Equipment funds > a. Stores, factories, etc. (Breakdown) b. Facilities and equipment, etc. (Breakdown)		< Personal funds > < Loans > a. Loans from parents, other family members, relatives, acquaintances, friends, etc. (Breakdown & repayment method) b. Loans from the Japan Finance Corporation (Breakdown & repayment method) c. Loans from private financial institutions (Breakdown & repayment method) d. Financing from other sources (Breakdown & repayment method)	
< Operating funds > *(Costs of purchasing necessary products for starting a business, payment of salaries, payment of expenses, immediate cash on hand, etc.)* (Breakdown)			
Total amount		Total amount	

4) Profit and loss plan

(1,000 yen)

			First year after startup	Period after business gets on track (around MM/YY)	Remarks
Sales volume		①			
Cost of sales		②			
Gross profit (① − ②)		③			
Ratio of gross profit to sales (③/①×100)		④	%		
Expenses	Payroll				
	Interest paid				
	Rent				
	Utilities				
	Depreciation	⑤			
	Selling, general and administrative expenses				
Total expenses					
Operating profit					
Non-operating profit/loss					
Ordinary profit					
Extraordinary profit/loss					
Pre-tax net profit					
Corporate tax, etc.					
Net profit		⑥			
Repayable amount (⑥ + ⑤)					
Repayment of debts					

< Repayment plan >

(1,000 yen)

		Term 1	Term 2	Term 3	Term 4
Debt repayment sources	Carry-forward cash and deposits (①)				
	After-tax profit for the term (②)				
	Depreciation (③)				
	Total (④) (= ① + ② + ③)				
Repayment of debts (⑤)					
Carry-forward cash and deposits (④ - ⑤)					

Points of attention for drawing up a business plan

◆Overview of the business

1) Business concept

1. Motivation for entrepreneurship

The important thing to do is to express your passion for entrepreneurship in your own words, not the words and phrases borrowed from someone else or other sources. As you describe business activity, earning profit is naturally important, but describing what you would like to achieve other than earning profit through your company as a going concern will make your business plan a more convincing one.

- Why do you want to engage in that business? What is your management ideal?
- The motivation for and the background to your business plan, the social environment, the social significance of the business.

2. Outline of the business

Under this item, only concise descriptions should be provided. The details should be described in "2) Specifics of the business 1. Concrete specifics of the business."

- How will the founder's career background and the experience, knowledge and qualifications acquired by him/her be leveraged?
- What will your company provide to whom? How will it do that?

3. Market environment (opportunities and threats) and internal factors (strengths, weaknesses and advantages)

What you describe under this item will be a test of how deeply you have considered the specifics of the business based on rational evidence.

- The political, economic and social situations, market size, the situation of competitors, and the presence or absence of regulation
- Your company's position in the industry, and its strengths, weaknesses, and potential

4. Objectives

- How would you like to grow your business? What are the prospects for the future of your business?

5. Challenges for achieving the objectives and the approach to resolving them

- The processes for and means of putting the business into practice
- Assumed challenges, problems, and obstacles and the approach to resolving them

2) Specifics of the business

The specifics that should be described vary depending on the business sector or the type of business.

Example case of the business of commerce

1. Concrete specifics of the business

- The concrete specifics of products and services to be provided by the company
- Target markets and customers (short-, medium- and long-term outlooks)
- Transaction partners, supporters, and sponsors (those who supply funds, help find customers or suppliers, or provide technical support, etc.)

Key points

Concrete descriptions of supplier and customer companies make your business plan more credible. When seeking loans, you should prepare to provide as concrete descriptions as possible so that you can convince financial institutions that you are making adequate preparations.

2. Strong points

- The factors that put your company at an advantage over competitors in the market, such as the distinctive features of your business and the patents and knowhow that differentiate your business from others.

  Cost advantage (low cost):

  when you aim to gain a competitive advantage by reducing production and other costs

  Differentiation:

  when you aim to gain a non-price competitive advantage in terms of quality, branding, and service

  Focused approach:

  when you aim to capture market share regarding particular products or in particular markets by adopting the strategy of targeting niche markets

3. Sales plan

A) Trade area and target scale of sales

Calculate the target scale of sales based on the population size, the number of households, and the demographics in the trade area.

B) Sales personnel

Will you and your family entirely undertake the task of selling products/services?

Do you plan to employ non-family members, such as temporary staff or other outside workers?

C) Sales method

Key points

Among the possible sales methods are store sales, via door-to-door sales, and home shopping sales. Depending on the type of products, it may be necessary to obtain qualifications or licenses for home shopping sales, including catalogue sales and internet sales, or there may be regulations, as shown below. You should check on that point with the administrative authorities in charge according to the type of products handled by your company in order to ensure full compliance with all relevant requirements and regulations.

a. Licenses and qualifications for selling products
e.g., appointment of personnel in charge of food hygiene

Chart 7 Authorization categories

Category	Specifics	Example cases of businesses subject to permission/ authorization	Law constituting the basis for permission/authorization	Application screening authority*
Notification	It is sufficient to notify the relevant authority of some items.	Barber shops and beauty parlors	Barbers Act	Public health center
		Cleaning business	Cleaning Business Act	Public health center
Registration	It is necessary to apply for registration with the relevant authority and to be registered on the prescribed list (public list).	Travel business and travel agency business	Travel Agency Act	Relevant prefectural government
		Demolition work business	Construction Business Act	Relevant prefectural government
		Warehousing business	Warehousing Business Act	Regional Transport Bureau
Permission	Prohibition is the principle, but you can start business if you have applied for permission with a relevant authority and passed the screening.	Taxi business and bus business	Road Transportation Act	Regional Transport Bureau
		Construction business	Construction Business Act	Relevant prefectural government
		Pharmacies and drugstores	Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices	Public health center
		Eating and drinking establishments**	Food Sanitation Act	Public health center
			Act on Control and Improvement of Amusement Business	Police station
Authorization	You can start business if you have applied with a relevant authority and have been recognized as meeting the prescribed requirements.	Nurseries	Child Welfare Act	Relevant prefectural government
		Security business	Security Services Act	Police station
License	Persons who have obtained a prescribed qualification can start business if they have applied with a relevant authority and have been recognized as meeting the prescribed requirements.	Liquor production business	Liquor Tax Act	Tax office
		Liquor sales business	Liquor Tax Act	Tax office
		Real estate brokerage business	Real Estate Brokerage Act	Relevant prefectural government

* The application screening authority may differ from region to region.
** When liquor is provided for consumption after midnight, the Act on Control and Improvement of Amusement Business is applied.

b. Regulations regarding product labeling
e.g., country of origin labeling regulation
c. Regulations concerning store management
e.g., the prohibition of misleading advertisement and other regulations concerning representations based on the Act on Specified Commercial Transactions

D) Promotion method

Promotion is an activity to inform customers of the presence of products/services and encourage them to purchase and experience them. Depending on how you appeal to customers, promotion can broadly be divided into five categories.

a. Advertising
Conveying the company's messages on a paid basis via media outlets such as newspapers, magazines, TV, and radio
b. Personal sales (activity by sales personnel)
Sales activity conducted by sales personnel, including store sales and door-to-door sales
c. Publicity
Giving products and services exposure to the public by having them featured by mass media.
d. Sales promotion
Sales promotion activities other than the abovementioned ones
e.g., prize promotion, handing-out of samples, bargain basement sales, holding of or participation in exhibitions and events
e. Others
e.g., social network services (SNSs), internet, and word-of-mouth

Of the above categories, **a.** to **d.** represent traditional methods of promotion. Recently, SNSs have come into widespread use because of their effectiveness in providing and disseminating information and the ease of communication with customers that they afford. An appropriate mix of promotion activities can be expected to achieve synergy effects. When using SNS-based tools, you should take due care to avoid causing incidents such as leakage of personal information and "flaming."

Key points

The appropriate promotion mix varies depending on factors such as the type of products/services handled and on the situation of customers.

