

Sankyo & Co. Ltd.: Overcoming a environment to meet the needs

Sankyo & Co. Ltd. has almost 40 years of experience as a trading company specialized in exporting a large range of products from seamless stainless steel pipes and tubes for large plants right through to precision components. Through the years they have developed a large network of clients covering more than 30 countries around the world. Their motto is to “add high value to products through trade, in search of sound developments for the global economy to better people’s lives”. Thijs Elshof and Kiyo Ichikawa of Stainless Steel World recently visited the company to talk to Company President, Mr. Johnnie Morikawa, about their strategies for the future, the exciting possibilities behind the opening of their new Saga plant in Japan, and the difficulties they have had to overcome.

By Thijs Elshof and John Butterfield

A difficult backdrop

The road ahead has not always been smooth for Sankyo. Like many companies they have had to face and adjust to many changes taking place in the global marketplace. However, it says much about their enterprise, spirit, and flexibility that they have not only surmounted these problems but have adapted and developed at the same time to become an even stronger force in their segment of the stainless steel industry.

“In September 2008 we had to deal with the bankruptcy of Lehman Brothers. At the same time global economic recession arrived and Sankyo were faced with sharply declining sales throughout 2009, as did many other companies. Beginning to recover in 2010, we were once again hit by the economic situation resulting from the Great East Japan Earthquake in March 2011 and the subsequent accident at the Fukushima Nuclear Power Plant, which provoked once more a severe economic slowdown in Japan,” said Company President, Johnnie Morikawa.

“Moreover, Europe’s financial woes from the global economic crisis led to a very strong Japanese yen and Sankyo’s export business was left facing a predicament as a result. In addition, floods in Thailand in July 2011 severely affected Japanese factories there at a time when they were reorganizing their overseas business while anti-Japanese riots in China in September 2012 further decelerated the export business of Japanese companies.”

Need to adapt to market changes

Despite these major obstacles, it appears that Sankyo was destined to take advantage of these setbacks and strategically shift toward supplying materials for the energy industries, especially for oil & gas starting in 2000, which seems to have paid off dividends.

In particular, as the nuclear policy of the Japanese Government reached a deadlock, their sales efforts in LNG, LPG, GTL, and Shale Gas industries gradually achieved a satisfactory outcome and they have been additionally awarded with large-scale projects related to specialized vessels such as FPSO, FSRU, Drillship, and Ramform vessels.

Although business was taking a favorable turn, the fact that Nippon Steel Corporation and Sumitomo Metal Industries, Ltd. merged on October 1, 2012, had a huge impact not just on Sankyo but on the Japanese steel industry as a whole. As a result of having fewer suppliers, Sankyo had to face a stronger control of product prices and limited extra capacity from

the supply side. They believed that there were two ways to overcome the situation: through sales promotion and procurement in overseas markets; and by the establishment of their own manufacturing plant. Based on this management plan, Sankyo Singapore Pte. Ltd. was established in Singapore in January, 2011 in order to promote the ex-stock business of seamless stainless steel tubes to their domestic and overseas customers. Also, Sankyo Special Tube Co., Ltd. was established in Takeo City, Saga Prefecture, Japan in January 2012 to produce seamless stainless steel tubes as a cold redrawing mill. The factory was taken into full operation in March, 2013 after a trial production stage.

Saga products

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

Based on the research, they took the following steps: They rebuilt a supply system from Sankyo Stainless Tube (Shenyang) Co. Ltd. for price-orientated customers; Sankyo Singapore Pte. Ltd. was established for their ex-stock business in order to promote Triangular Trade Business and to meet quick delivery requirements; Sankyo Special Tube Co., Ltd. was established for quality-oriented customers and to simply raise global competitiveness; and they made products from the Saga factory available in ASTM/ASME A213/SA213 TP316/316L.



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



Sankyo Special Tube Saga plant's floor area of 6,884 square meters



Ribbon cutting ceremony to celebrate the opening of Saga Plant

Location

“The Saga location was chosen for several reasons,” said Morikawa. “Firstly, it is near a harbor. Our products, especially the mother pipes, come to us from South Korea and Europe so being close to a harbor was an important advantage.”

The site is also close to the port of Imari, and just about 215 miles from Dalian, Qingdao, and Shanghai. Hong Kong and Singapore are also within reasonable proximity. Another advantage was that this new location was outside of any existing earthquake zone.

