



## 2014 Porter Prize Winners

<b>istyle Inc.</b>	(Cosmetic product comparison site @cosme)
<b>START TODAY CO., LTD.</b>	(Online fashion shopping mall ZOZOTOWN)
<b>Hoshino Resorts</b>	(Hotel management)
<b>YKK CORPORATION Fastening Products Group</b>	(Fastener manufacturer and distributor)

(Recipients are addressed in alphabetical order.)

### Selection Criteria

The essence of strategy is to do things differently from others. Based on this premise, the Porter Prize recognizes those companies and business units that have chosen to compete in a distinctive way in a particular industry by delivering a unique value proposition, based on innovations in products, processes, and ways of management.

#### First-stage Selection Criteria

- (1) Superior sustainable profitability within the industry
- (2) Unique/different value proposition
- (3) Strategic continuity over time
- (4) Innovations that enable the strategy

#### Second-stage Selection Criteria

- (5) Utilization of capital analysis
- (6) Distinctive value chain
- (7) Trade-offs
- (8) Fit across activities

Note: In the analysis of capital utilization, the key focus will be placed on ROIC (Return on Invested Capital) and ROS (Return on Sales). The following report of the winners includes these numbers in comparison with the industry averages. A positive difference from the average indicates that the capital utilization of the company/business is better than the industry average. The five-year average is calculated by aggregating the numerators divided by the aggregated denominators. Thus, the derived five-year average is not equal to the simple average of the ratio for each year. The data that is used in calculating the industry average was obtained by carefully selecting truly comparable companies among those classified as being in the same industry.



## **Selection Rationale (Recipients are addressed in alphabetical order)**

### **istyle Inc.**

**istyle Inc. has succeeded in creating an efficient market for cosmetics, which is quite an achievement considering that larger companies have always had an advantage because of their ability to leverage economies of scale. istyle has now opened up the market to relatively unknown cosmetic brands, while simultaneously providing consumer reviews on a broader range of products. Through all its various business formats, istyle gives consumers the opportunity to enjoy a better selection of products and more extensive product knowledge.**

istyle Inc. (hereafter, istyle) operates the @cosme website (a beauty portal site), the e-commerce site “cosme.com,” and “@cosme” brick-and-mortar stores for cosmetic products, with the mission of “creating a consumer-oriented platform for beauty.” Regarding istyle’s composition of sales, 51.5% of sales are from advertisements (media business), 8.8% from e-commerce, and 29.2% from real stores (in the year ended June 2013). It had 2.5 million members (at the end of June 2013) and 7.9 million unique users per month (during June 2013), of which 3 million are in their twenties (48.3% of the population in this age bracket). Another 3 million are in their thirties (34.5% of the population in this age bracket) (as of June 2013). It offers product information for 220,000 items, representing 25,000 brands produced by 1,000 manufacturers, and also provides 10 million consumer reviews on its website (as of June 2013).

The company invests considerable time and energy to ensure that the consumer-generated product information it posts is reliable and neutral. Based on the consumer feedback it receives, istyle creates a ranking of cosmetic products. istyle has been able to establish the credibility of its ranking through its strong commitment to providing quality information (based on consumer reviews). While maintaining the credibility of product information, the company offers advertising and marketing services to corporate clients, and has succeeded in attracting advertisements from cosmetics companies. istyle operates a retail business that focuses exclusively on cosmetic products, both online and offline. It does not sell private brand products.

The cosmetic industry has long been dominated by a few strong manufacturers with large marketing budgets, and has become over-segmented to the extent that consumers cannot distinguish any difference between brands.

### **Unique Value Proposition**

istyle, as a two-sided platform, has two kinds of customers. The first kind is cosmetic companies. These cosmetic companies range from very small companies to industry leaders. This breadth (775 companies as of June 2013) is unique because in the cosmetics industry, it is often the case that

advertisements placed on the internet are sold primarily through advertising agencies to the usual dominant players.