In the case of consumer goods:
Customers are widely distributed.
► Priority should be placed on advertising and publicity.
Examples: automobiles, furniture, clothing, foods, and daily products

In the case of production goods:
The scope of target customers is clearcut, and the needs vary from customer to customer.
► Priority should be placed on personal sales.
Examples: raw materials, parts, machine tools, and energy/fuels.

Generally speaking, advertising is effective in cases where customers are at an early stage in the process between becoming aware of products/services and purchasing them. In later stages, personal sales become more effective as customers' interest grow.

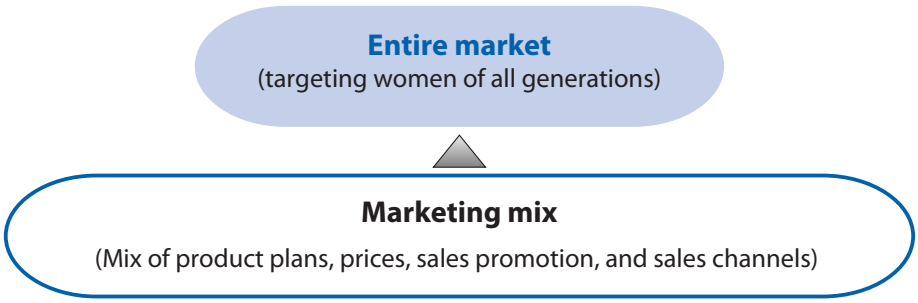
Relevant knowledge

"How to approach customers efficiently"

Marketing strategy can broadly be divided into the following four categories, depending on the target market segment: A) undifferentiated marketing, B) differentiated marketing, C) intensive marketing, and D) one-to-one marketing. For example, cosmetics makers divide the market into several segments (market segmenting) according to the gender and age group and conduct efficient marketing by creating different brands with different mixes of compounds and different price ranges tailored to the respective segments.

<Example case of cosmetics for women>

A) Undifferentiated marketing: Target all customers with no regard for differences across the entire market.



B) Differentiated marketing: Divide the market into several segments and prepare products/services and prices suited to the respective segments.

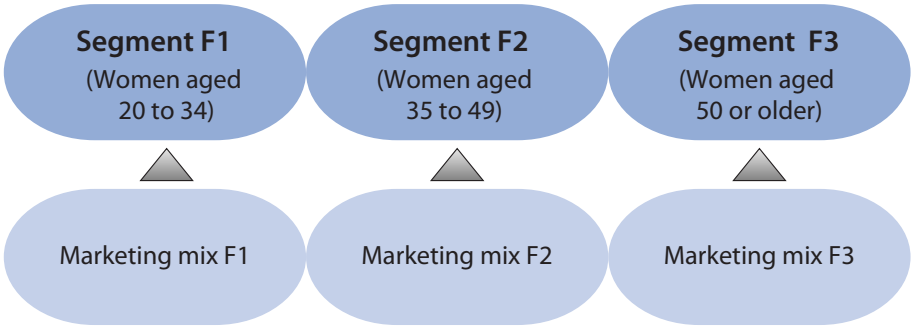
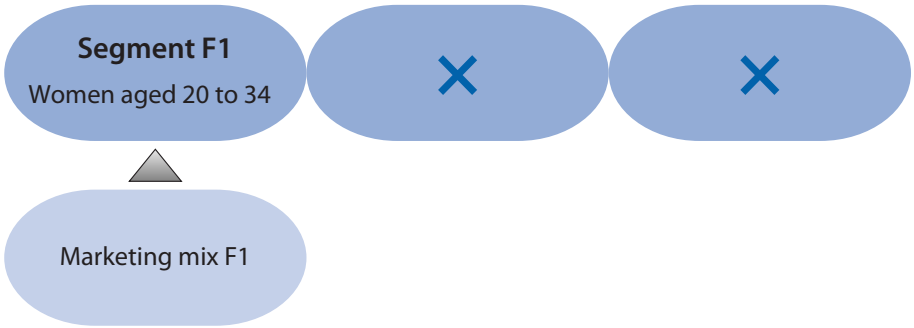


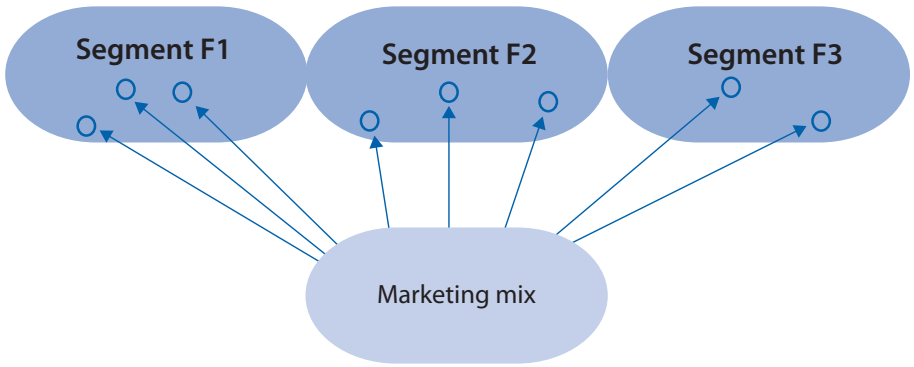
Chart 8 Standard market segmentation in marketing and segment names

Age	Men and women aged 18 or younger	Women	Men
4 to 12	Segment C	–	–
13 to 19	Segment T	–	–
20 to 34	–	Segment F1	Segment M1
35 to 49	–	Segment F2	Segment M2
50 or older	–	Segment F3	Segment M3

C) Intensive marketing: Focus on a particular segment and target customers in that segment.



D) One-to-one marketing: Cater to the respective needs of individual customers.

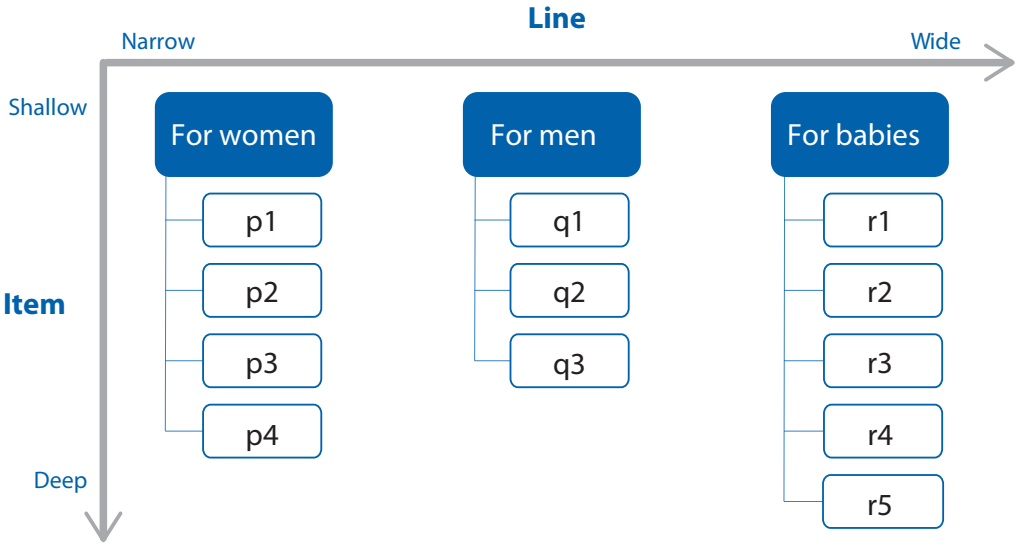


< Reference > Examples of the criteria for market segmentation

Geographical criteria	Prefectures, urban/rural areas, weather, etc.
Demographic criteria	Gender, age, generation, family composition, etc.
Sociological criteria	Occupation, income, religion, academic achievement, etc.
Psychological criteria	Values, pastimes, purchase motivations (functions and prices), etc.
Behavioral criteria	Means and methods of purchase, frequency of purchase, product knowledge, etc.
Benefits criteria	Benefits sought by users In the case of soaps: stain removal, disinfection, acne prevention, friendliness for babies, etc.

