

SUCCEEDING BY DESTROYING A GROWTH MODEL

Kanemasa Haraguchi
Executive Vice Chairman
 Secom Co., Ltd.

Born August 1950, Kyoto. Graduated March 1974 from Musashino Institute of Technology (renamed Tokyo City University) with a degree in telecommunications engineering from the engineering department. Joined Nihon Keibi Hoshō K.K. (renamed Secom Co., Ltd.) in April 1974. Appointed vice-president in 2002, president in 2005 and executive vice chairman in January 2010. Viewed as both managerial and spiritual successor to company founder, Makoto Iida, with the technocratic background to lead the company to new prosperity and growth in the information age.

Always Re-examine Your Values

Personal security is a relatively new concept in Japan. Long considered one of the safest countries in the world, Japan had until recent years managed to avoid the rising crime rates that had accompanied industrial development in many of its Western counterparts. Social scientists like to point to a variety of factors for this, including relative income equality and stability, near homogeneity of race—which breeds shared norms and mores—and social behavior dictated less by religious beliefs or universal codes of conduct than by the particular demands and exigencies of sustaining harmony in the small groupings to which people belong, such as family, schools, neighborhoods, and places of employment. People moved in relatively small

social circles; and that perhaps more than anything else may have reinforced the day-to-day standards of propriety and moral guidance to feed and maintain social order.

But with the advance of globalization, freer movement of goods, services, and particularly labor, this once relatively isolated island country is gradually evolving into a more open and pluralistic citizen of the world. Greater mobility, as well as increasing diversity of demand and lifestyles and Japan's shrinking population, in particular, augur perhaps greater immigration in the coming years to sustain the country's social and economic infrastructure. With increased plurality of interests and values, and growing detachment or accountability to local social circles, individual and impersonal crimes motivated more by self-interest and economic gain than by malfunctioning relationships have been on a steady incline in Japan.

Security, in a variety of forms, is therefore a growth industry. But security against crime is only part of the story in a country that is rapidly aging. Companies such as Secom that are on top of the changes taking place in the country demographically and economically are finding themselves constantly expanding and refining the meaning of their businesses as they seek to overcome new challenges and exploit new opportunities, both at home and abroad.

Secom company founder Makoto Iida is widely credited as the founding father of the security industry in Japan. Iida was the fifth son of a sake merchant in one of Tokyo's oldest quarters, Nihombashi, and the Iida family had gained a modest level of local respect as a supplier of spirits and beverages to restaurants and guesthouses.

Because Makoto was the fifth son, he was exempt from any expectations of one day taking over the family business, and therefore grew up largely free and unfettered. His parents even encouraged him to actively pursue his every interest. They didn't spoil him, but insisted that he have a serious and active approach to whatever he did, and possess meaningful objectives.

Iida recalls as a youngster being severely reprimanded by his father for merely walking with his head down, or crouching lackadaisically in public. To his father, it was a disgrace to appear publicly as downcast and aimless.

Indeed, Iida's father was a man of open and forthright disposition, and was always lecturing his children about the role that one's psychology has in affecting what happens in real life.

On another occasion, Iida recalls his mother admonishing him for sighing in exasperation. “When you sigh, you allow happiness to escape,” she told him. The young Iida found something very convincing and fathomable about that imagery, and says he has been mindful of sighing ever since.

Owing to the accessible wisdom imparted by his parents, Iida grew up generally trusting the counsel of adults. But it wasn’t a blind universal trust. Otherwise, how could he eventually pioneer a business that was implicitly built around a suspicion of trust, much less rise to the top of that industry?

Safety is Not Free

It’s a good thing that a business can fail. Because if I knew someone would come in and save it, I would lose the ability to manage with any suspense at all.

This quote perhaps best captures the personality and business philosophy of Makoto Iida. Iida treats risk as a given. Everyone has their share of both successes and failures, and Iida believes that any business action is predicated upon an acknowledgment and embracing of risk. “If all you do is stick to what is safe, there is little incentive to act with any resolve and you diffuse any expectation of progress.”