Additionally, the people of Saga Prefecture have been renowned for their manufacturing skills for the past 200–300 years. Technological and innovative skills are therefore not new here.

Along with Daisen, Shimane Prefecture, it is also a region famed for iron ore and metal working, such as Japanese swords.

It is relatively easy to build-up a stable company workforce in the Prefecture as employees prefer to remain close to their tight-knit families rather than moving elsewhere to work. This ensures that investments in skills are not easily lost.

In the Americas

Mr. Morikawa expects that Business in America for the LNG, LPG, NGL, petrochemical, and Shale Gas industries will become even more important so Sankyo is looking to expand their business to these segments, supplying seamless

severe external of tomorrow



stainless pipes and tubes, especially to the United States, and the Gulf of Mexico. In Houston they are already working with several stockists through a well-established network that they have developed. On the East Coast, they will promote their ASTM A511 mechanical tubing business more, especially for the automobile industry and machine processing. Sankyo also foresees increased growth in their sales to the energy markets as demand continues to expand. The new Saga plant will help them to adapt to these new markets.

Comprehensive strategic plan

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

Making use of the convenience of finance, logistics, and quick access to commercial routes, which Sankyo Singapore Pte. Ltd. enjoys, the company is planning to continue their market research and analyze demand trends. Based on their hands-on approach, they are going to make their decisions and act quickly, and keep their business on track by rectifying the overall imbalance of business development related to Investment and IRR (Internal Rate of Return).

On another note, the Shenyang plant in China will continue to remain important to Sankyo, supplying mainly instrumentation and hydraulic tubes in W 1.4435 and 316L stainless steels.

"They are good quality products produced at a much more competitive price than those of Japan and Europe," said Morikawa. "Most of the products produced in Shenyang are used to penetrate the Chinese offshore market, whilst the Saga plant exports

globally. We have concentrated in Saga on producing technologically advanced high-quality products, at a reasonable price. In addition we have introduced new products that are in high demand."

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

Global operations

The company aims to work towards obtaining a five per cent share of the global seamless stainless steel market but admits this objective is quite ambitious. They will use Sankyo Singapore to take care of controlled buying from overseas mills and sales to overseas customers.

"The 'Triangle Business' that results," "enables us to provide supply chain management in accordance with customers' requirements," explained Morikawa. "This is very important when dealing with European and American customers who come to the Asian market because it has grown compared with other countries.

Orders from European customers are regularly shipped out to Shanghai, Pusan, Hanoi or even sometimes to Singapore, or back to Japan. Moreover, at Sankyo Singapore, customer requirements are checked and information is gathered on the general market situation. This allows us to determine how to move forward for the future since as well as expanding our global market position; we also want to expand our role in the domestic Japanese market. In this way we have been able



to determine the segments we wish to focus on. The first of these is the oil & gas industry, followed by the marine industry, and the shale gas industry. We anticipate that these three new areas will continue to expand during the coming time so we must be able to meet the need for extra instrumentation, hydraulic, and heat-exchanger tubes."

The demand, for example, for heat exchanger tubes is particularly important in the petrochemical industry in the United States at present. Similarly, the demand for hydraulic tubes is expanding for FPSOs, special marine projects, and FSRU drill ships, etc., as is the demand for instrumentation tubes in the semiconductor, biochemical, petrochemical and medical industries, amongst others.

Conclusion

The last few years have proven to be difficult for the stainless steel industry and it has led to some companies falling by the wayside. In the case of Sankyo, these changes only seem to have strengthened their strong points, their determination,

and their pride to differentiate themselves in producing a high-value product. With a clear understanding of their possibilities and competencies to current market needs and a shrewd discernment of where the market economy will take them, their destiny and success in the coming years seems guaranteed.

Facts & Figures

Specialized in the export of stainless steel and high grade alloy seamless tubes and pipes, Sankyo & Co. Ltd. is a Japanese trading firm founded by Mr. Johnnie Morikawa.

Founded: 1975

Headquarters: Tokyo, Japan

Products: Pipes and tubes in seamless stainless steel, nickel, copper alloy and titanium

Key markets: Oil & gas, power plants, petrochemical industry, shipyards, bio-energy, semi-conductors, aviation



Sankyo CEO speaking at the opening ceremony of Saga Plant