Product mix refers to an entire set of products handled by a company. Product mix is expressed as a combination of lines (which represent the "width" of the product mix), and items (which represent the "depth"). Here, let us take up Company X, a cosmetics company, as an example. Company X handles three categories of products – products for women, products for men, and products for babies – and this means that the company has three lines, so the width is expressed as 3. Each line may comprise several items. Regarding products for women, Company X handles four products, p1 to p4 – that is, the line of products for women comprises four items, so the "depth" is expressed as 4. The whole of the product mix, which is referred to as the "length," is expressed as 12 (= 4 [four items in the line for women] + 3 [three items in the line for men] + 5 [five items in the line for babies]) in Company X case, as shown in the chart below.

Chart 9 Line-item Relationship

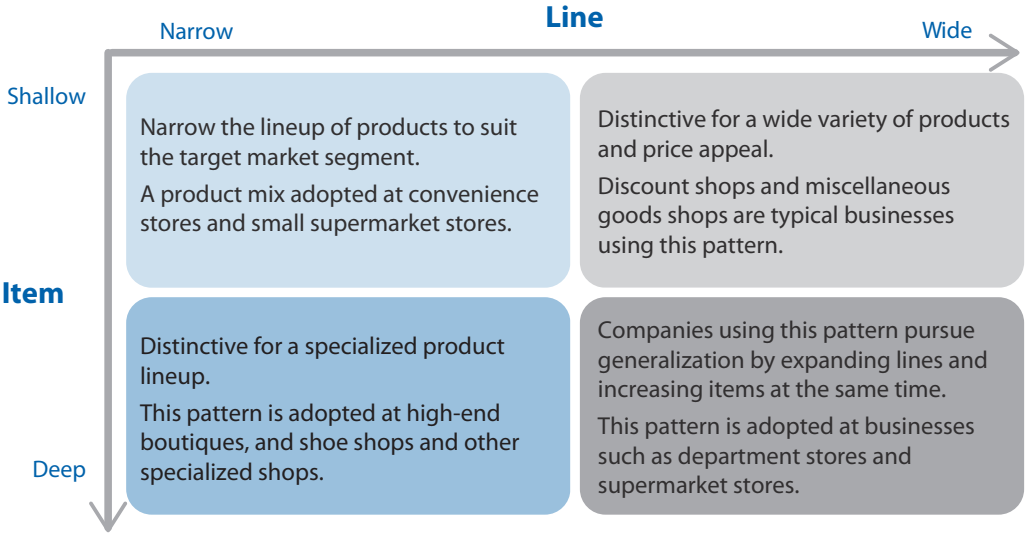


Relevant knowledge

"Four patterns of product mix"

Product mix can be divided into the following four patterns according to the combination of line width/narrowness and item depth/shallowness.

Chart 10 Patterns of product mix



When launching products in the market, it is important to choose from among the four patterns a product mix that can be expected to deliver synergy effects while giving consideration to the relationship between products, rather than introducing a number of products thoughtlessly.

4. Procurement plan

When you have determined your product mix, the next step is to consider matters such as sources, routes and means of procurement, whether a necessary volume can be procured in a stable manner, and whether there are alternative sources of procurement. The matters that you must consider when selecting procurement sources (suppliers) are closely related to your company's marketing strategy. When collecting information on procurement sources, you should seek cooperation from chambers of commerce and industry and main banks as necessary. The key points to selecting procurement sources are as follows.

< In terms of marketing >

Supply stability, capability to provide accurate information, proposal expertise, retail support including promotion support, terms of trade (e.g., prices, terms and periods of payment, and terms of product return), etc.

< In terms of products >

Quality, product mix, price ranges, profitability, compatibility with products handled by your company, etc.

A procurement plan, which is developed as part of a sales plan under a merchandising cycle (formulation of a product plan and a procurement plan ► implementation ► evaluation), starts with the selection of appropriate products based on information from the market. That requires the "market orientation" approach, whereby you formulate a product mix plan and procure products from the viewpoint of preparing products that can appeal to customers. If the amount of procurement and the terms of trade have been determined on a supplier-by-supplier basis by the time the business plan is drawn up, you should describe those in the plan. If the details have yet to be determined, the number of suppliers and the names of suppliers should be indicated.

5. Facility and equipment plan

- Stores: The trade areas and locations of stores, and rents
- Equipment: Method of procurement (new purchase, rental, etc.), the presence or absence of interior work, etc.

6. Manpower plan (hiring of permanent employees, part-time employees, etc.)

When drawing up a manpower plan, you should first list necessary jobs and allocate employees to institutional positions necessary for those jobs. It is important to allocate employees in a way suited to the workload and the specifics of the work and to maintain consistency with production and sales plans. Generally speaking, the appropriate number of employees should be calculated based on the total workloads of the various jobs. The appropriate number of employees thus calculated tends to be high, and the higher that number is, the higher the payroll cost is. However, it is essential to keep the payroll cost below the level tolerable under your company's financial foundation. The calculation formulas of the appropriate number of employees based on the workload and the financial foundation, respectively, are as follows:

$$\text{Appropriate number of employees} = \frac{\text{Total required number of working hours}}{\text{Working hours per employee (Calculation based on the workload)}} \Leftrightarrow \frac{\text{Sales volume} - \text{target profit} - \text{all expenses excluding payroll cost}}{\text{Payroll cost per employee (Calculation based on the financial foundation)}}$$

You should make efforts to ensure that the appropriate numbers of employees calculated based on the workload and the financial foundation are as close to each other as possible. When the numbers thus calculated are far away from the average benchmark in the same industry, it is necessary to reconsider the overall manpower plan.

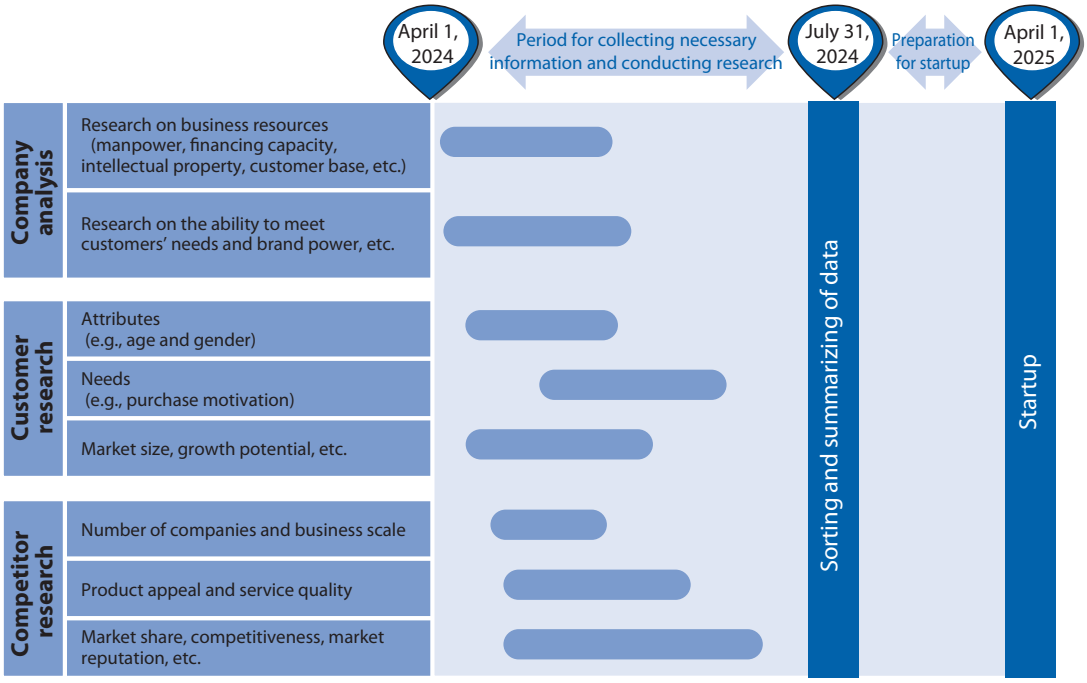
7. Business timetable

Business targets (Short- and medium-term targets should be set for the period of one to five years and long-term targets should be set for the period of longer than five years.)