Iida indeed undertook an immense risk in deciding to build a business out of something that had long been considered free: peace of mind. He believed that greater safety and security, and consequently peace of mind, could be purchased. As mentioned at the outset of this chapter, the security business is still quite young in Japan, at least as a private sector endeavor. The government, of course, provided public security through the national police force. But with the exception of providing against some external threat, most Japanese prided themselves on the notion that theirs was for the most part a “safe, peaceful and orderly” country; one where people implicitly respected each other’s possessions and privacy. Safety was therefore taken for granted, like oxygen. Offering security as a commercial commodity never really occurred to anyone as necessary or desirable.

Perhaps much of the nation was too busy rebuilding their country after their defeat in World War II to think about protecting what little they had. By the early 1960s, when disparities in material wealth were beginning to emerge, Makoto Iida took notice of the

rising number of reported crimes each year, and began thinking that “eventually, the time would come when Japan, too, would see peace of mind security as something to be purchased.”

Public safety—to be distinguished from private security—was the domain of the police, who were stationed in local police booths in every community across the country. They conducted local censuses, patrolled neighborhoods on foot or on bicycles, helped people with directions, and even on occasion lent out cash. To their credit, they still do all of this. But there have always been those nooks and crannies that inevitably escape or exceed their reach. It is precisely those areas that Iida saw as increasingly vulnerable to exploitation, particularly on private or commercial property.

Iida believed that if he could offer an added level of safety and peace of mind as a service, there must surely be businesses that would feel the need for it. So at 29, Iida ignored the many naysayers around him and established the *Keibi Hosho* (“security guarantee”) company, forerunner to Secom Co., Ltd.

Iida’s vision proved prescient. As Japan grew into the world’s second-richest nation, followed by growing demands for home-market liberalization, deregulation, and freer immigration, new types of crime emerged alongside existing ones, as did their frequency and intensity. Thus followed a dramatic increase in business demand for protective and preventive security measures.

Secom grew into the largest provider of private security systems, for both corporate clients and households, with a whopping 60 percent share of a market that is currently swamped with some 10,000 rival companies, large and small, across the nation.

Be Mindful of Constant Changes in Your Situation

Iida’s venture began with a suspicion that Japan’s reputation as the world’s safest country was either a myth or a phenomenon that simply couldn’t last. He then parlayed that foresight into a new kind of business that proved adept at mining a hidden demand and winning acceptance. But he didn’t act on a whim. Iida may have gone with his gut instinct in coming up with a business premise, but he then looked to verify it through extensive research before ultimately coming to a decision. Even so, he met with stiff resistance.

The secret to Iida’s entrepreneurial strength lay in his acceptance of risk in a forthright pursuit of an interest that he viewed as having meaningful objectives. This is precisely what his parents had taught

him, and it served him well, as he found himself running a company that was riding the crest of changing times.

Secom continues to run far ahead of the curve, and its competition. One of those reasons has to do with current company president, Kanemasa Haraguchi, who is viewed as a natural successor to Iida and the right leader for carrying forward and building upon the founder's philosophy.

Since becoming Secom president in 2004, Haraguchi has taken a business that owed its remarkable growth primarily to corporate security services, and aggressively worked to expand demand for its services to a still largely untapped market for individual security. While Iida had moved the focus of the company's services away from manned security (security guards) to IT-based systems, Haraguchi has worked to strengthen programs that build and maintain strong human resources as the surest way to sustain a high level of service quality.

"I feel the strong influence of our founder, Makoto Iida, every day," says Haraguchi. "That is because his beliefs are embodied in the Secom philosophy itself, such as always endeavoring to do what you believe is right and never flinching from new challenges, both of which may require you to break with the past. This is why instead of apprehensions, there are high expectations inside our company that we are embarking upon a brilliant new chapter in our history as we embrace the rapid changes and opportunities of the information age."

Haraguchi is clear about what will keep Secom viable going forward:

One is people, and the other is technology. These are two strengths that will enable Secom to respond to these difficult and changing times. Our products and services are all provided by Secom people. They are the reason we don't believe in outsourcing. We rely instead on having highly capable people who carry out their work responsibly and with full understanding of who we are, where we've come from, and what we stand for. We don't believe you can succeed with a model based on the easy interchangeability of people. Because that is precisely what will lose you the trust of your customers.

