

upmarket green

Towel maker sets new industry standard by going all the way on the environment.

Keiji Ikeuchi, president of Ikeuchi Towel Co., Ltd., was mystified as to why so many of his key wholesale and retail customers kept asking for towel samples but never followed up with production orders. Upon investigation, he was dismayed to find that his long-time customers and friends from nights of singing karaoke were taking his designs and producing them cheaply in China. With a heavy heart, Ikeuchi decided to abandon long-held clubby industry practices and relationships and, instead, appeal directly to end-users.

However, Ikeuchi Towel possessed no distribution, merchandising or marketing capabilities. It simply knew how to make towels. In order to be competitive, it had to build a distinct brand image as well as create a better towel.

Slumping demand has decimated the towel industry globally in recent years. Pillowtex Corp., the third-largest home-textile company in the U.S., filed for bankruptcy last July, eliminating 6,450 jobs and closing 16 plants in a complete liquidation. In Japan, demand has been sliding for over a decade as towels lost their status as the automatic gift of choice for many occasions. During the

same period, Japanese consumers have become increasingly price conscious. The Japanese towel market has shrunk from \$5 billion at its peak in the early 1990s to only \$3 billion today. Towels even became a source of trade friction between Japan and China. Low-cost competition from China has hit many Japanese industries hard, but towel makers face a lethal combination of a shrinking home market as well as low-priced imports.

Industry in crisis

Japan's "Towel Capital," the city of Imabari on Shikoku island, is where producers have been concentrated since the industry was introduced from England 150 years ago. Imabari still produces over 60% of the country's towels. Ikeuchi's father founded Ikeuchi Towel there in 1953 and rode a four-decade wave of postwar growth that saw the local towel-manufacturing base grow to a peak of 500 companies in the early 1990s. However, when he took over the family business after 13 years in the marketing department of Matsushita Electric Industries Co., Ltd., Ikeuchi was not the only one to find his business in crisis. According to

Hidetoshi Sakata, general manager of the Shikoku Towel Industry Association, 300 of the small firms in Imabari have closed and most of the rest are struggling.

By the mid-1990s, Imabari companies had begun moving their own production to China to be cost-competitive.

"Imabari manufacturers have traditionally focused only on one part of the towel manufacturing process, and each towel passed through several firms before completion," notes a retailer. Narrow specialization left Imabari towel companies ill-prepared to adapt to a shrinking market, the retailer adds. It was easier for the ambitious players to build new factories in China, with the latest manufacturing technology.

Still, Ikeuchi was loath to lay off employees who had been loyal to his father for so many years. As his rivals scrambled to match Chinese prices, he decided to buck the trend and gamble on going up-market. In 1993, he and his partners broke ground in Imabari on one of the world's most advanced towel factories. The investment, \$30 million, was huge for a company with annual revenues of only \$5 million. The factory was to produce towels



PHOTOS COURTESY IKEUCHI TOWEL CO., LTD.

with the optimal blend of softness, lightness and durability. Ikeuchi would charge more and hoped to limit costs through production efficiencies. Still, sales did not grow as fast as hoped. The company's fate remained in doubt until, to Ikeuchi's surprise, it began to draw attention for its strict environmental controls.

The Seto Inland Sea near Imabari was once considered one of the most polluted bodies of water in the world. In the 1970s, just 320 kilometers (200 miles) from the Ikeuchi factory, a battle over deadly mercury pollution in Minamata Bay had claimed worldwide attention. Since then, Japanese authorities had tightened environmental standards along the Seto Sea to be the

world's most stringent. Ikeuchi's new factory was thus a model of environmental soundness. The company had, since its founding, always paid attention to the environment, but Ikeuchi's priority was simply to comply with local regulations in order to get his factory into production.

Change of attitude

Then came the 1996 visit of Leif Norgaard, managing director of the Danish organic-cotton firm Novotex A/S.

"Mr. Norgaard scolded me for having an environmentally sound plant on a technical basis but no love for or appreciation of the environment in my heart," says Ikeuchi, who looks back fondly on the meeting. As a result, what



had been mere "pollution control" turned into a clear new business strategy and, eventually, a guiding principle in Ikeuchi's life. Calling on all the marketing skills he had acquired at Matsushita Electric, he sought to create a brand image for Ikeuchi Towels that was rooted in a commitment to minimal environmental impact with no sacrifice of product quality. He analyzed every aspect of towel production to achieve the optimal effect.

"Since 1,000 tons of waste water is discharged from our factory every day, we designed a complex, three-day treatment process that meant our waste water not only meets regulations but is actually cleaner than the Seto Sea it flows into," says

Clockwise: Consumers happily pay more for environment-friendly towels. The factory uses 1,000 tons of water daily. Giant tanks store and process waste water.

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Ikeuchi, adding that heavy pesticide use means it is better to minimize the use of conventionally grown cotton. "So we begun buying organic cotton thread from Peru, even though it cost five times as much as conventional thread." Ikeuchi considered using organic dyes, but such dyes are not colorfast without the addition of small amounts of toxic heavy metals for adhesion. "It was a tough decision," he says, "but from a total environmental impact viewpoint, using the least harmful chemical dyes is better than natural dyes with heavy metals. These are towels, after all, and nobody will buy them if the color runs when they get wet." The resultant towel was not only far softer than anything else in the industry, but also more natural and with the least possible environmental impact.

