



Sankyo & Co. Ltd. exports

Sankyo & Co. Ltd. is a Japanese trading firm specialised in the export of stainless steel and high grade alloy

seamless tubes and pipes.

The company is almost totally export focused, with just 3% of turnover generated by imports. Its founder, Johnnie Morikawa has steered the company through several recessions with determination and a clear cut vision – to one day achieve 5% global market share. Stainless Steel World spoke to him and his colleague, Tony Kojima, about the Sankyo vision and where they believe the company's future lies.

By Sjef Roymans and Joanne McIntyre

Mr. Johnnie (Jun-Ichi) Morikawa founded Sankyo & Co. Ltd. in 1975 to export electronic components, predicting that in the future the demand for electronics and computer parts would increase.

"It was a tough time to start a new business" admits Mr. Morikawa. "The 1974 oil crisis triggered a global recession. We had to be very careful and fight for every dollar we earned. It was very difficult to penetrate new markets but I've never been one for giving up. One day I had a great idea; to visit Mr. Wan Yong-Ching, Chairman of the Taiwanese company's Formosa Plastics Groups. Once I told him about the company I was creating and the type of business I was getting into, he agreed to support me and introduced me to his processing director. We were in business! However at that time I had never been involved with stainless steel. Fortunately, as Formosa Plastics Groups had just moved to a new factory in a central industrial estate in Taiwan, they needed lots of construction material typical of what was being used in the petrochemical industry. As they only had one Japanese supplier for seamless stainless steel pipes and tubes, they asked me to find more suppliers. Formosa was – and still is - one of Taiwan's largest end users and they were



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to the world

keen to secure a more competitive supply base. From the beginning they were eager for Sankyo to succeed because as an independent trader we could source from Japanese mills cost effectively. It was Formosa's Overseas Department which led us to start an export business sourcing materials for foreign customers."

This close relationship with Formosa proved to be pivotal to Sankyo's success. With the backing of such a large customer the company soon flourished and was able to establish good working relationships with the Japanese mills.

"The Japanese iron and steel industries were very conservative at the time, but this conservative society opened up to me" explains Mr. Morikawa. "Once we had established a relationship with them, they would only accept our orders for their production, ignoring our competitors. Japanese mills prefer to work with familiar companies – their business contacts are like a big family. To do work with foreign companies directly is quite unusual as they prefer to work with their own people. However as a trader it is important to have a good working relationship with many mills for the benefit of your customers to deliver a better price, de-

livery time, availability, etc.

We became a one-stop-shop because the mills didn't want to deal with anybody new. Their conservatism actually helped me in the long term." Today Sankyo works independently with a number of Japanese and European mills.

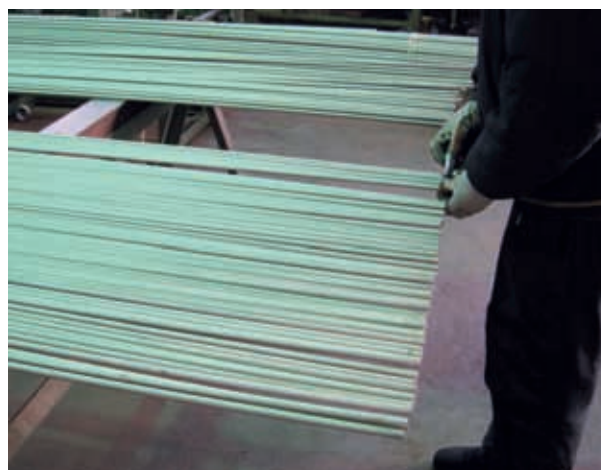
Developing new markets

In the 1980s the Taiwanese government began a massive program of investing in domestic infrastructure. Money was pumped into large-scale projects such as the construction of a major harbour, highways and roads, good airline connections and the petrochemical, iron and steel industries.

"During this period the Formosa Plastics Groups also made a series of large investments, for which we supplied stainless seamless and welded tubes and pipes from Kobe Steel and others. Sankyo grew by the day but I was cautious of becoming too dependent on the Taiwanese market as we all realised that the boom period would end one day. I set about developing new markets in Southeast Asia for Kobe Steel products and others. Quite soon we had expanded our exports to include Singapore, Malaysia, and Indonesia."

Mr. Tony (Takashi) Kojima joined Sankyo & Co. Ltd. in 1983 as Managing Director. He and Mr. Morikawa took turns travelling abroad and working from the Tokyo head office for a month at a time. Mr. Kojima's task was to expand their business exporting stainless steel seamless and welded tubes and pipes into Europe and the US.

"I focused on building exports outside Southeast Asia, although Taiwan remained our main market for stainless pipe and tube" explains Mr. Kojima. The main markets which Sankyo entered were Germany, Holland, the UK, Spain, Scandinavia and France. "Our primary target



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was our existing clients, stockists and distributors. Geographically our most important markets are Southeast Asia which generates 40% of turnover, followed by the EU (35%), North America (5%), then the Middle East, Oceania, China, Korea and other countries."

