

THE HOUSE OF MITSUI: SECRETS OF ITS LONGEVITY

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This paper examines the business achievements of the once-powerful *House of Mitsui*. Its long success is studied from the perspective of its founders' skills, making extensive use of historical documents of the *Mitsui family* collected and prepared by the *Mitsui Research Institute for Social and Economic History*. The focus is placed on seven marketing innovations which, coupled with extraordinary personal ability, resulted in a strong entrepreneurial spirit.

INTRODUCTION

This research analyzes the business achievements of *Takatoshi Mitsui*, the founder of the *House of Mitsui*, and his offspring. The goal is to clarify the secrets of the longevity of the *House of the Mitsui*, using historical documents of the Mitsui Family collected and prepared by the Mitsui Research Institute for Social and Economic History in Tokyo, Japan. A considerable body of research exists from the standpoint of business history, but little research has been done from the perspective of business management and it is this perspective that is emphasized in this paper.

For 272 years, the *House of Mitsui* conducted business under the management of one family. The firm began in 1673, with the founder *Takatoshi Mitsui's* opening a drapery store in Yedo (the old name for Tokyo) and continued until the end of World War •in 1945 (legally in 1946). The Allied Occupation forced the *House of Mitsui*, then one of the world's oldest large-scale business enterprises, to terminate all its operations. It is important to note that the *House of Mitsui* did not collapse from business failure, but was dissolved by order of the Supreme Commander for the Allied Powers. Therefore, it may be safe to assume that the *House of Mitsui* could have survived for an even longer period under the same management were it not for its ties to the war effort. There are corporations today, once belonging to the *House of Mitsui* group but no longer family-owned or operated, which still proudly bear the name, "*Mitsui*".

To examine the business history of the *House of Mitsui*, we must trace the family back to the days of its founders. Before *Takatoshi's* birth, his parents were brewers and sellers of rice wines and soybean foods at Matsuzaka. There being no chronological record of their business and knowing that *Takatoshi's* father died in 1633, it can only be said that the parents opened their shop prior to that date.

The origin of much of the success attained by *Takatoshi*, his offspring and later generations of *Mitsui* may well be attributed to *Takatoshi's* mother *Shuhou*, who is cited as the *defacto* founder of the

House of Mitsui (Shobaiki, 1722/1910). *Takatoshi's* father *Sokubei*, born into a *samurai* (warrior) family, did not have much interest in matters of business. Whereas *Shuhou*, born and reared in a successful merchant family, was quite adept at business (*Mitsui family documents: Takiatoshi/Sokubei, 1910*). At the age of fourteen, *Takatoshi* lost his father and consequently was nurtured and educated primarily by his mother.

At the age of fifty-two, *Takatoshi* expanded business from Matsuzaka into the major markets of Kyoto, Tokyo and Osaka. By posting his offspring in each of these major cities and locating his head office in Kyoto, *Takatoshi* established the structure for the introduction and implementation of his innovative marketing methods. Serving to further secure and strengthen *Mitsui* fortunes were the organizational innovations attributable to *Takatoshi's* eldest son *Takahira*.

In 1722, the *Mitsui family* code was firmly established by *Takahira's* drafting a family constitution, *Souchiku Isho (Takahira's Will)* based on his father's will, *Soujyu Koji Koigen (Takatoshi's Will)*. The code formulated basic rules of management; containing 1) restrictions on the number of shareholding families to ensure the centralization of power, 2) the importance of thrift, 3) the rules of marriage and incurrence of debt, 4) the prohibition of luxury, 5) the employment of talented people and 6) the importance of conscientiously attending to the family's main enterprises. This code was modified to meet the needs of changing times, but its spirit remained the essence and core of the constitution that governed both the *Mitsui* family and firm with its worldwide interests until 1945 (*The House of Mitsui, 1937*). Through steadfast allegiance to the code, the *Mitsui* family met, struggled and overcame adversity to prevail for more than two centuries.

