# Sankyo & Co. Ltd.: Overcoming a severe external environment to meet the needs of tomorrow

EMORIAL

Sankyo & Co. Ltd. have almost forty years of experience as a trading company specialized in exporting a large range of products – from seamless stainless steel pipes and tubes for large plants right through to precision components. Through the years they have developed a large network of clients covering more than thirty countries around the world. Their motto is to "add high value to products through trade, in search of sound developments for the global economy to better peoples' lives". Thijs Elshof and Kiyo Ichikawa of Stainless Steel World recently visited the company to talk to Company President, Mr. Johnnie Morikawa, about their strategies for the future, the exciting possibilities behind the opening of their new Saga plant in Japan, and the difficulties that they have had to overcome but which have made them a stronger and more innovative company today.

#### By Thijs Elshof and John Butterfield

#### A difficult backdrop

The road ahead has not always been smooth for Sankyo. Like many companies they have had to face and adjust to many changes taking place in the global marketplace. However, it says much about their enterprise, spirit, and flexibility that they have not only surmounted these problems but have adapted and developed at the same time to become an even stronger force in their segment of the stainless steel industry. Company President, Mr. Morikawa, takes up this background story: "In September 2008 we had to deal with the bankruptcy of Lehman Brothers.

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### **COVER STORY**





decelerated the export business of Japanese companies."

# Need to adapt to market changes

Despite these major obstacles, it appears that Sankyo were destined to take advantage of these setbacks and strategically shift toward supplying materials for the energy industries, especially for oil & gas, starting in 2000, which seems to have paid off dividends. In particular, as the nuclear policy of the Japanese Government reached a deadlock, their sales efforts in LNG, LPG, GTL, and Shale Gas industries gradually achieved a satisfactory outcome and they have been additionally awarded with large-scale projects related to specialized vessels such as FPSO, FSRU, Drillship, and Ramform vessels.

Although business was taking a favorable turn, the fact that Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. merged on October 1, 2012, had a huge impact not just on Sankyo but on the Japanese steel industry as a whole, for as a result of having fewer suppliers, Sankyo had to face a stronger control of product prices and limited extra capacity from the supply side. They believed that there were two ways to overcome the situation: (1) through sales promotion and procurement in overseas markets and, (2) by the establishment of their own manufacturing plant.

Based, therefore, on the above-mentioned management plan, Sankyo Singapore

At the same time global economic recession arrived and Sankyo were faced with sharply declining sales throughout 2009, as did many other companies. Beginning to recover in 2010, we were once again hit by the economic situation resulting from the Great East Japan Earthquake in March 2011 and the subsequent accident at the Fukushima Nuclear Power Plant, which provoked once more a severe economic slowdown in Japan. Moreover, Europe's financial woes from the global economic crisis led to a very strong Japanese yen and Sankyo's export business was left facing a predicament as a result. In addition, floods in Thailand in July 2011 severely affected Japanese factories there, at a time when they were reorganizing their overseas business, whilst anti-Japanese riots in China in September 2012 further



Sankyo CEO, Mr. Johnnie Morikawa, speaking at the opening ceremony of Saga Plant.

## **COVER STORY**



Sankyo Special Tube Co., Ltd. in Takeo City, Saga Prefecture.

Pte. Ltd. was established in Singapore in January, 2011 in order to promote the ex-stock business of seamless stainless steel tubes to their domestic and overseas customers. Also, Sankyo Special Tube Co., Ltd. was established in Takeo City, Saga Prefecture, Japan in January 2012 to produce seamless stainless steel tubes as a cold redrawing mill. The factory was taken into full operation in March, 2013 after a trial production stage.

#### Why purchase Saga products?

Sankyo have conducted a thorough market research since 2010 and as a result, completed a supply system for each demand structure according to regional blocks, countries, segmentation of industries, and applications, organizing a comprehensive value chain including subsidiary companies from home and abroad.

Based on the research, they took the following steps:

- They rebuilt a supply system from Sankyo Stainless Tube (Shenyang)
  Co. Ltd. for price-orientated customers.
- (2) Sankyo Singapore Pte. Ltd. was established for their ex-stock business in order to promote 'Triangular Trade Business' and to meet quick delivery requirements.
- (3) Sankyo Special Tube Co., Ltd. was established for quality-oriented customers and to simply raise global competitiveness. Aimed at a return to products 'made in Japan', it meets the specific requirements of customers, applications where there was a need for a quick delivery, has a flexibility for producing small

quantities, severe tolerances, and innovative high performance.

(4) The available products from the Saga factory are ASTM/ASME A213/SA213 TP316/316L: (a) Instrumentation Tubes (imperial size/low pressure 10-20 bar), (b) Hydraulic Tubes (metric size/ high pressure 400-600 bar), and (c) Heat Exchanger Tubes [OD 19.05/ 25.40/31.75 mm x WT 1.65/2.11/2.77 mm x LG up to 13.8 meters]. The Saga plant's strength lies in high quality, moderate prices, short delivery times and flexibility to small quantity orders. Also, technical staff will be well trained to promote an understanding of customers in terms of material selection for each application and other technical services abroad on a regular basis.