Cosmetic products highly ranked on the @cosme site (indicating a high level of customer appreciation) are likely to be carried by a greater number of retail shops and will enjoy better shelf space allocation. Retailers often put POPs on those products that have been ranked highly on the @cosme site. This is one of the benefits istyle offers cosmetic companies.

istyle is uniquely positioned to provide advertising and marketing solutions to cosmetic companies. Advertisements on @cosme can reach consumers with a high interest in cosmetics. In addition to online advertisements, such as the banner ads, email advertisements and affiliate advertising commonly used in internet media, istyle provides unique advertisements like the “Brand Fan Club,” which makes PR space available to cosmetic companies on a rental basis. Companies can rent this space continuously and develop their own contents. istyle also offers another unique service known as “branding-type advertising.” This approach involves a kind of advertising tie-up, with istyle planning the client’s advertising campaign. The advertisements that istyle provides can simultaneously appear on the company’s website, e-commerce site, and retail shops. istyle’s marketing solutions are made possible by leveraging the company’s extensive proprietary database (compiled from customer feedback and other sources), participation in the Brand Fan Club communities, data acquisition (including usage of the @cosme awards logo), research, and consulting.

The other kind of customer for istyle are individual consumers who read, comment and/or evaluate cosmetic products on the @cosme site. Consumers can find and compare cosmetic products that match their specific needs. The company endeavors to create a market in which customers can find good products that truly meet their needs and match their preferences.

istyle’s retail business carries those products that have earned a high ranking on the @cosme site. Customers can try samples of these products and enjoy their experience of one-stop shopping. The e-commerce business carries edgy products that appeal to trendsetters.

### **Unique Value Chain**

istyle has two value chains—one is for website operation and the other is for the retail business, which includes both the e-commerce business and brick-and-mortar retail shops. These value chains are guided by the company’s vision of creating a consumer-oriented market. Here, we focus on website operation.

Providing product information and forming a community—activities that encourage consumers (users) to generate content: istyle encourages consumers to post comments about cosmetic products by providing extensive product information and by supporting various kinds of communities. Comments and evaluations by consumers are stored in the company’s proprietary database. Visitors to the website are able to conduct a search for cosmetic products using various dimensions. Consumer evaluations are also used to determine the ranking of cosmetic products. Consumers refer to the product ranking and other information when trying to find products that are right for them. This positive experience further encourages consumers to post their comments and evaluate products.

Controlling the quality of consumer-generated information: istyle ensures the quality of information posted on its website by monitoring all consumer postings. istyle has installed a Chinese wall between the division responsible for monitoring the reviews and the division that handles advertising, so that

the advertising business will not affect consumer reviews. Credible information enables consumers to make reliable comparisons.

Using the retail business as a tool for marketing its website and product ranking system: istyle operates its own e-commerce site and brick-and-mortar retail shops. The arrangement of products on store shelves reflects the consumer ratings for those products. Almost all products appearing in the ranking can be tested by consumers. The success of its stores demonstrates the effectiveness of @cosme's rankings in influencing consumers' decisions to purchase specific products. Seeing the company's success, many retailers have started modifying their merchandising, taking into account the ranking of the products at @cosme.

System development: istyle has internal capabilities for designing websites, developing services, and analyzing consumer behavior. The company has also developed a database that integrates data from the website, the e-commerce business and retail shops.

Human resources management: The sales staff at the retail shops are istyle employees. These individuals have studied the product information, and are knowledgeable about the evaluations products have received on the @cosme website. They have also been trained not to allow price or brand status bias their sales approach when handling the entire lineup of products. This is how employees work to realize istyle's mission of creating a consumer-oriented market.

### **Fit among Activities**

istyle's activities are chosen with the aim of creating a consumer-oriented platform for beauty. The core activity is website operation, and the company's website features a database of impartial and reliable consumer reviews. istyle makes great efforts to ensure that the data is not partial to specific cosmetic companies or brands. In order to ensure the credibility of the consumer-generated reviews, istyle conducts extensive monitoring activities. It obtained support from cosmetic companies for its declaration of the impartiality of its website operations, and cosmetic companies provide product information to help istyle expand its product database. The company does not give preferential treatment to cosmetic companies that conduct a large amount of advertising — all cosmetic companies are treated the same. istyle also operates its own retail businesses, and these businesses modify their merchandising to reflect the ranking of the products at @cosme. (Please refer to istyle's activity system map, which appears at the end of this report.)