When Secom was awarded the job of providing security to athletes during the 1964 Tokyo Olympics, just two years after the company's

inception, it was a breakout moment. The sudden exposure Secom received was tremendous, and most of the Japanese public had been unfamiliar with the very concept of the business. With the Olympic games, private security entered the national consciousness to such a degree that Secom served as a model for a popular television miniseries the next year about the life of a security guard. Until then, the job of a security guard, and the security business overall, had either gone largely unnoticed or struck people as a peculiar novelty.

Shrinking a Growth Business by Design

It was precisely when business was soaring and the sky seemed the limit when Secom founder, Makoto Iida, decided to raise a red flag. His trusted successor, Haraguchi, can attest to that:

Iida has never been one to feel completely satisfied or comfortable with success. Instead, he can't help but continually question himself and his actions, which is why he stunned everybody when he announced that we needed to rethink the business from the ground up. Despite our company's readiness to change, he again met with strong internal resistance. Basically, he proposed that we change our business model from one that relied largely on on-site guards to one focused on security services through telecommunications technology. This stirred up heated internal debate over what that would mean exactly, and what level of genuine security Secom could promise to our customers by reducing on-site personnel. But Iida strongly asserted that no matter how successful a business you may have, you must constantly be aware that the times will change without your consent, and you must adapt or you will face obsolescence.

Secom at the time of the announcement had a workforce of several thousand employees. Iida was convinced that if it continued on a linear trajectory, the company's survival would only become increasingly threatened with the emergence of more competitors following similar models.

"Viewed in hindsight, it was the right move," remarks Iida. "But at the time, the general telecom infrastructure was not amply in place in Japan, so we began by having to install dedicated lines of our own. Though costly, the advantage was that nobody else was

doing it. So we were able to gain considerable lead time over our competitors, and able to keep coming up with new ideas to leverage that lead.”

Behind this change in management policy, by all measures quite revolutionary, lay a fundamental precept in Iida’s business philosophy:

There comes a point in time when it is right and appropriate to squarely face something that you achieved with the most single-minded belief, effort, and conviction, and be prepared to reject it. Otherwise, nothing truly new will ever be born.

One has to be driven by either tremendous courage or supreme folly to want to dismantle a successful business model that has taken years to build. But Iida, in his inimitable penchant for self-examination, found himself once again questioning some basic assumptions about his business. Instead of relying on the availability of physical manpower—in the form of security guards making the rounds—couldn’t the same if not better level of security services be provided by some means that wasn’t so labor intensive? The answer, of course, was the development of telecom infrastructure.

A greater focus on technology was precisely what Secom needed to catapult it into the next century. The shape of crime, too, was changing, growing more sophisticated and more pervasive. And security services needed to be a step ahead of that change.

For example, Secom developed video technology to detect and record intrusions in high clarity, even in pitch darkness, and then automatically feed that information to a Secom monitoring center. To prevent intrusions where the perpetrator dresses up as, say, a parcel delivery person to gain entry into a building, Secom has been developing a visual intercom system with built-in facial recognition functionality. If no match is made, an alarm is sounded.

“We’re also developing ways to distinguish between reliable and unreliable information over networks,” says Haraguchi. “We need to continue to enhance our network security services as new needs and realities of the information age arise, or better yet, to pre-empt them.”

In short, Makoto Iida’s gambit paid off; his read on the future once again proved prescient. The field of computer and sensor technologies that he steered the company into as a replacement for a staff-intensive model set the company down a path that would soon be followed by the advent of something called “IT.”

Adapting to a Changing, Aging Society

The twice reinvented Secom is now extending its reach into another and wholly different space. It is the field of health care. Japan is the world's most rapidly aging society. It is estimated that by 2015, one in four people in the country will be over the age of 65. The birth rate, by contrast, has been declining for 34 years. While this presents a host of serious social and economic challenges for the country, it also offers a significant business opportunity for companies like Secom.

Secom has begun partnering with medical institutions to offer individual customers emergency medical assistance call services using its existing security systems. This has also led to entry into the field of nursing care, such as health care services and pay nursing homes, of which there are far too few service providers to satisfy current and projected demand.

All of this is rapidly broadening the scope and definition of security, though still within the conceptual realm of providing "peace of mind."

"Security is not just about protecting people from thieves and burglars, but anything that can pose a threat to human life and family welfare," Haraguchi opines. "As we confront the growing needs of an aging society, it is incumbent on us to provide comprehensive security services that not only protect people from crime, but also improve their access to other aspects of their daily welfare, such as nursing care and medical treatment."