THREE GENERATIONS - THE EARLY YEARS

The First Generation: *Takatoshi's* Mother *Shuhou*

The introductory chapter of the *House of Mitsui's* formal history acknowledges *Takatoshi's* father *Sokubei* as the originator of the family. *Sokubei's* father *Takayasu*, a former *samurai*, held the title of Lord of *Echigo*. In memory of that past, *Sokubei* named his shop "Echigoya" (*The House of Mitsui, 1937*) and entrusted his wife *Shuhou* with the business and the care of their children (*Shobaiki, 1722/1910*). *The House of Mitsui* describes *Shuhou* as "a woman of character and judgment, who outlived her husband by forty years and saw her youngest son, *Takatoshi*, enter upon his career in Kyoto and Yedo (Tokyo). This provided the foundation for the fortune of the family (*The House of Mitsui, 1937*)."

Shuhou's most important marketing contribution was her careful attention to the customers of *Echigoya (Shobaiki, 1722/1910)*. The business flourished under her leadership. In addition to food retailing, *Shuhou* operated a pawnshop and made low-interest loans. This latter enterprise contributed to her children's entry and later success in the banking sector.

Sales, however, were not *Shuhou's* only forte. She also exercised considerable skill in cost savings. She was very careful to recycle used materials and tried to save money wherever and whenever possible. *Shobaiki (1722/1910)* states, "She would collect discarded sandals and horseshoes, which woven from straw, could be used as building material for plaster." G.Roberts wrote in his Book, *Mitsui*, "Paper strings, with which man and women tied their hair, were picked up, spliced and wound into big balls for use in the store . . . Thus a bottomless vat was converted into a cistern, and a leaky wooden dipper became a teapot pad . . . In such an eccentric matriarchy, *Sokubei's* children acquired the values that were to bring fortune to his descendants (Roberts, 1973)." A century before Benjamin Franklin wrote in his book, *The Way to Wealth*, "If you would be wealthy, think of saving, as well as of getting." *Shuhou* was already practicing thrift.

There was also another side to *Shuhou's* economy. She was a woman of deep sincerity (*Shobaiki*, 1722/1910). Early one morning, after her prayers, she found a purse in front of her store. Knowing how great the loss might be, she did everything possible to find the owner. This and the preceding examples suggest that *Shuhou* was worthy of being called the *defacto* founder of the *House of Mitsui*.

The Second Generation: *Takatoshi's* Tokyo Apprenticeship

After his father death, *Takatoshi*, with one roll of cotton cloth as starting capital, was sent by his mother to learn business from his older brother *Toshitsugu* in Tokyo. Through fourteen years of hard work, *Takatoshi* was appointed to the post of general manager of a store and multiplied his capital sixteen times (*Kadenki*, 1722/1910). *Shobaiki* (1722/1910) states that he purchased merchandise at the lowest possible price and sold it at a reasonable retail price, rather than charging customers the highest possible price, which was then a prevalent practice.

Takatoshi's aptitude for business was evident even from this time of early apprenticeship.

One morning, *Toshitsugu* handed *Takatoshi* a sum of money and challenged his younger brother to put it to profitable use (*Mitsui family documents: Takatoshi*, 1910). That evening *Takatoshi* returned, having doubled his money. He had purchased sword cases and shrewdly chosen to sell them at Nihonbashi, one of the busiest locales in Tokyo. *Toshitsugu*, profoundly impressed by *Takatoshi's* ingenuity and business acumen, appointed him as general manager at a store where the position had been vacated by another old brother who had returned to Matsuzaka.

An old proverb says, "Brothers are strangers after all." *Toshitsugu* was jealous of *Takatoshi's* business ability and feared that his younger brother might one day take over his business (*Mitsui family documents: Takatoshi*, 1910). In 1649, the old brother who lived with *Shuhou* at Matsuzaka died. *Takatoshi* was asked to return to Matsuzaka and assist his mother. He was just twenty-eight years old.

From 1635 to 1649, *Takatoshi* had apprenticed in Tokyo, displaying glimpses of his remarkable business talent. From his mother, he acquired essential instruction in the importance of frugality and customer satisfaction and from his brother, the principles of store management and marketing. These valuable lessons would later materialize as bold marketing innovations.