Business scale target (e.g., sales and the number of employees)

Timetable for the period leading to startup

Chart 11 Timetable for the period leading to startup (example)



3) Financing plan

Upon starting a business, operating funds are required, such as equipment funds for securing a shop and procuring facilities and equipment, costs of purchasing goods, etc., overhead costs for wages, advertisement expenses and leasing fees, and immediate cash on hand. You must calculate spending for each item as concrete figures based on real estate information and competitive quotes from dealers, etc. When the entirety of the necessary funds becomes clear, you should prepare a financing plan, including procurement methods.

Chart 12 Example of a financing plan upon starting a business

(1,000 yen)

Necessary funds		Procurement method	
Item	Amount	Item	Amount
< Equipment funds > a. Stores, factories, etc. (Breakdown) ××× ××× ××× b. Facilities and equipment, etc. (Breakdown) ××× ××× ×××		< Personal funds > < Loans > a. Loans from parents, other family members, relatives, acquaintances, friends, etc. (Breakdown & repayment method) b. Loans from the Japan Finance Corporation (Breakdown & repayment method) c. Loans from private financial institutions (Breakdown & repayment method) d. Financing from other sources (Breakdown & repayment method)	
< Operating funds > (Costs of purchasing necessary products for starting a business, payment of salaries, payment of expenses, immediate cash on hand, etc.) (Breakdown) ××× ××× ×××			
Total amount		Total amount	

The amounts coincide with each other.

As shown in Chart 12, sources of funds other than personal funds are roughly divided into three, namely, **a.** Loans from parents, other family members, relatives, acquaintances, friends, etc., **b.** Loans from the Japan Finance Corporation, and **c.** Loans from private financial institutions. Generally, it becomes more difficult to receive loans in the order of **a.→b.→c.** Private financial institutions frequently require collateral such as real estate. Therefore, at the time of startup, you should make full use of startup support loans offered by governmental financial institutions and local governments.

Loans provided by the Japan Finance Corporation require a collateral or a guarantor, in principle, but if you are eligible for the Small Business Improvement Funds, you can borrow up to 20 million yen without collateral or guarantees. Other than this, there are also institutional loans, under which you can make a borrowing from a financial institution on favorable terms after going through a screening by the Credit Guarantee Corporation. For utilizing this credit guarantee system, you need to satisfy three conditions regarding the corporate size, business type, and region and history specified by the Credit Guarantee Corporations, and for business types requiring authorization, license, and notification, etc., you need to have obtained or newly obtain authorization or license, etc. for the relevant business. As of the end of March 2023, approx. 1.585 million SMEs and micro businesses, out of the nationwide total (3.365 million), utilize the system, having obtained credit guarantees from the Credit Guarantee Corporations (accounting for 47.1% of the total).

For the details of the institutional loans, make inquiries with individual local governments' service offices, local chambers of commerce and industry and the Credit Guarantee Corporations. When searching for the relevant information online, input keywords, "制度融資　自治体名 (Seido-yushi name of a local government)" in Japanese.

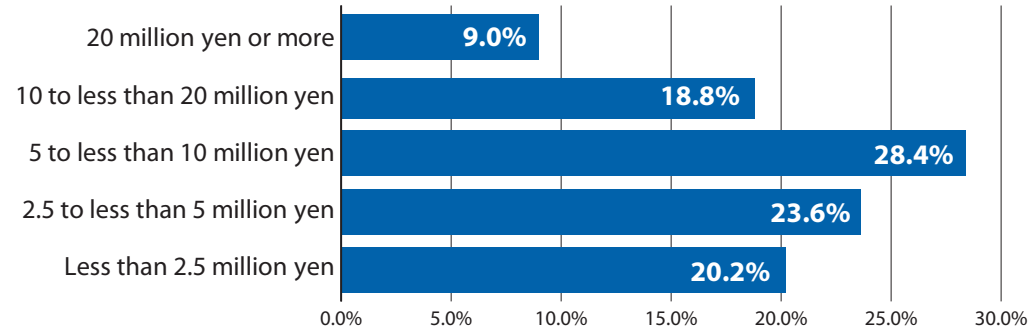
< Reference > Loan systems by public agencies

Funding agencies		URL (Available in Japanese)
Japan Finance Corporation	Ordinary loans	https://www.jfc.go.jp/n/finance/search/jiyusij_m.html
	Search loan systems	https://www.jfc.go.jp/n/finance/search/index.html
Small and Medium Enterprise Agency	Mirasapo-plus website on subsidies and general support for SMEs	https://mirasapo-plus.go.jp/subsidy/
Organization for Small & Medium Enterprises and Regional Innovation, JAPAN	J-Net21 Support Information Headline	https://j-net21.smrj.go.jp/snavi/index.html
Japan Federation of Credit Guarantee Corporations	"Your First Loan and Credit Guarantee"	https://www.zenshinhoren.or.jp/basic/

Relevant knowledge

"Indication of startup costs and personal funds"

Chart 13 Startup costs and distribution ratios

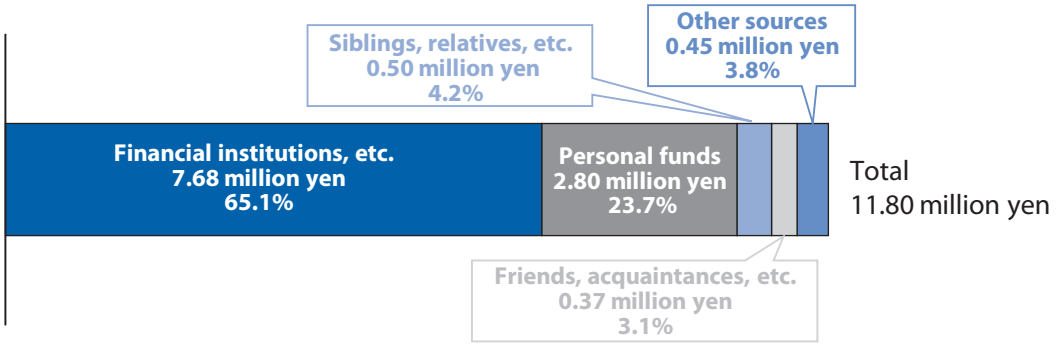


Coverage: Out of companies that received loans from Japan Finance Corporation's Micro Business and Individual Unit from April to September 2022, 7,032 companies for which it was less than a year from startup as of the time of the loans (excluding real estate leasing businesses); The survey was conducted in August 2023.

"Survey on Business Start-ups in Japan (FY2023)"
The Japan Finance Corporation Research Institute
https://www.jfc.go.jp/n/findings/pdf/kaigyo_231130_1.pdf (Available in Japanese)

According to the survey, regarding startup costs for FY2023, "less than 2.5 million yen" accounted for 20.2% and "2.5 to less than 5 million yen" accounted for 23.6%, and these two answers jointly accounted for approx. 44% of the total. Companies whose startup costs were "less than 10 million yen," which include companies that chose the aforementioned two answers, accounted for nearly three-quarters of the total. The average was 10.27 million yen and the median value was 5.50 million yen, but both have been gradually decreasing in the long term (the average was 11.95 million yen and the median value was 6.90 million yen at the time of the survey in 2013).

Chart 14 The amount of funds and ratios of sources of funds procured upon starting a business



The survey time, coverage, and data source are the same as in Chart 13.

Breaking down the total amount procured in FY2023 (11.80 million yen), loans from financial institutions, etc. are the largest at 7.68 million yen (65.1%), followed by personal funds at 2.80 million yen (23.7%). Loans from financial institutions, etc. and personal funds jointly accounted for approx. 90% of the total. The total amount procured had increased since FY1991 but has been declining after hitting a peak at 18.32 million yen in FY1999. In the meantime, the amount of personal funds decreased to below 3.00 million yen in FY2017 and has been between 2.50 million yen and 2.99 million yen thereafter.

