

# REGIONAL REVITALIZATION IN AKIHABARA

Kazuhito YAMADA

Doctorate Course, Hosei Graduate School of Regional Policy Design

**ABSTRACT:** This paper is a policy thesis aimed at the revitalization of Akihabara (Tokyo, Japan), an area that has declined economically in recent years. Akihabara is known around the world for its concentration of electro-domestic retailing, but the reality is that there are a number of industries concentrated there. An important issue addressed in this paper is the mechanism of the industrial district. Accordingly, this paper shall examine how Akihabara's Industrial district has evolved, through a historical analysis and observation of case examples over the past 60+ years of continuous industrial concentration in Akihabara following the end of WWII. The results show that there is an apparent external economy functioning in Akihabara and this external economy has contributed to the evolution of the Akihabara industrial district. Moreover, 4 distinct phases were observed with regard to the developmental mechanism of the Akihabara industrial district (an evolutionary process). These phases are: 1. Cost saving; 2. Increase in revenues; 3. Increase in added values; 4. Diminishing returns due to a negative lock-in effect (an industry starts to decline, companies make strategic changes but large switching costs prevent real change). Furthermore, in Akihabara current overall demand is decreasing due to industries in Akihabara entering phase 4. Corporations doing business in Akihabara (in particular small- and mid-sized businesses) require a way to break the negative lock-in effect. If businesses cannot remedy this situation, prospects for new industries and the revitalization of Akihabara are pessimistic. Policies are required to develop a regional business ecosystem(milieu) that allows simple businesses to flourish in the Akihabara region, with the occasional injection of fresh DNA (information, etc.) from inside and outside the region(milieu) that allows companies to react and adapt to the prevailing market environment.

**KEYWORDS:** business ecosystems(milieu), corporate strategy, industrial district, Time Map Analysis

## I. INTRODUCTION

This paper outlines theories regarding mechanisms of the Akihabara industrial district, based on case examples. An Industrial district can be defined as a collection of deeply inter-related businesses concentrated into a relatively small area, in this case Akihabara (Itami, Matsushima, Kikkawa 1988).

Firstly, an examination of industrial district theory. Research into location theory mechanisms with regard to industrial districts takes its lineage from M. Weber (Yamamoto, 2005).

Weber's theories were based on businesses grouping in areas that had simple geographical advantages that translated to lower transportation and labor costs and these factors could be clearly used to classify an industrial district.

Furthermore, A. Marshall postulates that even if advantageous conditions for a particular geographical location are lost, the binds that tie businesses together in an Industrial district can sustain the district over the long term. In short, from the theoretical perspective of industrial district

research, the mechanism can be examined by looking at the geographical benefits and the consequent advantages of businesses concentrating in one location.

Akihabara was formerly known as Kanda Radio Kadoya Town and in its current incarnation as Akihabara Electric Town, in the 60+ years since the end of WWII the area has become famous around the world for the concentration of retailers and wholesalers involved in industrial electronic devices such as computers, telecommunications, as well as popular electronic devices such as televisions and radios, etc. Analyzing case examples in the area to examine mechanisms of the Akihabara industrial district illustrates a clear demand for revitalization to counter falling demand.

## II. METHODOLOGY and PRIOR STUDIES

Research focused on the corporate strategies and activities (using a Time Map Analysis) of 7 businesses (referred to as “Leader Corporations”) active in the Akihabara industrial district.

A historical analysis (the Time Map Analysis) plots time on the y-axis against industries on the x-axis for a specific location (in this case, Akihabara). This creates an easy-to-understand historical expression (Time Map) of the development processes undergone by businesses in the area.

Research of the corporate strategies of each of these 7 Leader Corporations took two forms: tracking how these businesses have developed (through interviews, analysis of corporate histories, documentary investigation of internal corporate materials, internet surveys, etc.) and tracking area development through Time Map Analysis and observations.

The 7 Leader Corporations, all publicly traded

corporations or similar entities, have influenced Akihabara and they have all fed a specific industrial district in their respective fields. For more details on the historical analysis (Time Map Analysis), refer to Fig. 1: Akihabara: Development and Innovation. Fig. 1 is based on interviews, participant observations, documentary reviews, Internet surveys and interviews with authors of prior research, and illustrates the overall degree of regional innovation (the Akihabara business ecosystem) of specific industries in Akihabara.

Firstly, a consideration of prior research: the Akihabara industrial district has been subject to many different types of research. With regard to the development of wholesale and retail electro-domestic products, records include the *Official History of Chiyoda Ward* (pub. Chiyoda Ward Office, 1960) and the *Revised Edition of the Official History of Chiyoda Ward* (pub. Chiyoda Ward Office, 1998) as well as in the corporate histories of businesses that trade in Akihabara, such as the Akihabara Electrical Town Organization, the Akihabara Radio Kaikan, Panasonic Corp., Ryosan, Nidec, Tomuki (formerly: Tokyo Wireless Tools), Tokyo Radio Dept., Kakuta Radio & Electric, Yamagiwa (formerly: Yamagiwa Electric Trading Co.), Okamoto Electronics, Chuo Musen Denki, LAOX, etc.