***Takatoshi* at Matsuzaka: a Time of Preparation**

When *Takatoshi* left Tokyo, *Toshitsugu* expressly prohibited him to do business in the three major cities: Kyoto, Tokyo and Osaka (*Mitsui family documents: Takatoshi*, 1910). For the next 24 years (1649 to 1673), *Takatoshi* confined his business activities to local areas. At Matsuzaka, he started banking operations, using as capital personal savings accumulated during his fourteen-year apprenticeship in Tokyo. *The House of Mitsui* (1937) states, "He understood the function and power of money, and it was by combining banking with commerce and boldly adopting innovations in both that he reached the full success which came to him somewhat late in life . . . accumulating capital and gaining a grasp of business principles which he applied with unerring skill in a wider sphere."

***Takatoshi* and His Offspring, the Third Generation: Entry into Major Markets**

While attending to business, *Takatoshi* also paid great attention to the education and training of his children, sending his three sons to Tokyo to learn business in his brother's stores. Trustworthy employees were also sent to train in Tokyo. *Takatoshi* made steady preparations and waited patiently for the opportunity to expand his business into the three major markets.

In 1673, soon after *Toshitsugu's* death, fifty-two year old *Takatoshi* decided to enter the markets to which he so long had been denied access. It was then quite remarkable for a man of his age to

aggressively embark on such a new venture. On the advice of oldest son *Takahira*, *Takatoshi* rented a house in preparation for the opening of a drapery store in Tokyo. He then established a purchasing office in Kyoto. In 1674, *Takatoshi* inaugurated his own long-envisioned Tokyo drapery store, naming it *Echigoya* (*Echigo* was the official title of his grandfather). Second son *Takatomi* was appointed to oversee business in Tokyo and *Takahira* in Kyoto. *Takatoshi*, with residence in Kyoto and Matsuzaka, closely supervised both sons' business operations. *The House of Mitsui* (1937) states, "He traded in dry-goods, chiefly *Nishijin* brocades, which he bought in Kyoto and sold in Yedo . . . and his success was due to the boldness with which he introduced new methods."

SEVEN MARKETING INNOVATIONS

According to *Shobaiki* (1722/1910), *Takatoshi* placed great emphasis on the importance of introducing new methods in business. He and his children instituted the following marketing innovations:

The first innovation was the principle of cash payments and fixed prices. At that time, most retailers called on customers and took orders on credit. Thus, in addition to the normal profit requirements, the trade had to bear the burden of interest on unpaid bills and bad debts (*The House of Mitsui*, 1937). *Takatoshi* began the practice of selling merchandise for cash at his store. *Echigoya* was able to sell directly to its customers at fixed prices that were lower than its competitors. Many customers who were unfamiliar with market prices stood in line to buy *Echigoya* goods, confident that they were paying reasonable prices for their purchases (*Shobaiki*, 1722/1910). *Echigoya* was a pioneer in the field of customer satisfaction, instituting this practice in Japan more than two hundred years ago.

The second innovation was exceptional skill in purchasing and maintaining inventory. Regardless of the volume of orders from Tokyo, *Takatoshi* purchased as much stock as possible to expand his Kyoto inventory when prices were low and then sold his merchandise at the best market price in Tokyo (*Shobaiki*, 1722/1910).

The third innovation was the abolition of the custom of selling silk and other fabrics only in standard cuts, usually sufficient for one adult price of clothing. Roberts states in his book (1973), "A precious clue came from one of his clerks, who patronized the public baths and enjoyed listening to the chatter of the female bathers. A favorite topic of conversation, he told *Hachirobei* (*Takatoshi*), was cloth: women were especially eager to find small pieces that could be used for making pouches, personal ornaments, or covers for treasured objects. Since no merchant was foolish enough to cut into a bolt for such a trifling sale, women had to be satisfied with exchanging remnants left over from kimono-making." *Takatoshi* embarked on daring experiments. He would sell smaller cuts of cloth. In doing so, *Takatoshi* discovered 1) that customers were willing to pay a higher unit price for the convenience of purchasing cloth in quantities that more closely suited their needs 2) that *Echigoya* could draw new customers – those requiring smaller cuts (*Nihon Eitaigura*, 1688/1956).