### **Innovation that Enabled Strategy**

- It has developed a marketing approach that focuses on creating a community of enthusiastic users of cosmetic products. Consumers' messages on the website have attracted more casual users and have expanded site membership.
- It has created an ecosystem in which consumer feedback has an impact on in-store merchandising and contributes to new sales. Many companies would have been satisfied merely with providing consumer-generated content for the purpose of helping other consumers make better choices in their purchase of cosmetic products.

### **Trade-offs**

- Does not enter areas other than beauty and cosmetics.

- Maintains ownership and management of the database, although it makes the database available to its business partners.
- Does not develop and sell private brands.
- Does not sell its services at a discount.
- Does not rely solely on commoditized services such as banner ads, email advertisements, and affiliate advertising.
- Does not provide consulting services, as such services are labor intensive and it is difficult to ensure consistent quality given the varying degree of competence among individual employees.
- Does not limit itself to online services if going real is necessary for achieving its mission of changing the cosmetic industry through the incorporation of consumer feedback. This is not a natural choice, because the ROS for real store operation is lower than the ROS for the online media business.

### **Consistency of Strategy over Time**

istyle's mission, the creation of a consumer-oriented market, has remained unchanged. However, the company could not immediately implement and achieve its current strategy, which is the vertical integration of the website, the e-commerce business and the retail shops. istyle began offering the e-commerce service in November 2002, but soon realized that cosmetic companies only allow a very limited number of products to be sold online (in order to protect their traditional sales channel). In 2005, istyle started offering a solution-providing service to wholesalers and retailers, leveraging the database it had developed incorporating consumer-generated contents from the @cosme site. The result was that those products receiving the most favorable evaluations on the website would become more widely distributed. However, the company soon discovered that wholesalers and retailers were reluctant to pay for solution-providing services because cosmetic companies offered such services for free. This fueled the company's conviction that it would have to operate its own retail shops if it wanted to influence the product assortment carried by traditional wholesalers, shelf arrangements at retailers, and the behavior of cosmetic companies. In 2007, istyle opened its first retail shop, which allocated shelf space based on the @cosme ranking. Its huge success has attracted the industry's attention, and has enabled it to influence the merchandising practices of distributors and cosmetic companies.

From its start, istyle has been putting a priority on adopting a neutral stance in its provision of the product reviews and evaluations of actual buyers.

**Profitability**

Return on sales exceeds the industry average.

**istyle Inc.**  
(Unit = percentage point)

Return on invested capital (ROIC)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2008	2009	2010	2011	2012
-1.8%P	-16.0%P	-7.3%P	-1.8%P	6.9%P	0.7%P