#### Why the Saga location?

"The Saga location was chosen for several reasons," points out Mr. Morikawa. Firstly, it is near to a harbour. Our products, especially the 'mother' pipes, come to us from South Korea and Europe so being close to a harbour was an important advantage. "The site is further reasonably near to the port of Imari, as well as being just 200 km from the port of Pusan, and only 350 km from Dalian, Qingdao, and Shanghai. Hong Kong and Singapore are also in reasonable proximity. Another advantage was that this new location was outside any existing earthquake zone. Additionally, the people of the Saga Prefecture have been renowned for their manufacturing skills for the past 200-300 years. Technological and innovative skills are therefore not new here. Furthermore, along with Daisen, Shimane Prefecture, it is a region famed for iron ore and metal working, such as 'Japanese swords'. Another factor of importance when deciding to locate here was that the people are well educated, there being a large number of technical colleges in the region. Moreover, it is relatively easy to build-up a stable company workforce in the Prefecture as employees prefer to remain near to their tight-knit families rather than moving elsewhere to work. This ensures that investments in skills are not easily lost.

#### Comprehensive strategic plan

Mr. Morikawa: "By putting our plans into action, Sankyo have taken full advantage of the unique values of our group of companies based on regional and functional characteristics. Customers' requirements vary according to regions, industries and applications, and Sankyo's mission is to meet them comprehensively, including various aspects such as finance, distribution, and logistics."

Making use of the convenience in terms of finance, logistics, and quick access to commercial routes, which Sankyo



Sankyo Special Tube Saga Plant with floor area 6,884 square meters.





Tubes from Sankyo's Saga plant.

Singapore Pte. Ltd. enjoys, they are planning to continue their market research, analyze demand trends and, based on their hands-on approach, they are going to make their decisions and act guickly, and keep their business on track by rectifying the overall imbalance of business development related to Investment and IRR (Internal Rate of Return). On another note, Shenyang plant in China, for example, will continue to remain important to Sankyo, supplying mainly instrumentation and hydraulic tubes in W 1.4435 and 316L stainless steels. "They are good quality products produced at a much more competitive price than those of Japan and Europe," says Mr. Morikawa. "Most of the products produced in Shenyang are used to penetrate the Chinese offshore market, whilst the Saga plant exports globally. We have concentrated in Saga on producing technologically advanced high-quality products, at a reasonable price. In addition we have introduced new products that are in high demand."

The company's business has grown well over the past three years and they expect that this pattern will continue even more so in the future because they have taken the decision to concentrate even more on the upstream oil & gas industry, and, especially, on their offshore business.

#### **Global operations**

The company aims to work towards obtaining a 5% share of the global seamless stainless steel market but admits this objective is guite ambitious. Further they will use Sankyo Singapore to take care of controlled buying from overseas mills and sales to overseas customers. "The 'Triangle Business' that results," says Mr. Morikawa "enables us to provide supply chain management in accordance with customers' requirements. This is very important when dealing with European and American customers who come to the Asian market because it has grown compared with other countries. Orders from European customers are regularly shipped out to Shanghai, Pusan, Hanoi or even sometimes to Singapore, or back to Japan. Moreover, at Sankyo Singapore, customer requirements are checked and information is gathered on the general market situation. This allows us to determine how to move forward for the future since as well as expanding our global market position; we also want to



Ramform vessel which MHI has been awarded uses Sankyo's tubes.

expand our role in the domestic Japanese market. In this way we have been able to determine the segments we wish to focus on. The first of these is the oil & gas industry, followed by the marine industry, and the shale gas industry. We anticipate that these three new areas will continue to expand during the coming time so we must be able to meet the need for extra instrumentation, hydraulic, and heat-exchanger tubes." The demand, for example, for heat exchanger tubes is particularly important in the petrochemical industry in the United States at present. Similarly, the demand for hydraulic tubes is expanding for FPSOs, special marine projects, and FSRU drill ships, etc., as is the demand for instrumentation tubes in the semiconductor, biochemical, petrochemical and medical industries, amongst others.

#### **Business in America**

For the future, Mr. Morikawa expects that the LNG, LPG, NGL, petrochemical, and Shale Gas industries will become even more important so Sankyo are looking to expand their business to these segments, supplying seamless stainless pipes and tubes, especially to the United States, and the Gulf of Mexico. In Houston they are already working with several stockists through a well-established network that they have developed. On the East Coast, they will promote their ASTM A511 mechanical tubing business more, especially for the automobile industry and machine processing. Sankyo also foresee increased growth in their sales to the energy markets as demand continues to expand. The new Saga plant will help them to adapt to these new markets.

#### Conclusion

The last few years have proven to be difficult for the stainless steel industry and it has led to some companies falling by the wayside. In the case of Sankyo these changes only seem to have strengthened their strong points, their determination, and their pride to differentiate themselves in producing a high-value product. With a clear understanding of their possibilities and competencies to current market needs and a shrewd discernment of where the market economy will take them, their destiny and success in the coming years seems guaranteed.