While Secom on the one hand appears to have found itself blessed by a series of natural growth opportunities, in truth, the company's progress has been spearheaded by a keen sensitivity and genuine responsiveness to real changes in people's lives, embodied of course in the philosophy of Makoto Iida and Kanemasa Haraguchi. Secom's foray into health care is a risky one that could sap energy and strength away from its core security services, which have ensured continued growth and stable earnings since the founding. But risk is a given, and so is change. Secom's penchant to honor the founder's venture spirit, even as the leader of its industry, has given rise to a vibrant business perspective, and continues to keep Secom on the cutting edge. Haraguchi believes health care is on a trajectory to become a billion-dollar industry in the near future, and Secom plans to play a major role in comprehensively supporting the health, safety, and security of people's lives, while not necessarily from cradle to grave,

perhaps from living room to downtown offices and all the spaces in between.

Greater Growth in “Security”

When asked whether his company’s success so far can be credited to getting an early jump on the IT age, Haraguchi says “no:”

To be sure, IT enabled us to undergo an incredible transformation. At the time, there wasn’t any particular strategy formed around IT, per se. Our thinking was more in tune with asking the important question: Do we have sufficient skepticism right now even in the midst of great success to keep us capable of responding to the next big change down the road? It won’t matter if we have access to the most wonderful technologies and human talent known to man, if we err in the use and timing in which to apply them, it will be tantamount to never having known them at all. That’s why a person or a company that cannot swim with the current of the times will always be gobbled up, no matter what age you live in.

This is an all-important question for Secom, which is constantly being called upon to bolster the range and sophistication of its products and services to meet new needs. One example is the rash of crimes that began around 2004, in which gullible, often elderly, citizens are tricked into depositing money into unknown accounts at automated teller machines (ATMs). Often, it will begin with a telephone call from someone pretending to be a family member in need of money, or a fictitious claim for some unpaid bill or service. The perpetrator only need provide a bank account number into which the victim is instructed to deposit money, and the transaction is completed. Often, the caller is guiding the victim by telephone at the ATM machine. Secom has been called upon to beef up security and prevention systems across the country to combat this kind of fraud at teller machines.

Twelve Countries and Counting

What about Secom overseas? Social and demographic conditions vary greatly between countries and regions, but surely good technology and systems can travel anywhere.

Secom is pursuing a concerted overseas expansion strategy, and already operates in 12 countries, including Australia and the UK, and with a particularly strong presence in Asian countries including South Korea, China, Thailand, Singapore, and Chinese Taipei.

Secom launched the first online security system in Taiwan in 1978 through a technical and management tieup that led to the creation of Taiwan Secom Co. Similar to Secom's early days in Japan, it was an idea that began with very little traction. There were very few companies that saw the need for, much less understood the concept of, buying safety. So, as in Japan, Secom salespeople made the rounds one company at a time, persuading them as to the value of the service, and slowly building up a client base. Eventually, Secom's security systems gained penetration and understanding in the form of increasing contracts until finally growing to a stockmarket listing in 1993, and paving the way for a burgeoning security industry in Taiwan. From there, the number of contracts increased to the point where today Secom offers its safety products and services to more than 100,000 clients.

Taiwan Secom currently has 80 business offices, 2,300 employees, and since its founding has maintained top share of the private security business in Taiwan as a blue chip company.

A joint venture with the Samsung Group in 1981 established Secom in the South Korean market through a company that was later renamed S1 Corporation. Again, this was the first private, online security systems provider in the country.

Korea was at the height of a rapid economic growth drive that had begun in the 1970s, but it still took time for the private security idea to be completely understood. As with the Tokyo Olympics in 1964, the big breakthrough came in 1986 and 1988, with Korea's holding of the Asian Games followed by the summer Olympic Games in Seoul, respectively. South Korea used these two games as a platform to show the world that it had joined the ranks of the world's leading economic powers, and with the growth and arrival of new and global businesses and financial institutions, so grew a need for what Secom and S1 had to offer, along with acknowledgment that Secom was already a high-quality provider in the field. In 1996, S1 was listed on the Korean stock exchange, and began offering home security systems as well.