Interquartile range (IQR) = 21.9%P

Return on invested capital = Operating income / Average invested capital

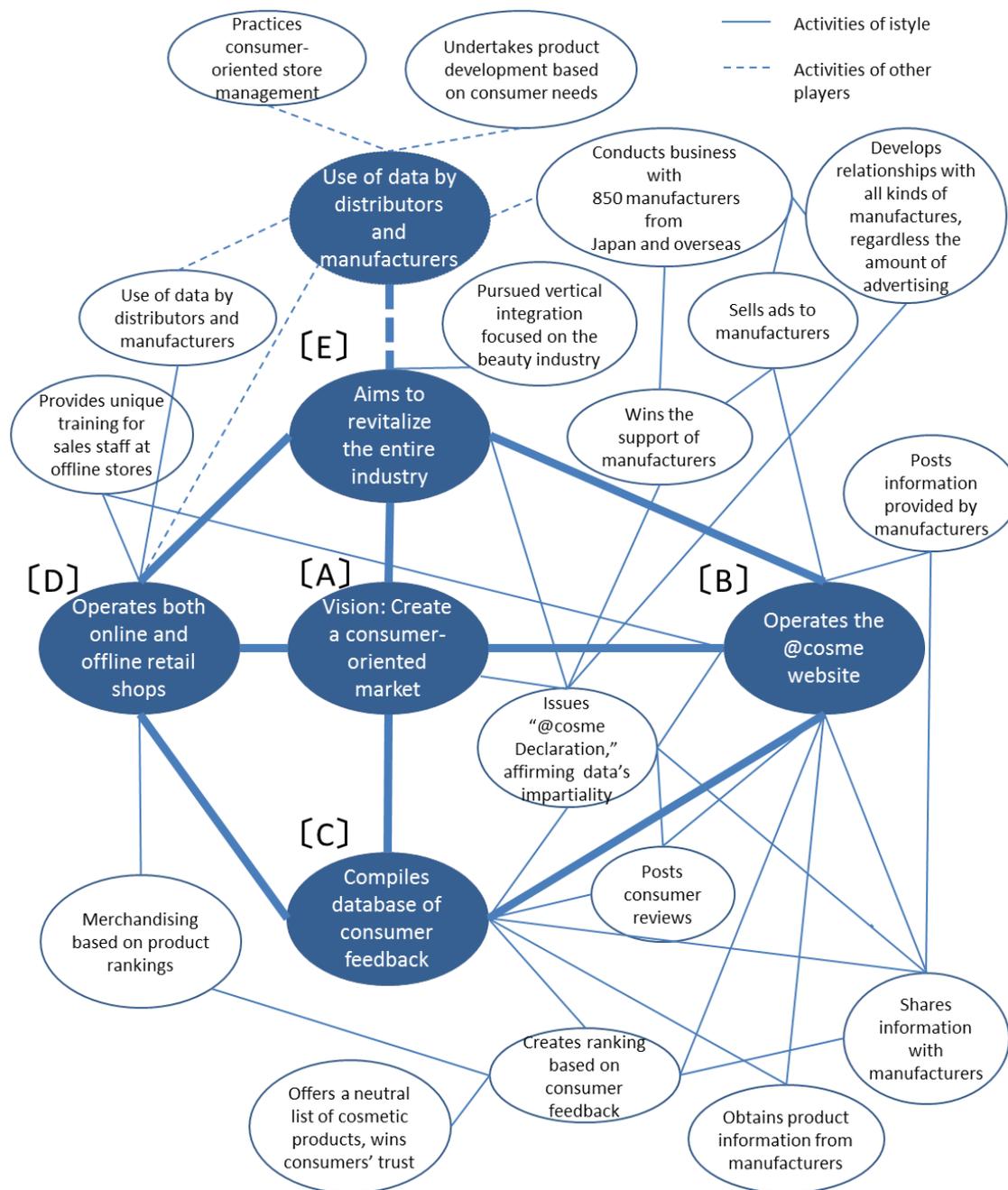
Return on sales (ROS) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2009	2010	2011	2012	2013
1.6%P	-4.2%P	1.6%P	0.9%P	5.9%P	3.8%P

IQR = 6.9%P

Return on sales = Operating income / Net sales

**Activity System Map of istyle Inc.**





## **Selection Rationale (Recipients are addressed in alphabetical order)**

### **START TODAY CO., LTD.**

**Pioneered the online sale of fashionable apparel in Japan. Created benefits for both apparel brands and fashion-loving consumers through the operation of shopping mall-style websites that do not destroy brand appeal.**

START TODAY CO., LTD.'s (hereafter, START TODAY) operates ZOZOTOWN, which carries more than 210,000 items, representing 2,026 brands and 621 shops (as of the end of March 2014) with a strong fashion orientation. The items carried include clothes, shoes, handbags, accessories, cosmetics, and interior items. ZOZOTOWN has more than 6 million registered users, most of whom are in their twenties or thirties.

The company develops shopping-mall style websites. In its commitment to developing easy-to-use websites that do not to destroy the brand image of each participating shop, START TODAY has taken on the challenge of in-house system development, website design and logistics system development. By having all products go through its own logistics center, staff members can precisely measure all items. START TODAY posts extensive product information on the ZOZOTOWN site – in addition to indicating the item's exact measurements, the company also provides ten detailed photos, on average, for each item. The company believes that this provision of such detailed product information is what makes possible the online sale of fashionable apparel items. (ZOZOTOWN was launched in 2004, and the commonly held belief at the time was that it would be impossible to sell fashionable apparel products online.)

START TODAY's mission is to deliver to customers the products that the company's employees really like, and its policy has always been: "We only do what we love." The company has created innovations in its employees' work life by introducing a system of six-hour workdays and by offering benefits to those employees who choose to live close to the company's headquarters.