Yamashita (1993, 1998a, 1998b, 2001) is noted for research into retail, the concentration of retailers in Akihabara and pricing structures, etc. Omori (2003) for *anime*, which has garnered a lot of attention recently. Yamane for how Akihabara came to be, the technical development of IC and transistors, the *teki-ya* street stall culture and the development of retail in the area. Suzume for the distribution and logistics of electro-domestics, Honjo for the *batta-ya* discount retailers and Domon for the importance of community. Omori for the concentration of

electronic component trading companies and entrepreneurs, and Ono for the Akihabara 'brand' as well as case studies in *Industrial Districts and Area Brands – The Case of Akihabara* – (Mitsubishi Research Institute Inc.), research and materials by Yuri Ono, publicly available on the Regional Policy Research Center homepage. Kato's (Ono's) research in 2005 has detailed information on the unique aspects/mechanisms of industrial districts. For wholesale, the Nikkei Sangyo Shinbun Newspaper (1982) published on the unique aspects of Akihabara as a congregation of electronic businesses.

Most research documents focus on one aspect of the Akihabara Industrial district: wholesaling and retailing. Only one researcher asked why Akihabara continues to attract these particular industries (Kato 2005). Following the development of Akihabara Crossfield and hypothesizing the future of the area's IT industry, this new development may play a desirable bridging role between the IT industry and the wholesale/retail sale of commercial goods as noted in J. Jacobs' official revision to the theory of sustainable growth<sup>1)</sup>. Prior to this paper no prior research on Akihabara industrial district mechanisms from case studies (corporate strategies) exists.

### **III. EVOLUTION OF INDUSTRIAL DISTRICT and the BUSINESS ECOSYSTEM**

#### **1. Akihabara Industrial district: Evolution**

The history of specific industries in Akihabara illustrates the mechanisms for why certain industries gather there (Fig. 1: Akihabara: Development and Innovation – Yamada 2009).

Re: Fig 1: The graphic plots corporate strategies of 7 Leader Corporations and shows the evolving industrial structure of Akihabara against time.

For each corporation, industry life cycle is illustrated thus: Formative Phase (○); Peak Prosperity (●);

Decline Phase (△); and then dissolution. Each industry passes through each phase of this life cycle, from formation through to decline and ultimately dissolution. This cycle occurs to several companies is due to businesses gathering in the same location - an external economy<sup>2)</sup> (regional external economy).

There are benefits for businesses coming together in the same geographical area. There is an old theory that advantages are created when businesses gather in a specific area. These advantages are passed down to future generations. Marshall supports this theory.

Understanding of the law of increasing returns as a recent intellectual discovery has led to debates on regional external economies (Marshall). Marshall stresses the unique significance of the regional external economy and general verification methods of the external economy concept. Marshall states that information exchange merits come from having companies in same industry in the same area. The area has advantages: a deep labor market, large enough to be an effective regional market and efficient enough to sustain intermediate suppliers of goods. The effect of these businesses grouping together creates a regional external economy<sup>4)</sup>. In this case the regional external economy has led to the evolution of the industrial district.

Marshall's concept of external economy can apply to Akihabara. This external economy is due to g three reasons: (1) Information sharing due to information spill-over; (2) The existence of non-commercial production factors due to regional limitations and (3) A pool of proficient workers located within the district in question (Okamoto, 2009).

#### **(1) Information Sharing due to Information Spillover**

In Japanese industrial districts, it is difficult to

imagine a scenario where employees of one company actively exchange information with the employees of another company. However, fieldwork in Akihabara revealed a high degree of face-to-face meetings, social events, etc. where much information was freely exchanged. The degree of secret technical information that was shared between companies through this spillover could not be confirmed, but information such as sales trends, strategies, and product line-ups, etc. was shared. This can be considered unique to the compact 600m<sup>2</sup> Akihabara area. The concentration of companies in the same field as well as other fields in this small 600m<sup>2</sup> area is complimentary. Publicly traded companies involved in the same line of business numbers some 60 firms (IT, PC sales, electronic components, semi-conductors, mass merchandise, etc.), added to a number of legacy firms and outlets, results in a number of clusters. Cluster theory promotes the benefits of proximity (reduced information costs).