4) Profit and loss plan

In order to gain a prospect on your business after startup, you need to create a profit and loss plan and calculate your income and expenditure. As there are apt to be many uncertain elements at the time of startup, it would be a good idea to create a plan divided into the first year after startup and the period after business gets on track.

Chart 15 Profit and loss plan

(1,000 yen)

			First year after startup	Period after business gets on track (around MM/YY)	Remarks
Sales volume		①	20,000		
Cost of sales		②	12,000		
Gross profit (①－②)		③	8,000		
Ratio of gross profit to sales (③/①×100)		④	40%		
Expenses	Payroll	⑤	2,000		
	Interest paid		200		
	Rent		600		
	Utilities		250		
	Depreciation	⑥	150		
	Selling, general and administrative expenses		3,300		
Total expenses		⑦	6,500		
Profit (③ - ⑦) (Note)		⑧	1,500		
Repayable amount (⑧ ＋ ⑥)		⑨	1,650		
Repayment of debts		⑩	150		

For the sake of simplification, the operating profit is indicated in this Chart. Accurately, the after-tax profit is to be used.

Sales volume (① in Chart 15)

< Method of projecting sales volume > (Example)

When the number of product/service items is small or the number of customers is limited

Average unit price × Sales quantity

When product/service lineup is broad and the number of customers is large

Number of customers × Sales per customer

When the business is centered on sale at store

Sales volume per unit area × Sales floor area

In the case of eating and drinking establishments, barber shops and beauty parlors, etc.

Average customer spending × Seating capacity × Customer turnover

In the case of the manufacturing industry

Equipment production capacity × Operation rate × Equipment quantity

When clients are unspecified

Average transaction value × Number of transactions

Case: Confectionery retailer (manufacture and retail); Sales volume per store floor area (33 m^2)

Calculated based on the data of the "Management Index Survey of Micro and Small Enterprises" by the Japan Finance Corporation

Annual sales volume per store floor area (3.3 m^2) is 2,103,000 yen. Accordingly, annual sales volume per 33 m^2 is 21,030,000 yen.

Overall management indexes, such as sales volume per unit area, including those for other types of business are available on the website of the Japan Finance Corporation.

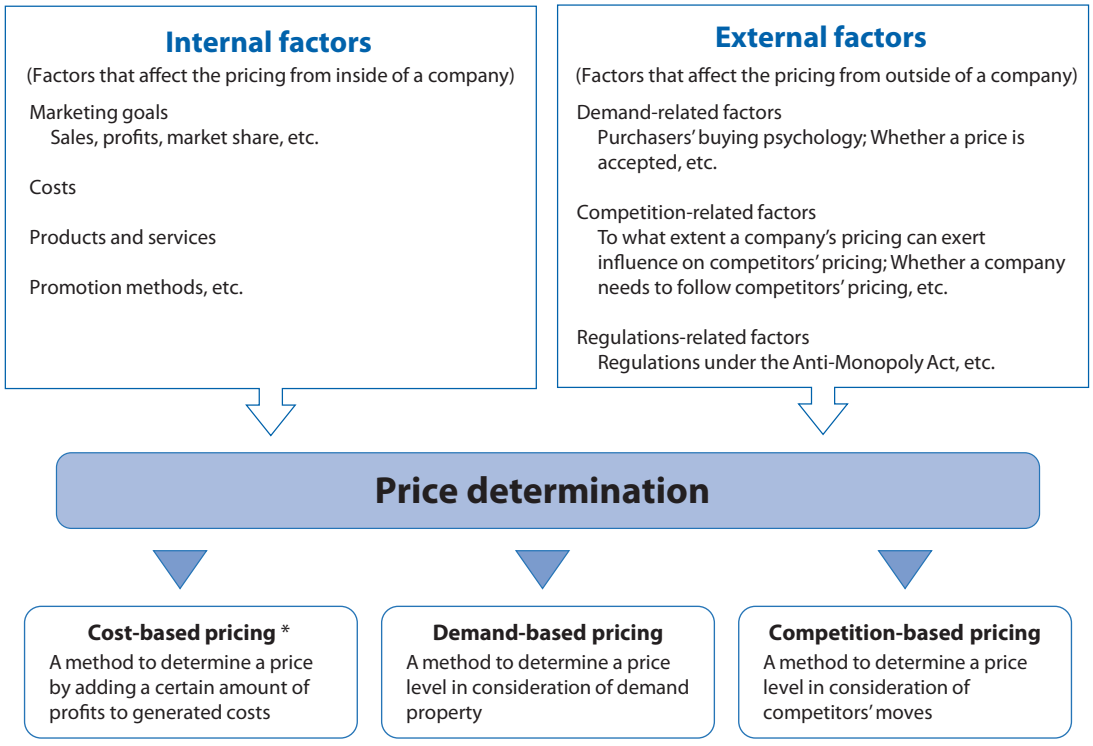
"Management Index Survey of Micro and Small Enterprises" The Japan Finance Corporation
https://www.jfc.go.jp/n/findings/shihyou_kekka_m_index.html (Available in Japanese)

Relevant knowledge

"How to determine prices"

Prices are said to be generally determined based on market mechanisms, but in reality, various factors inside and outside companies mutually exert influences as shown below.

Chart 16 Pricing mechanism



* There are three methods as follows:
(i) Cost-plus pricing: Price = Direct cost + Indirect cost + Profits
(ii) Markup pricing: Price = Purchasing cost + Certain markup
(iii) ROI-based pricing: Determine a price at a level where a company can achieve its target return on investment

In the past, manufacturers or others in the upstream in distribution networks often served as price leaders having the initiative in determining prices. However, at present, factors involved in pricing are diversified due to the existence of large retailers that have large-scale buying power, advancement in strategic partnerships between such retailers and manufacturers that have product development capacity to respond to retailers' demand (= manufacturer-retailer alliances), or review of supply chains associated with changes in various circumstances. Companies are to envisage short-term, medium-term, or long-term pricing strategies while incorporating various factors, and decide to adopt prices with a nature that is most suited to those strategies. There are the following types of prices.

A) Skimming price

A price based on a policy to set a high price at first in a market free from competition for the time being, thereby acquiring maximum profit in a short term and recovering development cost at an early stage; This is suited to a market with a low price elasticity in a higher price range.

B) Penetration price

A price based on a policy, for a case where demand largely depends on price levels, to set a low price at first, thereby acquiring a high market share at an early stage; This is suited to a market where the price elasticity of demand is large.

C) Prestige price

A price based on a high price strategy targeting a segment of customers who like expensive cars, expensive watches or other products that serve as status symbols

D) Customary price

A price of a specific product or service that is finally accepted by people as a common-sense level after it has been maintained in a market for a certain period of time; When a customary price exists, a price hike tends to significantly decrease demand.

E) Cooperative price

A price that was determined by a market leader and is followed by other companies

F) Open pricing

A price under a system where sellers can determine selling prices freely; People may face worries as product prices are not indicated in catalogues.

There may be cases of altering or reviewing product/service prices once determined due to environmental changes or other reasons. On such occasion, what is helpful in setting new appropriate prices is the price elasticity.* By the use of the price elasticity, the relation between price levels and demand can be made visible as numerical values, which effectively assists determination of new price levels.

*Price elasticity ε = Demand change ratio / Price change ratio (Use an absolute value for ε.)
(Calculation examples)

When a sales price was raised by 10% and sales decreased by 20%:

ε = 20% / 10% = 2

When a sales price was raised by 10% and sales decreased by 5%:

ε = 5% / 10% = 0.5

A case where ε >1: As demand for a product changes significantly due to price hikes and cuts, it is considered effective to adjust prices for adjusting demand; Recreational articles, articles of taste, daily necessities, etc.