The fourth innovation was the fast tailoring of a dress through division of labor. This new method saved both time and cost (*Nihon Eitaigura*, 1688/1956). Customers were delighted by this "same day service" and the convenience of being able to return home with their ordered merchandise after a reasonable wait at the shop.

The fifth innovation was the establishment of a wholesale business in Tokyo. In those days, most of the merchants located their purchasing offices in Kyoto, and only conducted a retail trade in Tokyo.

Echigoya, however, started wholesale business next to its Tokyo retail outlets, which contributed to rapid business expansion (*Shobaiki*, 1722/1910).

The sixth innovation was to extract marketing advantage from its banking operations. It was common practice for the large draper stores to be involved in banking. In 1683, *Takatoshi* opened his own bank, a money changing operation, in Tokyo. Three years later, he became a financial agent of the government. According to *The House of Mitsui* (1937), "In those days the government used to send money from Osaka treasury to Yedo (Tokyo) by couriers, but this primitive method of transmission involved much time, expense, trouble, and even the danger of loss by highway robbery. The *Mitsui* and other Yedo (Tokyo) merchants, on the other hand, had to pay for goods purchased in large quantities in Kyoto and Osaka." Applying business practices to the government system, *Takatoshi* sent remittances by money order instead of cash. A formal application for the license of financial agent was submitted and accepted. *Mitsui* and only a few others were appointed as official money exchangers. The process worked as follows: *Mitsui* received from the government agency in Osaka a sum of money to be sent to Tokyo. *Mitsui* used the money to purchase merchandise for shipment to Tokyo. Upon completion of the delivery, *Mitsui* in Tokyo paid the government treasury in Tokyo the exact amount received from the government agency in Osaka. Initially, the treasury stipulated a sixty-day repayment period (*Mitsui family documents: Takahira*, 1910), which was later extended to as long as a hundred fifty days without interest (Roberts, 1973).

The seventh innovation was the introduction of new marketing methods. Long before the concept of advertising had made its impact upon the West, *Takatoshi* and his offspring were masters of indirect persuasion. *Takatoshi's* first flier announcing a new store opening of (*Mitsui family documents: Takatoshi*, 1910) is said to be the first flier in the history of Japanese advertising. On rainy days, many streets blossomed with oiled-paper umbrellas emblazoned with the *Mitsui* mark that were lent to *Echigoya* customers (Roberts, 1973). The *Mitsui* public image was further enhanced by expressions of gratitude, both in speech and writing, rendered by the many famous playwrights, authors and poets befriended by *Takatoshi* (Roberts, 1973).

THE SOCIAL REACTION AGAINST MARKETING INNOVATIONS

The marketing innovations introduced by the *Mitsui* aroused strong negative reactions from the Tokyo merchant guild. Joseph Alois Schumpeter described such social reaction in his book, *Theory of Economic Development* (1934/1983) as follows:

"...in the reaction of the social environment against one who wishes to do something new. This reaction may manifest itself first of all in the existence of legal or political impediments. But neglecting this, any deviating conduct by a member of a social group is condemned, though in greatly varying degrees according as the social group is used to such conduct or not. Even a deviation from social custom in such things as dress or manners arouses opposition, and of course all the more in the grave cases...Even mere astonishment at the deviation, even merely noticing it, exercises a pressure on the individual.."

Echigoya's innovations first irritated, and then infuriated competitors. Their rage reached the boiling point when *Echigoya* managed to seize a large order for crepe from his rival, *Matsuya* (*Shobaiki*, 1722/1910). Having violated a gentleman's agreement against discount selling, *Echigoya* was ostracized by the guild. Adversaries purchased a house adjacent to *Echigoya* and built a toilet close to its kitchen, allowing sewage overflow onto neighboring property. *Echigoya's* attempts to relocate were made difficult by its rivals blocking of its lease. A new site was finally secured at Surugachou, and then considered the most attractive commercial location in Tokyo (Roberts, 1973). Shortly after its opening, *Echigoya* received an informal warning as to the attack by fire on its store. Fortunately, a fire did not break out. At the new location, *Echigoya* bravely struggled with adversities. Its customers also understood the troubles between *Echigoya* and its

competitors, and fully supported *Echigoya*.