## **(2) The Existence of Non-Commercial Production Factors limited to Akihabara: A collective regional asset for competition**

If non-commercial production factors exist only in a specific industrial district, that district has a competitive advantage. Historically, Akihabara has served as an district of the manpower, services, organizations and facilities required by these economic activities. In particular, as each sector is represented by an organization (the Akihabara Electrical Town Organization, the Federation of Electronic Component Wholesalers, etc.) that performs a networking function and provides corporate services. Legacy businesses located in Akihabara have their own institutional approach to foster human resources. Akihabara was the historical site of Tokyo Denki University (Tokyo Electric University). More recently, the Akihabara Dai Biru and surrounding buildings house 20 schools and

colleges and industry-academia-government collaborative robot development projects.

Akihabara is home to many entrepreneurs, support systems to help industrialists succeed and a network of entrepreneurs.

For many years Akihabara has been a 'venture city' (the whole 'city' as an incubation function) combining competition and cooperation.

As shown above, Marshall's non-commercial production factors do exist, but Prof. G. Benko's (Université de Paris I-Panthéon Sorbonne) theory of "collective regional assets for the purpose of competition"<sup>5)</sup> gives a more multi-faceted analysis. Regional communities need identity and governance. If these items are not in place information spillover does not occur. Businesses rely on this to run their market operations smoothly and to grow through industry specialization (regional specialization and social segregation).

With a variety of collective regional assets for competition, combined with increased specialization, it should be possible to develop a region like Akihabara. Benko's approach tallies with Jacob's theories of urban development (see Note 1).

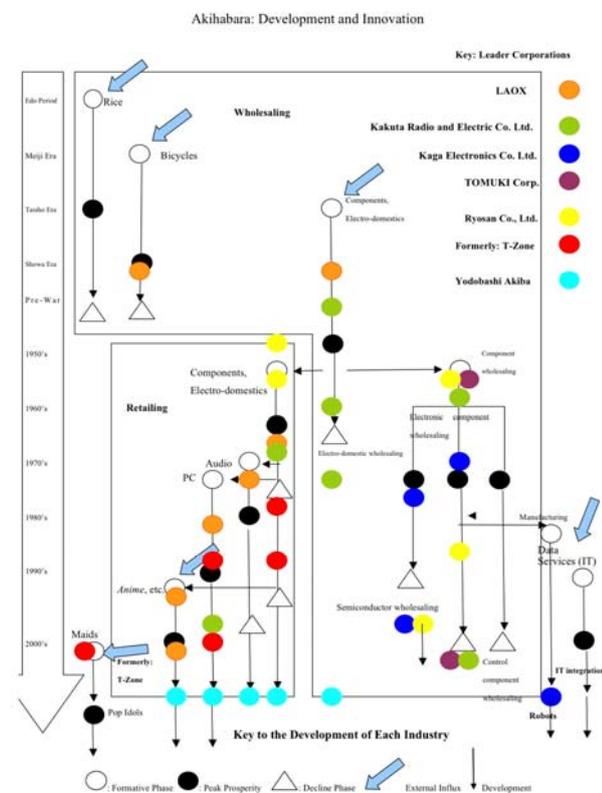
## **(3) Akihabara and the Pool of Proficient Workers**

One great benefit to businesses concentrated in Akihabara is easy access to a pool of workers disposed to the industries in question, keeping HR training costs down and contributing to more information spillover. As observed from the surveys carried out of the 7 leader corporations (Fig. 1), a number of factors has shaped Akihabara's evolution: the appearance of new businesses, changes to existing businesses, external agents (entrepreneurs) new abilities, businesses developing/growing and the

effect of industry-academia-government collaboration on the labor pool.

The evolution of the industrial district requires three essential factors to be in place: (1) Information spillover; (2) Non-commercial production factors (collective regional assets for the purpose of competition) and (3) A pool of proficient workers. These three factors underpin an external economy that drives the evolution of the industrial district. Akihabara has factors (1), (2) and (3) in place.

Considering an external economy in effect in Akihabara, as observed in Fig 1.: Akihabara: Development and Innovation, changes to existing businesses and specialization (complimentary for subsidiary businesses) occur alongside the evolution of the industrial district (subsidiary businesses, specialization across the whole area).



**Fig 1: Akihabara: Development and Innovation** (Source: Yamada, 2009)

Furthermore, analysis of specialization in Akihabara

from the perspective of region (milieu) and business considers the area as a business ecosystem. This view of a business ecosystem(milieu) is important.

## 2. Historical Analysis of Specific Industries in Akihabara

Akihabara's development is shown in patterns A (wholesaling), B (retailing) and C (external influx). Refer to Fig, 1 to follow patterns A, B and C.

A (Wholesaling)

Rice – Bicycles – Components – Electro-domestics – Electronic Components – Semiconductors – Control Components – Manufacturing – Specialization: Manufacturing Robots, etc. / Data Services: IT

B (Retailing)

Components – Electro-domestics – Audio – PC – anime and figurines

C (External Influx)

Data Services: IT / Maids / Pop Idols (AKB48, etc.)