S1 maintains a near 60 percent share of the online security systems market in Korea. Secom stickers can be seen everywhere, so much so that the name Secom has become synonymous with "security systems."

Even rival companies can be heard proffering their services to prospective clients by saying, "Would you like to install a Secom?" S1 has 360,000 accounts and is tops among the more than 2,000 private security solutions companies in Korea. It is a significant contributor to the Secom Group.

Like most corporate global strategies, China is the overseas market that is drawing the most current attention. Secom entered Beijing in 1992 with the establishment of Secom (China) Co. The next year, it formed a joint venture with a Dalian firm to start China's first online security system for corporate clients.

Since then, it has set up companies in Beijing, Qingdao, Shanghai, and Shenzhen, targeting local and Japanese businesses. Each of those companies has in turn set up branches or other companies in surrounding regions to expand the market. The next step is to establish and expand bases in principal inland cities.

Secom has succeeded in earning very high plaudits overseas and is enjoying rapid growth in contracts. A large part of that success, Haraguchi says, is due to a commitment to localism:

As we seek to raise awareness of the Secom brand in the Asian region, and expand our business there, it is indispensable that we cooperate with and train local staff who know their home markets better than we do. We won't succeed otherwise. Problems are bound to occur among staff due to cultural and philosophical differences. So it's not enough to pound the pavement. We need to foster highly trained, capable people. Only then can we expect to be able to provide high-quality security services.

Secom is also moving briskly ahead into Thailand, Malaysia, Singapore, Indonesia, Vietnam, and Australia. With more than 550,000 contracts overseas, there is still plenty of room to grow when compared to the more than 1.2 million contracts in Japan. But building a society where people can improve their quality of life in complete safety and peace of mind is something desired by all people of the world. Haraguchi says, making that wish come true is Secom's mission:

We don't want people to purchase our products simply because it's better to be safe than sorry. No, we want them to feel completely gratified for having come to us because they're getting

a level of support, security, and peace of mind that goes far beyond just a buffer against crime or mishap. A good service business has to offer a lot of intangibles as well; the know-how, creativity, and expertise to meet customer needs and wishes fully, and a desire to be a strong beacon or positive force in the community.

From Korea to India, Secom actively seeks to promote exchanges among its younger constituents along with technology exchanges. This active approach to growth in Asia, Haraguchi believes, is an investment sure to provide enormous dividends in the future.

While Secom may have pioneered the security industry and earned top share in some of those countries, total consolidated earnings overseas still only account for only about 4 percent of earnings garnered at home. This is one reason Haraguchi believes the company must devote increasing energy and resources to expansion in overseas markets. But it must be done prudently. Secom did not acquire its large customer base in Japan overnight, but built up its business gradually and by overcoming its share of tough hurdles. He expects to earn market share abroad in much the same way.

There is a commonly held belief among business watchers that service sector companies from Japan are just not well suited to business overseas. Manufacturers, on the other hand, are. But that notion ignores that Secom is already a leading security service company in 12 other countries beside Japan. A primary reason is, as stated earlier, that Secom does not sell itself as a Japanese company in those countries. Instead, it partners with local companies for joint business development in those markets, where Secom is then viewed as a local service provider:

Each region in Japan has its own culture and ways of thinking. That's even more pronounced when you go abroad. For Japanese to attempt to transfer products and services designed for the Japanese market to other countries without conforming them accordingly would be not only time consuming and difficult but a recipe for failure. That is why we partner with local companies who understand their communities. We can provide the systems and technologies that we have developed and have proven to be effective, but locals need to decide how best to deploy them.

Despite a global recession, Secom continues to post record sales and profits. One could say that Secom is thriving because these are incredibly trying times, and people are more sensitive to both real and perceived threats to their security.

But economic fears notwithstanding, Secom sees considerable room to grow both overseas, and in health care. The most immediate growth potential lies in the household security market. Households constitute fewer than 40 percent of Secom's security service contracts, but demand has been growing twice as fast as for corporate contracts, particularly in metropolitan areas. The countryside remains largely untapped.