INNOVATIONS IN ORGANIZATION

A proverb says, “Clogs to clogs for three generations.” The difficulty of a business to sustain itself over time has often been noted. *Konosuke Matsushita*, founder of Matsushita Electric Industries, once said that the average life of a business firm was between thirty and forty years when it stubbornly stuck to its existing business (Ishiyama, 1980). There are exceptions, but such companies are few in number. The Stora Company of Sweden has existed for more than 700 years, and the Sumitomo group in Japan has its origins in the year 1590 (Arie de Geus, 1997).

Marketing innovations alone cannot explain the longevity of the *House of Mitsui*. Ivan Lansberg, in his *Succeeding Generations*, writes that building a successful business takes an enormous amount of energy, talent, hard work – and luck, and less than 30 percent of family business last into the second generation. Of these, only 10 percent make it to the third generation (Lansberg, 1999).

Against these odds, The *House of Mitsui* prevailed. To understand the basis for *Mitsui* longevity, we offer an analogy between business firms and living things. Alfred Marshall, one of the fathers of modern economics, indicated the importance of the application of a biological approach to economic analysis a little over a hundred years ago (Marshall, 1898/1925). As modern evolutionary biology teaches that only living things that adapt to changing environments can survive, business history likewise teaches that those firms that have been the most successful in adaptation to changing business environments can survive.

The marketing innovations of *Takatoshi* and his offspring can be equated to adaptation. However, to fully explain *Mitsui* longevity, its evolution from generation to generation, the component of entrepreneurship, specifically the maintenance of an entrepreneurial spirit, must be examined. The challenge facing successive generations is well-described by Alfred Marshall in his *Principle of Economics* (1920/1949):

“ . . . he (a successor to the founder) has from his youth up special facilities for obtaining the knowledge and developing the faculties that are required in the management of his father’s business . . . It would be at first sight seem likely that business men should constitute a sort of a caste; dividing out among their sons the chief posts of command, and founding hereditary dynasties, which should rule certain branches of trade for many generations together. But the actual state of things is very different . . . his descendents often fail, in spite of their great advantages, to develop the high abilities and the special turn of mind and temperament required for carrying it on with equal success.”

Takatoshi Mitsui, successor to the founder, inherited a prosperous firm, but was discerning enough to realize that family fortunes could fall into decline if the spirit of entrepreneurship was not preserved. In an effort to prevent the dilution of family focus and power, *Takahira* drew up his will, *Sochiku Isho* (1722), the constitution for family and firm. Based on this document, *Takahira* established *Omotokata*, a central administrative office and holding company (*The House of Mitsui*, 1937), to whose board he appointed three family members. At monthly meetings, these three board members discussed major business issues and made key management decisions with the assistance of the managing executives picked up out of the talented employees. *Takahira* made up for the management weakness through this council system. Marshall also pointed up: “The oldest and simplest plan for renovating the energies of a business is that of taking into partnership some of its ablest employees (Marshall, 1920/1949).” This new council system functioned perfectly well, and contributed to the maintenance of the long-term prosperity of the *House of Mitsui*

CONCLUDING REMARKS

We examined the secrets of the longevity of the *House of Mitsui* from the historical perspective of innovations in marketing and organization. A key distinguished feature of our analysis is its focus on the achievements of the early three generations who consolidated the foundation of the longevity of the *House of Mitsui*.

The *Mitsui* people carried on their entrepreneurial spirit from generation to generation and survived many crises (Horide, 2000). They introduced innovations based on the empirical principles developed from experiences, insights, and intuition, and succeeded in the inheritance of the entrepreneurial spirit,

We may, therefore, reasonably conclude that the secrets of the longevity of the *House of Mitsui* can be attributed to an entrepreneurial spirit, which brings about marketing innovations, and also an organization system for the maintenance of entrepreneurship for generations.

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