The industrial district has developed and specialized (including subsidiary businesses) in the manner shown in pattern A (wholesaling). This level of specialization is difficult to achieve in retailing (pattern B) but through the application of corporate strategies appropriate for the external environment, retailers can change the nature of their industry and as a result the industrial district continues to evolve. For example, (refer to Fig. 1) the key shows the orange circle that denotes the company LAOX – whereby it is possible to track the evolution and decline of this company.

### The Evolution and Decline of LAOX (indicated in Fig. 1 as ●)

Repair of light bulbs on bicycles – radio component wholesaling – electro domestic wholesaling – wholesaling and retailing of electro domestic items (subsidiary businesses) – electro domestic retailing – audio retailing – anime goods (anime-related hobby

goods sold through Game-kan and Asobit City) - ○ (formation) - △ (decline) - in 2009 LAOX was assimilated by SUNING, a large Chinese electro domestic mass retailer.

By analyzing the corporate strategies put in place by LAOX against time (Time Map Analysis), it is apparent LAOX was able to implement strategies promptly, with flexibility to the external environment. These policies were part risk avoidance, part a response to external conditions.

However, as is clear from Fig. 1, external influxes (the blue arrow) show trends and items from outside Akihabara such as: rice, bicycles, components/electro domestics, retailing of *anime*-related goods and pattern C: (External Influx) Data Services: IT/Maids/Pop Idols. Manpower with new skills and abilities (entrepreneurs) as well as new information is brought into Akihabara from outside. Companies are established, develop and trigger a further evolution of the industrial district.

In this manner Akihabara has undergone three types of industrial development: 1) Specialization (subsidiary businesses); 2) Adaptation to external conditions; 3) A basic path dependence exists but there is an external influx. As a result the Akihabara industrial district has undergone evolutionary changes.

However, as is apparent from Fig. 1, for approx. 60 years after the end of WWII Akihabara was able to survive due to changes to industry itself. But any industry that enters into a period of prosperity (●) is fated to go into decline (△) and eventually disappears.

In Akihabara, as one industry falls into decline another industry comes in from outside, triggering a further evolution of the industrial district (specialization across the area as a whole) and the area continues to survive.

**3. Akihabara: Development & Innovation – Lock In** Kawasaki (2008) argues that industrial districts can be explained by “the power of location” concept, which can also be interpreted as “area power”.

In concrete terms, this refers to people in the same line of business, affiliated industries situated in the same geographical location (district) and the subsequent reduction in mutual trading costs (distribution and information costs) as well as greater profits for companies supplying components, goods and services. Area power can also bring other added values and synergies, such as the ability to source and foster excellent HR and encourage innovation, contributing to the development of the district in question.

The next step is for the region is to establish a regional brand, and then start to function as a production system. Later, companies active in the district create a new district and reap the benefits, and in accordance with the law of increasing returns more businesses arrive to join the district. The cycle repeats itself, companies develop, industries grow and the region developments. The regional brand takes shape through innovation and synergies are created. This can be considered as an Industrial district effect.

The law of increasing returns applied to this situation concentrates people, goods, money and information, etc. in a specific region (Akihabara), the result is a mechanism that causes a spatial disparity to grow going forward. In Akihabara, companies that emerge victorious from competition will collect more profits and develop into leader corporations in their particular industries with much of the technical and competitive advantages concentrated in their hands.

Accordingly, the law of increasing returns creates a structure and mechanism that can be considered to add to the uneven nature of district.

With reference to Fig. 1, the law of increasing returns applies from formation (○), leveraging economies of scale the market is characterized by a great number of companies congregating until the period of peak prosperity (●). However, from peak prosperity (●) to decline (△) or until a particular industry disappears, the law is reversed and diminishing returns becomes the norm. This phenomenon, where companies are unable to secure income and fall into decline, is a form of lock-in and companies have to create new corporate strategies, the drawback being that these companies are unable to generate new strategies - the law of diminishing returns.

Companies in an industry stuck in this loss-making lock-in effect, even successful leader corporations, are unable to change their trade and pursue a new business model. Companies at this stage of their evolution, even if they are able to somehow turn towards another type of business, face considerable switching costs and are often unable to change their corporate strategies – again, the law of diminishing returns. The industry in question then heads into decline. In particular, long-established companies are often unable to forget what was successful for them in the past and are especially prone to dilemmas when considering innovation (C. M. Christensen 2001).

#### IV. CONSIDERATIONS

##### 1. Conclusions

With regard to the mechanism of Industrial district in Akihabara, conclusions are listed below. However, there are exceptions. For example, these theories were not checked against all companies. There may be companies or sectors that, since the time they were established, may have been able to continuously grow income and profits without any dip in revenues, in which case the conclusions below will not apply. These observations apply to the 7 leader corporations and their specific industries in Akihabara's Industrial

district. Taking into account these possible exceptions, the observations and conclusions are as follows:

Firstly observations of Akihabara as an Industrial district, broken down into four 4 main phases. (The breakdown is across 4 phases in order to keep the explanation simple; in an actual case example there would be numerous phases involved.)