Ikeuchi persisted and found even more radical ways to reduce environmental impact and call attention to his brand. In 2002, when Japan's utilities allowed factories to source power from windmills at a 20% premium over conventional power, Ikeuchi switched immediately. "I can get all my power from wind, whereas big companies like Toyota cannot," he says. "Of course I switched completely. It is money well spent – a move that has made my employees and customers happy." Few companies in the world rely completely on wind power.

Ikeuchi had a better towel and a strong marketing message, but distributors were not lining up to place orders. As deflation deepened in Japan, more and more towels were sold through discounters, and Ikeuchi towels cost twice

the industry average. Middlemen were part of the problem.

"Typically, 75% of the price a consumer pays for a towel is absorbed by the channel," he says. "For a towel sold to the consumer for ¥2,000, the retailer likely paid ¥1,000 to a wholesaler. The wholesaler had purchased that same towel from the manufacturer for ¥500. The ¥500 must cover raw materials, labor and overhead, which is generally a large percentage for small-scale manufacturers like Ikeuchi Towel."

Message lost in transit

Ikeuchi knew he needed more-direct sales, but few retailers were willing to cut out the wholesalers. Also, the complex distribution system diluted the marketing impact of his environmental message. "In Japan, buying environmental products struck consumers as being a sacrifice; it felt like too much of a duty," Ikeuchi laments. None of the passion and joy that he had learned from Norgaard was getting through to the customers.

With a new factory and a new brand image, he needed new markets and a new distribution strategy to complete the transformation of his company. With the Japanese towel market shrinking steadily and margins tight, Ikeuchi decided he needed to become a global player. However, the towel industry had never been a particularly competitive exporter.

"U.S. retailers are extremely demanding," notes Jennifer

Three hundred of the small firms in Imabari have shut down and most of the rest are struggling.

Negley, editor of New York City-based trade journal Home Textiles Today. "The industry is dominated by large, domestic manufacturers and foreign firms have a tough time meeting U.S. retailers' packaging, inventory-management and financing requirements."

Best new product

Feeling a little desperate, but convinced he had a better towel, Ikeuchi decided to attend a Los Angeles trade fair, where it quickly became apparent that the U.S. market was very different. American buyers were not interested in Japan's fancy embroidered towels. They loved how soft and light Ikeuchi towels were, but the real buzz was when word got out that Ikeuchi was the industry leader in environmentally zero-impact towels. That is what U.S. and European buyers inquired about.

Within two years, Ikeuchi towels were being sold at 50 specialty retailers in the U.S. and 20 stores in London and Paris, despite costing \$35 versus an industry average (including tariffs) of \$10. Recently, Ikeuchi Towel won the "Best New Product in Show" award at the world's premier home furnishing exhibition in New York. When Ikeuchi discovered that Americans were willing to pay a premium for the environmental label, he intensified the message on sustainable business practices and rebranded his entire line as IKT, to sound less Japanese. He incorporated a

windmill logo and the tagline "The earth is protected by the wind," on a green label attached to all his towels. The buzz spread back to Japan, where new customers often look for the model windmill featured in every Ikeuchi store display. Many learn about IKT via the Internet.

"People have set up Web sites about IKT towels," Ikeuchi notes with wonder.

The company has enjoyed improving results for several years, thanks to increased unit sales and larger margins due to bypassing wholesalers. Also, just-in-time production in the new factory cut the manufacturing cycle from 45 days to 28, which means savings on inventory costs of \$500,000 per year. "Last year the company enjoyed 9% profit margins on sales of approximately US\$6 million."

However, challenges remain. In early September, a major wholesaler suddenly declared bankruptcy owing Ikeuchi a large amount of money and forcing the company to file for reorganization (such domino-effect bankruptcy chains are not uncommon in Japan, where failure to make just two promised payments can trigger automatic bankruptcy proceedings). This month, creditors will vote on a reorganization plan.

"The recent financial crisis further convinced us we need to move away from the traditional channel subcontracting relationships," notes Ikeuchi, "The sooner we achieve 100% of our business selling higher-end towels directly

to global retailers and consumers the more solid our future will be." Ikeuchi's goal is to achieve two-thirds of total sales overseas, but the global home-textiles industry is an unforgiving arena. Looking ahead, he ponders whether to continue building the IKT brand or to manufacture on behalf of well-established global brands. Japanese wholesalers traditionally dictated design. Now, Ikeuchi faces the challenge of responding directly to rapidly changing consumer tastes.

New business ethos

Still, the future is brighter than it was 10 years ago. Not just for Ikeuchi's company, but also for the environmentally sustainable business model he promotes. While Japan continues to have a mixed environmental record overall, factories along the Seto Inland Sea today represent the leading edge of sustainable manufacturing. The amazing turnaround is due in part to some of the world's most stringent standards, in part to consumer demands and, now, also to innovative entrepreneurs like Ikeuchi.

"It is only a matter of time before people will not even consider starting businesses without taking the environment into account as a key factor," he says.

Former business owner Carl Kay (carlkay@mub.biglobe.ne.jp) is currently co-authoring a book about foreign entrepreneurs in Japan. Jay Johannesen is a writer and business consultant. Both are based in Tokyo.



"We think he picked it up at the kennel."

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