A case where ε <1: Price changes exert less influence on demand. Accordingly, a price hike does not decrease demand so much, but a price cut for increasing sales may not necessarily lead to sales increases.

In pricing strategies, the key is to set prices commensurate with price levels accepted by customers (customer value). For companies, the lower limit of tolerable prices is the level with which they can recover costs, but if they can enhance customer value by raising customer satisfaction, they may set higher prices.

Cost of sales (② in Chart 15)

In the case of a company engaging in commerce

Cost of sales = Cost of purchasing goods sold

(Calculation method)

Opening inventory	2,000
Cost of merchandise purchased for the term	+13,000
Subtotal	15,000
Ending inventory	−3,000
Cost of sales	**12,000**

Upon startup, there is no opening inventory and it is often difficult to project ending inventory. Therefore, the cost of merchandise purchased for the term is practically assumed to be the cost of sales in some cases.

In the case of a manufacturing company

Cost of sales = Cost of manufacturing goods sold
(Opening inventory + Cost of goods manufactured for the term−Ending inventory)

In the case of a manufacturing company, there is a process of manufacturing goods, apart from the case of a company engaging in commerce, and therefore, the cost of goods manufactured for the term includes the manufacturing cost (material cost, labor cost, depreciation, etc.).

(Calculation method)

Opening inventory	2,000
Cost of goods manufactured for the term	+13,000
Subtotal	15,000
Ending inventory	−3,000
Cost of sales	**12,000**

Manufacturing cost report

Material cost	8,000
Labor cost	5,000
Expenses	4,000
Total manufacturing cost for the term	17,000
Opening inventory of half-finished goods and goods in process	+2,500
Subtotal	19,500
Ending inventory of half-finished goods and goods in process	−6,500
Cost of goods manufactured for the term	**13,000**

Gross profit (③ in Chart 15)

Gross profit is calculated by subtracting the cost of sales from the sales volume, and the ratio of gross profit to sales becomes higher when a company deals in high value-added goods or goods differentiated from other companies' goods. The ratio of gross profit to sales is generally low for daily necessities but high for shopping goods and specialty goods. The relevant ratio thus varies by industry and by business type. Accordingly, comparisons should be made with other companies in the same industry.

< Reference > Ratio of gross profit to sales by type of business
"Management Index Survey of Micro and Small Enterprises" The Japan Finance Corporation
https://www.jfc.go.jp/n/findings/shihyou_kekka_m_index.html (Available in Japanese)

In the case of a company engaging in commerce

Gross profit = Sales volume – Cost of sales

Profit and Loss Statement (Example)
FY2023
(From Apr. 1, 2023 to Mar. 31, 2024)

Sales volume		20,000
Cost of sales		
Opening inventory	2,000	
Cost of merchandise purchased for the term	+13,000	
Subtotal	15,000	
Ending inventory	–3,000	–12,000
Gross profit		**8,000**

In the case of a manufacturing company

Gross profit = Sales volume – Cost of sales

Profit and Loss Statement (Example)
FY2023
(From Apr. 1, 2023 to Mar. 31, 2024)

Sales volume		20,000
Cost of sales		
Opening inventory	2,000	
Cost of goods manufactured for the term	+13,000	
Subtotal	15,000	
Ending inventory	–3,000	–12,000
Gross profit		**8,000**

Payroll (⑤ in Chart 15)

In the case of a corporation

Executive compensation + Employees' wages

In the case of a sole proprietorship

The proprietor's wages are not included. The concept of "salary" does not exist for sole proprietors, so the money used by sole proprietors may not be recorded as an expense under the name of "salary." In the case of a sole proprietorship, after-tax income falls under compensation for the proprietor and is to be raised from profit (p.33, ⑧ in Chart 15). In the case of a corporation, compensation for the corporate manager may be recorded as an expense.

< Reference >
Salary = Wage + Various allowances + Bonus + Payment in kind
(all paid from an employer to employees)
Wage = So-called base pay
Earnings = Salary (from the viewpoint of workers)

Depreciation (⑥ in Chart 15)

Fixed assets that can be used for a long term (buildings, machinery and equipment, motor vehicles and transport equipment, etc.) lose economic value gradually over time. Those decreases in value are to be recorded as depreciation in expenses, and the amount to be recorded for the term is calculated by allocating all capital invested in fixed assets for each of the business terms. As depreciation is an expense that is not accompanied by a disbursement of cash, the amount of money corresponding to the depreciation is internally reserved. This amount does not need to be repaid and can be used for the repayment of debts.

Let us see a case where annual sales were 1 million yen and depreciation and expenses other than depreciation were recorded as 150,000 yen and 800,000 yen, respectively. When subtracting expenses from annual sales, the result is 200,000 yen. However, profit recorded in the books is 50,000 yen, the amount further subtracting 150,000 yen as depreciation, which can be recorded as an expense. Then, the 150,000 yen, the amount of depreciation that is not accompanied by a disbursement of cash, remains in hand.

< Reference > Calculation method for the amount of depreciation
"Depreciation by the Straight-Line Method and the Declining-Balance Method" (for assets acquired on and after April 1, 2007) National Tax Agency
https://www.nta.go.jp/taxes/shiraberu/taxanswer/shotoku/2106.htm (Available in Japanese)
https://www.nta.go.jp/english/taxes/individual/12013.htm (in English)

Sales volume necessary for securing a target profit

Upon starting a business, you should ascertain a target profit and sales volume necessary for securing that profit in consideration of the corporate manager's salary and your compensation (living expenses of the proprietor), salaries of employees, other personnel expenses, office expenses, depreciation for stores and other facilities, loan repayments, interest paid, etc.

"Total expenses + Target profit" = Necessary sales volume × Ratio of gross profit to sales

$$\text{Necessary annual sales volume} = \frac{\text{Estimated annual total expenses (⑦)} + \text{Target annual profit}}{\text{Estimated annual ratio of gross profit to sales (④)}}$$

As estimated total expenses, the value for the "period after business gets on track" in Chart 15 is used here.
The necessary sales volume when the target profit calculated by this formula becomes zero is the break-even point.

If the necessary sales volume calculated as above exceeds the estimated sales volume, it is necessary to review the investment plan and the profit and loss plan, such as reducing the investment amount, expanding personal funds, securing loans at a lower interest rate, or cutting expenses. In that case, it would be better to avoid an upward revision of the estimated sales volume unless there is a sure prospect.

When setting a profit that enables loan repayment as a target profit, the following formula should be used.

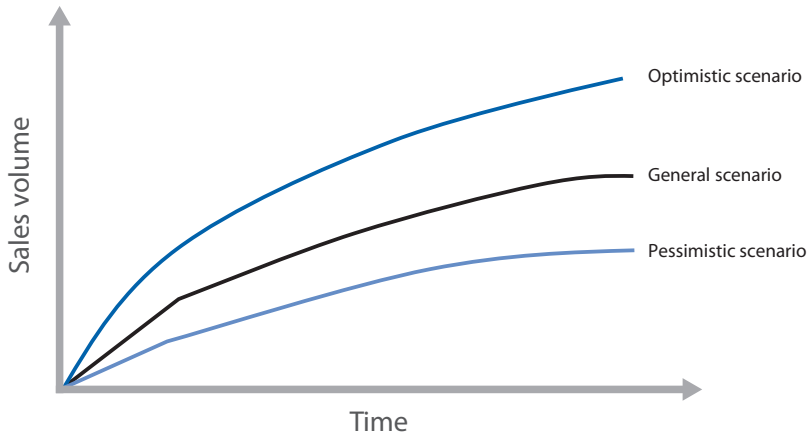
$$\text{Target annual profit (pretax)} = \frac{\text{Annual amount of repayment - Annual amount of depreciation}}{1 - \text{Roughly estimated tax rate (0.4 for income of 8 million yen or less)}}$$

Relevant knowledge

"Consider multiple scenarios in advance"

No business can be free from uncertainties, such as changes in business environments due to technological innovation, or significant fluctuations of exchange rates due to unexpected factors. It is practically impossible to accurately project future sales volumes. In doing business, you need to incorporate unexpected fluctuations in sales in your financial plan and prepare for possible risks. One of the approaches is to prepare multiple scenarios based on an optimistic projection and on a pessimistic projection, in addition to general sales projections.