##### **Phase 1: Keep Costs Down (developmental phase)**

On a basic level, this phase refers to the reduction in trading costs that results from a concentration of parties involved in a specific field at one location, which in turn attracts people involved in affiliated industries. Alternatively, either fortuitously or at random, parties involved in affiliated industries may find an accumulation of businesses involved in a specific field nearby. This is the formation period (○) in Fig. 1.

These examples are illustrated in Fig. 1.

Ryosan (indicated as ● in Fig. 1) was an electro-domestic retailer that was able to adapt to new conditions and evolved into a semi-conductor wholesaler. Ryosan is a case example for this phase to explain the mechanism of Industrial district.

Shio Moritomi established Ryosan in 1947 as the Mori Trading Co. in Suginami Ward, Tokyo. The company was initially an electro-domestic retailer. In 1952, the head office moved to the Matsutomi Building in Akihabara and in 1953 Ryosan Electric Ltd. was founded (that year the Mitsubishi Group was performing strongly and in order to hopefully ape their success, the company name Ryosan was chosen as a reversal of the characters *mitsu* (san) and *hishi* (ryo)). At that time, the main business in Akihabara was the sale of radios and radio components to the Tohoku (NE Japan) area.

In 1956 Ryosan changed to an electronic component

trading company (wholesaling electronic components) and in 1975 Ryosan became an official agent of NEC and changed once again into a semi-conductor trading company (wholesaling semi-conductors). In 1983 the company was floated on the second section of the Tokyo Stock Exchange. The business continued to flourish and the stock was consequently promoted to the first section of the TSE. Ryosan is still to this day one of the leading companies in Akihabara.

As per the explanation above, Ryosan was established outside of Akihabara, but when the company decided it needed to expand as an electro-domestic retailer the benefits of the district of similar businesses meant that it had to move to Akihabara. It is thought that many similar companies followed Ryosan's example and flowed into Akihabara.

Moreover, it is apparent that, having made the move to Akihabara, Ryosan noted that on a basic level the market for electronic component wholesaling was growing due to a preponderance of similar companies in Akihabara, and so in 1956 the company planned on a sea-change in the industry as a whole and took the bold step of changing its corporate strategy to embrace electronic component wholesaling. At that time, companies such as Tomuki (formerly: Tokyo Wireless Tools, indicated as ● in Fig. 1) and Kakuta Radio & Electric (indicated as ● in Fig. 1) also joined the electronic component wholesaling industry.

In this way, this initial phase shows how a collection of companies involved in a specific field can keep trading costs down. This is the formation period (○) in Fig. 1.

### **Phase 2: Growing Revenues (developmental phase)**

This phase concerns the growth in revenue of suppliers, businesses that supply components and services required by the companies making up the initial district. Following formation (○) as shown in Fig. 1 this phase

tracks the growth of the market and is illustrated as the period between formation (○) and peak prosperity (●). By examining Fig. 1, it is clear that a great number of industries accumulate together during this juncture. This is also the phase where the law of increasing returns starts to apply.

Kaga Electronics (indicated in Fig. 1 as ●) is an electronic component wholesaler and was established during this phase. Entering the industry at this point means that the law of increasing returns is the principal driver and it is possible that Kaga Electronics' rapid growth was due to the timing of its entry to the market.

### **Phase 3: Increase Added Value (developmental phase)**

Affiliated industries form groups, expanding and networking. This is the phase of "area power". Area power is denoted by innovation, safety (risk avoidance) and regional branding (a future competitive advantage). Looking at Fig. 1, this phase lies both immediately before and after peak prosperity (●). At this time, the effect of the law of increasing returns is at its very peak as are the added values for companies active in the district. The 4 cases given below give concrete examples as to how the law of increasing returns has influenced Akihabara.

#### **(1) Reducing costs related to finding and accessing external experts or specialists in the area in question (investment factor conditions)**

The electronic component wholesaling industry (electronic component trading companies) set themselves up as the *benri-ya* or 'handymen' of the trade, confirmed by participant observations and interview surveys taken in Akihabara. This business model was suitable for adjusting to specific orders for electronic components, known as 'kitting', and keeping costs down on sourcing and accessing the *benri-ya* external specialists and experts (low trading costs).

**(2) Presence of a large number of vendors selling regional interim assets and services (presence of affiliated and support industries)**

The PC sales industry (PC retailing and wholesaling), leads to the presence of affiliated component trading companies, affiliated component vendors, mass merchandisers, support staff at these mass merchandisers and other retailers seconded from PC manufacturers themselves, as well as repair shops offering PC repairs and other related services.