Sankyo also became the sole Japanese agent for the Finnish company GS Hydro. It introduced the company's piping system to the Japanese market about 13 years ago. "Heavy industries such as Hitachi, Mitsubishi, Kawasaki, and shipyards were very interested in this system because at that time they were not using



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non welded piping systems. Our first order was with Hitachi, who fitted the system to their existing equipment. We were able to secure five or six big projects for supplying the largest vibration shock testing machines in the world, for testing aftershocks and earthquake proofing. GS Hydro is now an important part of our domestic sales business."

Diversification

Sankyo's core business today remains supplying high grade materials, seamless stainless tube/pipes, copper-nickel condenser tubes and fittings. Mr. Kojima continues: "While the fittings are manufactured in Japan, we are considering sourcing them from China because we already import Chinese stainless steel flanges in common grades. We prefer to supply entire systems for end users; pipes, flanges, fittings, etc. However with special grades it's not easy to supply everything right down to the nuts and bolts as availability is an issue. This is certainly the way for the future however, as end users and engineers want to order complete packages rather than buying pieces from different stockists."

During 1993 to 1998 the Japanese iron steel industry was hard hit by a recession. "Right across the industry there were problems" explains Mr. Morikawa. "The sector was frozen with no investments and no expansion taking place. The industry set about rebuilding itself through a painful process of reconstruction which included layoffs and salary cuts. By necessity it re-emerged with a new streamlined form. Our concern was that at any moment the production lines for any of the 100 items we were supplying could be stopped without warning. This compelled us to build our own manufacturing plant in Shenyang, China, which opened in May 1998." Currently this plant manufactures various items for the global market.

Future growth

Mr. Morikawa is looking abroad to the EU and more Asian countries to grow his business in the future. "High alloy grades show the greatest potential for growth. Duplex grades, high alloy grades and super austenitic steel have a lot of potential for the future. Our marketing focus is now on countries where we don't yet have market penetration. While we are still selling some common grade materials to Asian countries, developed regions such as the US and Europe increasingly need special high grade materials."

"It is difficult for Japanese mills to compete against Korean, Chinese, and Indian mills in terms of price. Today there are so many manufacturers in various countries who can produce common materials relatively cheaply. The Japanese mills are now focusing instead on high grade alloys, working with us to deliver these to the US, Europe and Asia at a competitive price."

"Quality issues remain extremely important. In contrast to China, the Japanese steel industry has a reputation of producing very high quality material; they have an excellent global reputation and image. Therefore the future strategy for Japanese mills must be to further build business all over the world by delivering high quality alloys at a competitive price."

Mr. Morikawa believes companies should be cautious about basing their future business on today's booming markets. "The market is fairly stable at the moment with less volatility in material prices than previously. Brazil, Russia, India and China are exerting strong influences globally. However this may change in the coming years as it is not certain that the growth in the Chinese market is sustainable. In my opinion they may face a recession or some kind of fundamental problem may emerge. The nation is facing many challenges such as environmental, financial, and political issues."



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Ambitious plans

Mr. Morikawa has an ambitious plan for expansion in the coming years which will see the Sankyo plant in China undergoing radical developments. "The semi conductor and LCD industry is increasing rapidly in Japan, Taiwan, China and Korea" he explains. "To meet growing demand for semi conductors the industry will require more so-called 'clean rooms' to produce the electro polished tubing necessary to make purified gas. This is a highly specialised surface, completely different to anything produced for processing applications. We plan to invest in our Chinese site to produce electro polished material in specialised clean rooms, something which is currently done exclusively by Japanese mills.

Electro polished tubing is very difficult product to produce and demands extremely tight quality control. At Sankyo we believe that bringing the production techniques to China together with Japanese engineers to produce this highly technical product is a strategy which will see us continue to flourish in the future." Sankyo is not just interested in moving upstream into production. "We are also planning on developing our downstream activities to bring us closer to the market" explains Mr. Kojima. "We're looking at ways to shorten lead time and provide better service to our customers.

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This may mean we will acquire some wholesalers or stockists in the US or EU markets. We are also preparing ourselves to join the Japanese stock exchange in several years. This will generate financial resources to invest in more warehousing and stock in our main markets.

Mr. Morikawa has a clear-cut goal for Sankyo's future which its whole team is working towards with determination and a shared sense of purpose.

"Our ultimate vision is to achieve 5% global market share or 300 billion Japanese yen in market volume. This may be a very ambitious goal but we will become one of the major players in the global stainless seamless tube market. While we are not a very large company our management resources are excellent with a team made up of in-house specialists. We see our team as a kind of human antenna collecting information on markets, projects, and companies. Marketing intelligence is very important to us because it is essential that we pick up information faster than our competitors. All suppliers face challenges such as unexpected changes in government policy or import taxation. Our market intelligence is a step ahead of the rest and will keep us at the forefront of the market." ■

FACTS & FIGURES

Name:	Sankyo & Co. Ltd.
Founded:	1975
Headquarters:	Tokyo, Japan
Products:	Pipes and tubes in seamless stainless steel, nickel, copper alloy and titanium
Key markets:	Power plants, petrochemical industry, shipyards, bio-energy, semi-conductors, aviation
Turnover:	8.6 billion yen (2006)
Employees:	100 in China, 30 in Japan
Website:	www.sankomj.co.jp