Chart 17 Scenario patterns



It is preferable to also prepare multiple patterns for each scenario regarding a profit and loss plan, financing plan, and cash flow table.

Repayment plan and financing

Projections of income and expenditure and profit to be secured after startup are to be entered. What are entered here directly relate to the judgment on the level of difficulty regarding repayment of debts and all require evidence that reasonably explains the details thereof, instead of depending on personal experience or hunches. Projections should be as objective as possible based on such data as those published in the "Management Index Survey of Micro and Small Enterprises" (See p. 37) by the Japan Finance Corporation.

As shown "Depreciation" in p. 39, depreciation has a function to recover invested capital as an expense that is not accompanied by a disbursement of cash, and the amount of money corresponding to depreciation can be used for the repayment of debts (③ in Chart 18).

Debt repayment sources = After-tax profit for the term + Depreciation

The amount that remains after repaying debts from the debt repayment sources is to be carried forward.

Chart 18 Repayment plan

(1,000 yen)

		Term 1	Term 2	Term 3	Term 4
Debt repayment sources	Carry-forward cash and deposits (①)				
	After-tax profit for the term (②) (Note)				
	Depreciation (③)				
	Total (④) (= ① + ② + ③)				
Repayment of debts (⑤)					
Carry-forward cash and deposits (④ - ⑤)					

Profit for the term to be used for a repayment plan is after-tax profit for the term (the amount subtracting the amount of tax from the profit (p.33 Chart 15)). In the case of a corporation with an income of 8 million yen or less, calculation is to be made assuming that the tax rate is 40% of the profit.

Except for cash business, even if sales are recorded, only sales credits increase in the books, and it is not that cash on hand increases in reality at that point in time. On the other hand, expenses include wages, taxes, repayment of debts or other various items that are accompanied by a disbursement of cash. When the inflow of cash is larger than the outflow of cash, you need to consider how to manage that excess amount, and reversely, when the outflow of cash is larger than the inflow of cash due to such reasons as an increase in inventory assets or deterioration of clients' payment terms, you need to raise money for compensating for the shortage.

If you are short of cash on hand despite making a profit, you cannot continue your business (black-ink bankruptcy). In order to avoid such circumstances, the daily cash management is very important. You should regularly ascertain how much capital will be necessary at what point in time. The safety-first principle is the cardinal rule of cash management. When preparing a cash flow table, you should assume the amount of money to be received smaller and the timing of receipt later, and assume the amount of money to be paid larger and the timing of payment earlier.

Incidentally, it is apt to be difficult to modify contract terms on amounts of money to be received and paid after entering into a business relationship with a client company. Accordingly, it is recommended to conclude a contract based on sufficient recognition and understanding of your own cash flow generation capability.

Chart 19 Cash flow table (monthly)

(1,000 yen)

		April	May	June	July	August	September
Inflow	Cash sales						
	Receivables collected						
	Total inflow (①)						
Outflow	Cash payment						
	Payment of accounts payable						
	Payroll						
	Rent						
	Utilities						
	Other expenses						
	Interest paid						
	Repayment of debts						
	Total outflow (②)						
Balance (① - ②)		500	150	–300	50	200	–750
Cash balance	Carry-forward from the previous month	0	500	650	350	400	600
	Carry-forward to the next month	500	650	350	400	600	–150

Looking at Chart 19 as an example, it is understood that a fund shortage of 0.15 million yen is anticipated at the end of the September term. If the timing and the amount of a fund shortage is known in advance, it is possible to take proactive measures, such as introducing means to move up the timing to receive payments or prevent delay in receipt by the use of a system for discount for early booking or a system for late payment charges, or trying to receive additional loans from a financial institution. However, lightly requesting modifications to payment terms to clients may harm your credibility. Careful considerations are required.

2 Review of a business plan

After formulating a business plan, a review should be made as necessary to brush up the content. There are multiple patterns for business plans by objective, such as a plan for the purpose of sorting out and reconfirming the details of the business by yourself, a plan that is to be presented to business partners or financial institutions, or a plan for the purpose of obtaining a status of residence in the case of a foreign national. The details of a plan may differ by pattern. For example, a business plan targeting financial institutions serves as a material for credit screening, especially focused on whether the projections of financial matters are reasonable and whether the judgement on the future of the business is objective. With regard to financial projections, it is important to ensure the reasonableness in values that serve as the prerequisites, such as sales projections, estimated expenses, investment estimates, and a financing plan. Envisaging targeted readers, you should review the entirety first, and then the details of individual items. The key points in reviewing a business plan are as follows.

When checking the entirety

- Whether the content is suited to envisaged targets
- Whether there are any important points omitted
- Whether the whole story contains any contradiction
- Whether the consistency is maintained throughout the story, etc.

When checking individual items

- Whether the business concept and domain are set appropriately
- Whether the points for differentiation from competitors have been clarified
- Whether the marketing mix is appropriate
- Whether target customers, positioning and the marketing mix are consistent
- Whether forecasts, projections, and estimates are reasonable and persuasive, etc.

① Sales projections

Whether a sales price of goods or services calculated based on the market size, the number of competitors, and an intended market share, as well as the estimated sales volume at that price are reasonable and persuasive

Whether sales projections are too optimistic

② Estimated expenses and investment estimates

Whether the expenses and the investment amount are under-recorded to secure profit in calculation or make a cash flow table look better; Prerequisites need to be supported by clear evidence. Not limited to a business plan targeting financial institutions, when you are unable to make judgments, you should refer to data of the Small and Medium Enterprise Agency or opinions of business advisors of a local commerce and industry society or chamber of commerce and industry, or experts such as tax accountants and SME management consultants, thereby making efforts to make those estimates persuasive.

③ Financing plan

When the prerequisites, such as sales projections, estimated expenses, investment estimates, change, the amount of funds to be procured also changes naturally. If there is an upper limit for procurable funds, it is necessary to review the business itself, including a size reduction.

III Consultation counter and inquiry destination

1 Public support agencies and organizations

Regional Head Offices of the Organization for Small & Medium Enterprises and Regional Innovation, Japan
Eligibility: Entrepreneurs, small and medium-sized enterprises who are taking a new step
Services: Dispatch of experts, business startup consultation, provision of information on incubation facilities, etc.
Location: 10 locations nationwide
Inquiries: https://www.smrj.go.jp/regional_hq/index.html
https://www.smrj.go.jp/english/about/network.html
https://www.smrj.go.jp/venture/index.html
https://www.smrj.go.jp/english/activities/

Prefectural Small and Medium Enterprise Support Centers
Eligibility: Small and medium-sized enterprises who want to have business or financing consultations
Services: Business diagnosis, dispatch of experts, etc.
Location: All prefectures and ordinance-designated cities
Inquiries: Local Support Centers
https://www.chusho.meti.go.jp/soudan/todou_sien.html

Startup Support Center, Tokyo Chamber of Commerce and Industry
Eligibility: Small and medium-sized enterprises who have issues related to startup, business succession, new business development, and financing
Services: Consultations on issues at the time of business startup, such as procedures for starting a business, and the public loan system that can be used at the time of startup
Location: Marunouchi Nijubashi Building, 3-2-2 Marunouchi, Chiyoda-ku, Tokyo 100-0005
Inquiries: TCCI Business Support Desk
TEL. 03-3283-7767
https://www.tokyo-cci.or.jp/entre/
https://www.tokyo-cci.or.jp/english/our_main_missions_and_commitments/business_support/

Mirasapo plus
Eligibility: Small and medium-sized enterprises and small-scale enterprises
Services: Introduction of "support systems," such as subsidies, grants, benefits, loans, and tax breaks
Inquiries: The Small and Medium Enterprise Agency
TEL. 03-3501-1511 (Main number)
https://mirasapo-plus.go.jp

Japan Finance Corporation (JFC)

Eligibility: Founding entrepreneur, etc.