Moreover, in Akihabara one can also confirm the presence of many research organizations, universities, university researchers and technicians, venture manufacturers, venture data service entrepreneurs, NPO activities, etc. and other support organizations. These are all recognized to be latent resources. The relationships that exist between these bodies, although not completely visible, is a manifestation of the 'promise' of Akihabara and forms the basis of the Akihabara regional brand. One could also refer to these relationships as the social capital of Akihabara.

**(3) An Easy-to-Enter Market (A market open for testing: demand conditions)**

It is possible to ascertain the presence of the considerable demand that exists in Akihabara. This is true not only for both retail and wholesale, but also for new service providers - Akihabara is an excellent location to catch demand. An example would be testing the market for demand related to the *otaku* (enthusiast, geek) market and the robot market, etc. Looking at Toranoana Inc., as a company that taps into these sub-culture markets, they were able to create a market from one that did not exist beforehand through researching industry needs and discovering a niche market through test marketing to observe customer trends. Toranoana was able to make a success of its market entry in this way. Moreover, Kaga Electronics is one example of several whereby a company has

entered into an industry-academia-government collaboration and used this venture to enter into the robot industry.

**(4) Chances to Innovate based on Human Exchanges (Corporate Strategies and Competition with Competitors)**

Many of the trends in the *anime* industry begin in Akihabara. An example would be the *anime* industry developing an offshoot in the form of the figurine industry, which in turn spawned maid culture, which in turn led to maid cafes, grouped as they were in Akihabara (as of July 2009, there were around 200 outlets that were related to the maid phenomenon). One point to note is that the maid café was actually an external influx from Shibuya, with the first café being the Cure Maid Café. Following on from that, path dependence (or copying) led to the CEO's office of the former T-Zone corporation being turned into a maid café known as Café Mai:lish and this triggered the rapid accumulation of maid cafes in Akihabara (refer to Fig. 1).

Moreover, maid cafes have appeared in Toronto, Canada as well as Paris, France (exported from Akihabara) and their popularity is growing. The proprietors may be Chinese and French, but their popularity is impacting both domestic and overseas tourism. This is one example of Japanese *otaku* sub-culture reaching overseas from Akihabara.

Furthermore, with regard to *anime* and figurines, there are cases of innovation regarding the characters from *Neon Genesis EVANGELION* as used in the *pachinko* (Japanese gaming device, similar to vertical pinball) industry (of course, this also impacts the semi-conductor industry, the control component industry and the electronic component industry – for example the corporate strategies of both Kaga Electronics and the *pachinko* industry as a whole).

As shown above, Akihabara is key in creating trends that touch many different industries as well as stimulating innovation through human interaction, in addition to acting as a channel for exporting Japanese subculture. The expressive power of Akihabara culture can also contribute to the evolution of the Industrial district.

Looking at points (1) through (4) above, working to strengthen “area power” contributes to the law of increasing returns. An area in this situation starts to create its own social capital. At this stage a sense of local community is vital.

One more example of Phase 3 – the company formerly known as T-Zone (indicated in Fig. 1 as ●) entered Phase 3 as a PC retailer. LAOX (indicated in Fig. 1 as ●) was active in *anime*-related goods at this time. As you can tell from their respective cases, both companies were seeking some form of added value and as new players in Phase 3, both were looking to grow their companies at this time.

#### **Phase 4: The Lock-In Effect and Diminishing Returns (Decline Phase)**

After Phase 3 comes the transition from peak prosperity (●) towards decline, as observed in Fig. 1. As with the lifecycle of a company, industries also have their own lifecycle. Once an industry has reached the pinnacle of its prosperity (●), it starts to trend towards decline. Each specialized industry trends this way and companies locked in to these particular industries follow the same trend. Just before or after Phase 4 these businesses invariably try and change their corporate strategies, develop new businesses or alter their business category. However, by the time they get this phase in the industry’s lifecycle, the switching costs associated with such a change are usually very large and companies find it difficult to change their corporate strategies and they continue locked in to a

decline industry –the law of diminishing returns. The industry continues to decline and eventually disappears.

Of the 7 leader corporations represented in Fig. 1, only one currently finds itself in Phase 4: Yodobashi Akiba (indicated in Fig. 1 as ●). Fundamentally, no company will join an industry in Phase 4, because the chances to innovate are too few and far between.

However, as shown in the case of Yodobashi Akiba, with the right corporate strategy – namely leveraging economies of scale, selling items over the internet across a variety of industries and structuring distribution in a new way, it is possible to enter into this market and secure new customers that were previously out of reach. A corporate strategy to combine the convenience of the internet with one store where shoppers can see and touch every single item in the product line-up, in addition to a location in front of Akihabara Station that has been praised for its ease of access – all of these factors add up to a type of retailing that has not been seen before in Akihabara and an overwhelming advantage for Yodobashi Akiba. In particular, it has been a very effective corporate strategy for Yodobashi Akiba to combine both the real and the virtual in one location.