Summary: Security in a Changing World

Despite incredible economic volatility in the world, Secom has succeeded in sustaining a solid and stable revenue base thanks in large part to a business model involving long-term customer subscriptions. Once equipment is installed, it is difficult and costly for a business or a condominium to readily make wholesale changes, but with the proper follow-up services by Secom, there is little need to. Secom founder, Makoto Iida, remains an active behind-the-scenes advisor who can ensure that the venture spirit of this still relatively young enterprise remains vibrant and relevant while also encouraging a corporate culture that enthusiastically embraces fresh opportunities.

"Our customers have put in our care the keys to their safety," says Iida. "It is our responsibility to therefore respond to their trust and continually seek to improve their security and peace of mind through improvements and added value."

Iida's business model began with corporate security contracts. He sought to earn such a high level of trust from business customers as "watchdog" over their property that "security" would come to be treated as a justifiable and natural expense, and thereby secure for Secom a stable source of revenue. With the increase in households where both marriage partners work and leave their homes vacant for most of the day, Iida identified a new need for home security, and developed a business model for homes and condominiums. This demand has been further accelerated with Japan's rapidly aging population as more and more elderly find themselves living alone, and must rely on various cleaning, nursing care, and delivery services, all of which require better and more replete home security support.

Secom has gone from a visionary startup company premised on a perceived future need for purchasable “safety” to a company capable of sustaining growth and evolving with the changing times, as evidenced by its shift from staff-based to so-called mechanical-based security, and expansion from corporate to individual subscribers. Now, Secom is examining ways to grow in Asia and other markets abroad.

For the longest time, President Kanemasa Haraguchi kept his desk in a corner of Makoto Iida’s office for a specific reason. Whenever Iida would come up with a new idea, Haraguchi would immediately commit it to paper and draft a quick feasibility plan to send off into the field for practical feedback. From this experience, Haraguchi says he has come to know Iida’s philosophy and can almost guess what his founder will think of next. Above all, Haraguchi says, he has learned the basics of growing a business. If Iida is the wellspring of Secom’s venture spirit, then perhaps Haraguchi is its leading missionary.

In contrast to Makoto Iida, who was born into an enterprising family and is at heart a philosopher, Haraguchi’s background is more technocratic. He majored in electronic and communications engineering and possesses a more digital way of thinking. He can insert technical footnotes to Iida’s ideas, fleshing out conceptual blueprints.

Quite fortuitously, Haraguchi joined Secom just as Iida’s emphasis on the business was shifting away from static guard security to mechanical security services. The business was about to enter an age of large computerized control systems, making Haraguchi’s value to the company as a tech-savvy manager that much more valuable.

In short, Iida and Secom co-founder Juichi Toda chose to relinquish day-to-day management at just the right time, and to just the right person. With a strong earnings mechanism already in place, Iida retired from the front lines knowing that he had done what was needed to establish a corporate culture that would continue to approach new business opportunities with the venture spirit he believed so important.

The role of President Haraguchi is now to expand the depth and breadth of automated security that Iida pioneered, and open up new markets, all the while cherishing the template for success bequeathed to him by the founder. He must make the business model fit the demands of the market and the times, and then seek to make it

work universally. Secom's move into emergency medical response business is but one example.

Secom had its thirty-seventh consecutive year of growth in sales and operating profit in 2009, with all divisions showing a positive balance, and record sales and operating profit for the fiscal year ending March 2009.

Consistent and steady management has long been one of the distinctive hallmarks of Japanese business, and Secom has increasingly come to be seen in recent years as a living example. Just as it happened in Japan, new value is being attached to notions of safety and security in other parts of Asia as those economies develop, and there is little reason to doubt that Secom will play a larger role in bringing peace of mind to the world at large.

Principal Ideas of Makoto Iida and Kanemasa Haraguchi

- When trying something new, you invariably need to discard something old.
- Always doubt the success of your business. It will help prepare you for the change and crises ahead.
- People or organizations incapable of moving with the times have always been left behind.

Secom Co., Ltd.

Established: July 7, 1962

Kanemasa Haraguchi, Executive Vice Chairman

Makoto Iida, Founder and Executive Advisor

Head office: 1-5-1, Jingumae, Shibuya-ku, Tokyo

<http://www.secom.co.jp/english/>

Capital: 66,300 million yen (year ending March 31, 2009)

Consolidated sales: 678,400 million yen

Consolidated operating profit: 87,634 million yen

Consolidated net profit: 21,502 million yen

Employees: 34,078

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