Services: Consultations on starting a business, support for loans to startup companies with difficulty in raising funds, etc.

Locations: General Support Desk (152 locations nationwide), Business Startup Support Center (15 locations nationwide), Business Support Plaza (6 location nationwide), etc.

Inquiries: General Business Startup Support
https://www.jfc.go.jp/n/company/national/initiation.html
https://www.jfc.go.jp/n/english/
https://www.jfc.jp/n/english/mbis/overview/features.html#link_04
Business Support Plaza
https://www.jfc.go.jp/n/finance/sougyou/ijuusougyou/location/index.html
Enterprise Fund Consultation Dial
TEL. 0120-154-505
https://www.jfc.go.jp/n/inquiry/

Japan Federation of Credit Guarantee Corporations (JFG)

Eligibility: Small and medium-sized enterprises and small-scale enterprises

Services: Acting as a guarantor of loans to make it easier for companies to obtain business financing from financial institutions

Location: 2-1 Kandatsukasamachi, Chiyoda-ku, Tokyo 101-0048

Inquiries:
https://www.zenshinhoren.or.jp
https://www.zenshinhoren.or.jp/english/
List of Credit Guarantee Associations in Japan
https://www.zenshinhoren.or.jp/nearest/

Tokyo One-Stop Business Establishment Center (TOSBEC)

Eligibility: Those considering opening a business in Tokyo

Services: Various procedures such as certification of the articles of incorporation, registration, taxation, pension, social insurance, and immigration management, which are necessary for incorporating a corporation or start a business

Location: Japan External Trade Organization (JETRO) Headquarters
Ark Mori Bldg. 7F, 1-12-32 Akasaka, Minato-ku, Tokyo 107-6090

Inquiries: TEL. 03-3582-4934
https://www.startup-support.metro.tokyo.lg.jp/onestop/jp/
https://www.startup-support.metro.tokyo.lg.jp/onestop/en/

III Consultation counter and inquiry destination

Japan External Trade Organization (JETRO)
Eligibility: Those considering overseas business
Services: Export/import and investment advice (such as trade promotion methods, overseas market information, and investment-related information)
Location: Ark Mori Bldg. 1-12-32 Akasaka, Minato-ku, Tokyo 107-6006
Inquiries: JETRO General Information
TEL. 03-3582-5511
https://www.jetro.go.jp/
https://www.jetro.go.jp/en/
JETRO Domestic Office
https://www.jetro.go.jp/jetro/japan/list.html
https://www.jetro.go.jp/en/jetro/worldwide/japan/
JETRO Investing in Japan
https://www.jetro.go.jp/en/invest/ad_city.html
https://www.jetro.go.jp/en/invest/ad_street.html

Manufactured Imports and Investment Promotion Organization (MIPRO)
Eligibility: Those considering starting a business
Services: Consultation on procedures for establishing and starting a company, etc.
Location: World Import Mart Bldg. 6F, 3-1-3 Higashi Ikebukuro, Toshima-ku, Tokyo 170-8630
Inquiries: TEL. 03-3989-5151
https://www.mipro.or.jp/advisement/
https://www.mipro.or.jp/english/advisement/index.html

2 Professional Associations

Japan Federation of Certified Administrative Procedures Legal Specialists Associations (Administrative Attorney)

Services: Consultations on obtaining various types of licenses and approvals, such as application for Certificate of Eligibility, application for change of status of residence, and application for business permission, etc., and creation of articles of incorporation

Location: Toranomon Towers Office 10F, 4-1-28 Toranomon, Minato-ku, Tokyo 105-0001

Inquiries: TEL. 03-6435-7330
https://www.gyosei.or.jp/
https://www.gyosei.or.jp/about/language/english
Prefectural Association of Certified Administrative Procedures Legal Specialists
https://www.gyosei.or.jp/about/disclosure/membership.html

Japan Federation of Shiho-Shoshi Lawyer's Associations (Solicitor)

Services: Consultation on registration, acting as agent for registration procedures, etc.

Location: 4-37 Yotsuya Honshio-cho, Shinjuku-ku, Tokyo 160-0003

Inquiries: TEL. 03-3359-4171
https://www.shiho-shoshi.or.jp/
https://www.shiho-shoshi.or.jp/global/english/
List of Shiho-shoshi Associations in Japan
https://www.shiho-shoshi.or.jp/association/shiho_shoshi_listh/
List of Shiho-shoshi General Consultation Center
https://www.shiho-shoshi.or.jp/activity/consultation/center_list/

Japan Federation of Certified Public Tax Accountants' Associations (Certified Public Tax Accountant)

Services: Tax consultations, acting as agent to prepare tax documents including tax returns, etc.

Location: Nihon Zeirishi Kaikan Bldg. 8F, 1-11-8 Osaki, Shinagawa-ku, Tokyo 141-0032

Inquiries: TEL. 03-5435-0931
https://www.nichizeiren.or.jp/
https://www.nichizeiren.or.jp/eng/
List of Certified Public Tax Accountants' Associations in Japan
https://www.zeirishikensaku.jp
https://www.nichizeiren.or.jp/eng/region.html

Japan Federation of Labor and Social Security Attorney's Associations (Labor and Social Security Attorney)

Services: Procedures for labor and social insurance, labor management consultation, pension consultation, etc.

Location: Shakai Hokenromushi Kaikan Bldg., 3-2-12 Nihonbashi Hongoku-cho, Chuo-ku, Tokyo 103-8346

Inquiries: TEL. 03-6225-4864 (Main number)
https://www.shakaihokenroumushi.jp/
https://www.shakaihokenroumushi.jp/en/tabid/296/Default.aspx
List of Labor and Social Security Attorney's Associations in Japan
https://www.shakaihokenroumushi.jp/organization/tabid/238/Default.aspx

Japan Federation of Certified Management Consultant's Association (JF-CMCA)
(Small and Medium Enterprise Management Consultant)

Services: Provision of management diagnosis and management advice to small and medium enterprises, etc.

Location: Ginmatsu Bldg., 1-14-11 Ginza, Chuo-ku, Tokyo 104-0061

Inquiries: TEL. 03-3563-0851
https://www.jf-cmca.jp//index.html
https://www.jf-cmca.jp//contents/018_english_contents.html
List of Prefectural Small and Medium Enterprise Management Consultant Association
https://www.jf-cmca.jp/open/static/sibuindex.jsf

Japan Federation of Bar Associations (Attorney)

Services: Legal consultation, legal services such as settlement and out-of-court negotiations, litigation activities, and appeals to administrative agencies. etc.

Location: Bengoshi Kaikan Bldg. 15F, 1-1-3 Kasumigaseki, Chiyoda-ku, Tokyo 100-0013

Inquiries: TEL. 03-3580-9841 (Main number)
https://www.nichibenren.or.jp/
https://www.nichibenren.or.jp/en.html
Himawari Hotline (Dedicated contact for SME managers)
TEL. 0570-001-240
Himawari SME Center
https://www.nichibenren.or.jp/ja/sme/about_himawari.html
Online Consultation Office
https://form.qooker.jp/Q/auto/ja/chusho2015/online/
Local Bar Associations
https://www.nichibenren.or.jp/en/legalinfo/legal.html
Legal Consultation for Foreigners
https://www.nichibenren.or.jp/en/legalinfo/counceling.html

Trade and Business Startup Consultation Desk

MIPRO Consulting services for trade & starting business

TEL: 03–3989–5151
https://www.mipro.or.jp/
Consultation available weekdays from 10:30 A.M. to 4:30 P.M.

This document has been prepared based on the information as of April 30, 2024 and with the utmost care regarding accuracy.
However, when actually starting a business in Japan, please inquire with the relevant public offices concerning necessary documents, matters, etc. or consult with an administrative attorney, SME Management Consultant or other specialists.
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URL：https://www.mipro.or.jp/

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