During this period of decline in this industry, the corporate strategy (regional strategy) of Yodobashi Akiba has been the only recent innovation in Akihabara as market demand continues to fall. Following the success of Yodobashi Akiba, Yamada Denki also opened a store in front of Akihabara Station.

Akihabara has been home to an industrial district for over 90 years and in the past 60 years, following the end of WWII, the district has continued to evolve. Industries have changed through the 4 phases and Industrial district mechanisms described above and this district will continue to evolve going forward. As

industries develop and succeed (*anime*, figurines, maids, pop idols, manufacturing, IT, etc.), new industries replace the old. This ability to change from one industry to another, as shown by the corporate strategy (regional strategy) implemented by Yodobashi Akiba, is the only way to break out of the situation that locks in companies to failure when their specialized industries start to decline. These important decisions depend on the initiative of those at the top of these corporations. Entrepreneurs create these corporate strategies and implement them.

Finally, when considering the whole of Akihabara (Fig. 1), the current situation, with Akihabara consisting of specific industries and specialization (social segregation), requires change to develop a business ecosystem (milieu) that allows simple (i.e. non-specialized) businesses to flourish. Path dependence and occasional fresh DNA (information, etc.) from inside and outside the region allows for the social segregation of the Akihabara market environment. Akihabara can make use of the merits of its industrial district that made it such a stimulator of demand in the Japanese economy in the years after WWII, as well as contributing to innovations (technical and process innovation), as it evolves as an urban creative center.

## 2. ISSUES GOING FORWARD

Scholars have discussed regions, corporations and regional strategy from many perspectives, but in terms of theory this field is still quite inadequate (Kanai, 1995). This examination of one region (Akihabara) looks at businesses active there and the industrial district from a strategic viewpoint. This examination resulted in concepts of business ecosystems(milieu), corporate and regional strategies. These concepts have not had a profound examination, such as thesis/antithesis, settlement/friction, paradox/boundary or any dialectic process. This will

be examined further in my doctorate thesis.

## EXPLANATORY NOTES

1) Jacobs' theories of urban development

D (segmentation of older professions) nTE (trial and error) + A (new professions) → nD (many new professions) (official) is verification of the case of how Japan's bicycle manufacturing industry accumulated. According to Kato (Ono) (1995), marketing (M) functions are important and this was officially revised to be:  $D + (nTE + A) * M \rightarrow nD$

For more information, refer to Jacobs (2011) pp65-98, p273, p305, p307.

2) According to p93 of Konaka (2009), an external economy will cause companies to congregate together, which will lead to social segmentation, then rationalization. The industrial district benefits and grows due to low transportation costs and the creation of new businesses thanks to exchange between companies.

3) Please refer to p52, P. R. Krugman (1999)

4) Please refer to pp52-54, P. R. Krugman (1999)

5) Please refer to pp13-15, Prof. G. Benko (2009)

## QUOTATIONS and REFERENCES

### (Books, Papers, Journals)

(1) Marco Iansiti and Roy Levien (2004)

*The Keystone Advantage: What the New Dynamics of Business Ecosystems Mean for Strategy, Innovation and Sustainability*; SHOEISHA Co. Ltd..

(2) Takayuki Itami, Shigeru Matsushima, Takerou Kikkawa (1998)

*Essential Qualities of Industrial districts – Flexible Segmentation – Conditions for Accumulation*; Yuhikaku Co. Ltd..

(3) Yoshiyuki Okamoto (2009)

*The Possibility of the Transformation of Industrial Districts: How Industry Accumulation Evolves?*

(Journal of Innovation Management No.6)

The Research Institute for Innovation Management

- Reprinted March 2009, Hosei University Innovation Management Research Center.
- (4) Yuri Kato (Ono) (2005)  
*Research into the Special Characteristics of Industrial district in Akihabara and Mechanisms for Sustainability*  
Office for Regional and International Urban Planning, Urban Engineering Specialization, School of Engineering Research, Graduate School, Tokyo University. (Doctorate Thesis)
- (5) Israel M. Kirzner (1997)  
*How Markets Work: Disequilibrium, Entrepreneurship and Discovery*  
The Institute of Economic Affairs.
- (6) Kazuyori Kanai (1995)  
*Regional Industrial Policy and Corporate Strategies* (pp25-35, Vol. 29, No. 2 Journal of Organizational Science) Hakuto Publishing Co..
- (7) Michio Kawabata (2008)  
*Location Wars – Corporate and Regional Strategies for Growth and “Area Power”*  
Shinhyoron Publishing, Ltd..
- (8) Paul Krugman (1991)  
*Development, Geography and Economic Theory*  
Massachusetts Institute of Technology
- (9) Clayton M. Christensen (2000)  
*The Innovator’s Dilemma: When New Technologies Cause Great Firms to Fail*  
Harvard Business School Press.
- (10) Kiyonari Tadao (1997)  
*Future Shape of Japanese Industrial district*  
Nihon Keizai Shimbun Co..
- (11) Sei Konaka (2009)  
*New Developments in Urban Industrial district – A Case Study of East Osaka City’s Industrial District*  
Ochanomizu Publishing Co..
- (12) Jane Jacobs (2011)  
*THE ECONOMY OF CITIES*  
Kajima Publishing Co.,Ltd..
- (13) Jane Jacobs (1986)  
*Cities and the Wealth of Nations*  
TBS Britannica Co., Ltd..
- (14) Nikkei Sangyo Shimbun  
*The Akihabara*  
Nihon Keizai Shimbun Co..
- (15) Georges Benko (2009)  
*Districts Industriels et Gouvernance des Economies Locales: le cas de la France*  
Journal for Regional Policy Studies vol.1, HOSEI University Center for Regional Research.
- (16) W. Brian Arbor (1994)  
*Increasing Returns and Path Dependence in the Economy*  
The University of Michigan Press.
- (17) M. J. Piore and C. F. Sabel (1984)  
*The Industrial Divide: Possibilities for Prosperity*  
New York: Basic Books Inc..
- (18) Michael E. Porter (1990)  
*The Competitive Advantage of Nations*  
The Free Press, a division of Macmillan, Inc..
- (19) Masahisa Fujita (2003)  
*Significance of Issues with Industrial Cluster Policy from the Perspective of Spatial Economics*  
Yuhikaku Co. Ltd..
- (20) Alfred Marshall (1966)  
PRINCIPLES OF ECONOMICS □  
Toyo Keizai, Inc..
- (21) Kiichiro Morikawa (2003)  
*The birth of Toon Town – Animating Akihabara*  
Gentosha Co. Ltd..
- (22) Hiroko Yamashita (1993)  
*The Function of Location in the Market – the Price Structure Process of Akihabara*  
(pp75-86, Vol. 27, No. 1 Journal of Organizational Science) Hakuto Publishing Co..
- (23) Hiroko Yamashita (1998a)  
*Innovation from the Market: Akihabara’s Electro Domestic Industry – the Second Industrial Divide*  
(Management Trends in Japanese Companies 3 – Innovation and Technical Accumulation)

Yuhikaku Co. Ltd..

(24) Hiroko Yamashita (1998b)

*The Decline of the Discounter – Akihabara as a Commercial District*

(The Era of Marketing Revolution (1) A Revolution in Sales and Distribution)

Yuhikaku Co. Ltd..

(25) Hiroko Yamashita (2001)

*Dynamism in a Commercial District – Thoughts from Akihabara*

(Hitotsubashi Business Review 2001 AUT, pp74-94)

Toyo Keizai Shimbun Co. Ltd..

(26) Kenji Yamamoto (2005)

*The Economic Geography of Industrial Districts*

Hosei University Press.

(27) Kazuhito Yamada (2009)

*Changes in the Structure of Industry in Akihabara and the Relevance of Corporate Strategies*

(What are our “Area Power” needs right now?)

Japan Association of Regional Development and Vitalization. (Papers from the First Research Seminar)

(Kakuta Radio & Electric: Weaving 60 Years of Song)

(33) Tokyo Radio Depart Inc. (1998)

(50 Years Since the Founding of Tokyo Radio Depart Inc. – Full of Spirit, the ToRaji Story)

(34) Ryosan Electric Ltd. (2004)

(50 Years of Ryosan)

(35) Tomuki Co. Ltd. (2006)

(From the Past towards the Future... A Bridge Between Electronic Devices: TOMUKI – Happy 50<sup>th</sup> Birthday!)

(36) *Official History of Chiyoda Ward*

(pub. Chiyoda Ward Office, 1960)

(37) *Revised Edition of the Official History of Chiyoda Ward*

(pub. Chiyoda Ward Office, 1998)

(38) LAOX Co. Ltd. (2000)

(70 Years of LAOX: 1930-2000)

### **Newspapers, Corporate Histories, other Reference Materials, etc.**

(28) *Are Akihabara's roots electro-domestics?*

Nihon Keizai Shimbun article from July 4<sup>th</sup> 2009.

(29) Okamoto Electronics Corporation (1993)

(50 years of Okamoto Electronics – growing together with electronic component distribution)

(30) Yuri Ono (2008)

*Industrial Districts and Area Brands – The Case of Akihabara*

Mitsubishi Research Institute Inc..

Material taken from the website below:

July 25, 2011:

<http://sociosys.mri.co.jp/rethink/2008/11/-vol3-.html>

(31) Kakuta Radio & Electric Co., Ltd. (1996)

(50 Years of Kakuta Radio & Electric)

(32) Kakuta Radio & Electric Co., Ltd. (2006)