#### **Unique Value Proposition**

START TODAY targets customers who enjoy clothes shopping, people who would likely choose an article of clothing as a fashion statement, rather than because of its functionality or low price. The average customer age is 31.4. A breakdown by gender shows that 58% are women and 42% are men.

START TODAY's mission statement is: "We deliver what we love to people who say 'Love it!'" The company operates numerous online shopping sites that focus on fashion items. ZOZOTOWN is a fashion online shopping mall, and ZOZOVILLA is an online shopping mall for luxury fashion. ZOZOMARKET is a fashion online market for individual creators and small-sized businesses, operated by the company's subsidiary, Bracket, Inc. ZOZOUSED is a second-hand apparel online shop operated

by START TODAY's subsidiary, Crown Jewel, Inc. These sites provide customers with the convenience of one-stop shopping.

ZOZOTOWN is Japan's largest fashion online shopping site, and it offers an extensive product lineup. It carries 2,026 brands, which is four or five times the scale of the second-largest online shopping site for fashion items. ZOZOMARKET carries merchandise from more than 60,000 stores.

ZOZOTOWN provide an easy search function for customers. Searches can be conducted not only by brand but also by product category, such as T-shirts or skirts, or by key words, such as "patterns featuring stripes, floral prints, or checks," "sleeve length," and "heel height." Customers can nail down their search by indicating the length of a dress or shirt from collar to hem, or the breadth across the shoulders. Because the company indicates the length and width of each item in five-millimeter intervals, customers can be confident that the item they have chosen will fit them. The company's commitment to the provision of accurate measurements for all items not only contributes directly to increased customer satisfaction and a higher repeat purchase rate, it enables the online sale of apparel items to fastidious Japanese consumers, who are some of the most selective shoppers in the world. Customers can save their search details (such as sleeve length) and use them repeatedly.

The company provides "coordination recipes" (recommendations for achieving a coordinated look) through a smart phone application, WEAR. Images of coordinated outfits are posted by the apparel brand's sales staff, specially selected users of the WEAR service (known as "WEARISTAs," people who are genuine fashionistas, like models, artists and fashion designers, etc.), and members of the general public. Website users can easily conduct a search for the featured items. Because images of these coordinated outfits are linked to an e-commerce site, items found on the WEAR site can be ordered. Since its launch in October 2013, more than 1 million coordination recipes have been posted (as of the end of March 2014). Through WEAR, users can post comments and share fashion-related information with other WEAR users via an SNS function. At WEAR's My Closet function, users can also keep a log of information about items they already own.

ZOZOTOWN enables apparel shops and brands to reach Japan's large population of fashion-conscious consumers (mainly in their twenties and thirties). START TODAY provides website space, conducts sales on a consignment basis, accepts orders from consumers, handles delivery, provides a customer support function, and undertakes consulting services for a one-time booth fee and a sales commission. The company assigns designated service staff to each participating shop, and these service staff members share information about sales trends and make proposals. Participating shops can use sales promotion space within their online shops at ZOZOTOWN without any additional fee.

### **Unique Value Chain**

START TODAY has created a unique value chain, which makes possible the online sale of fashionable apparel items, and contributes to the business' rapid growth and high customer satisfaction.

Procurement and merchandising: The company will carry a brand only if it has been strongly recommended by at least one of its employees. This is one of the company's criteria for brand selection. The average age of employees is 28.7 (as of March 31, 2014). The average age of customers is 31.4 (as of March 31, 2014). Thus, employees and customers are in the same age bracket. At the company's online shopping malls, the merchandizing function of a shopping site is controlled by the participating shops and brands for the most part. It is the company's general practice to carry inventory on a consignment basis. In the case of ZOZOUSED, the online shop for second-hand clothes, sellers can

request the delivery of cardboard boxes to their homes, obtain an assessment of the items they wish to sell, and then sell those items online.

**Inbound logistics:** All products sold by START TODAY go through the company's logistics center. Apparel brands and shops send their products directly to the logistics center, and bear all shipping expenses. At the logistics center, fashion-loving employees measure the exact size of each item. They also take photos of each item, to show intricate detail. (On average, ten photos per item are posted online at each shopping mall website.)

**Outbound logistics:** The company outsources delivery services. In Kanto area, it guarantees same-day delivery of an item if the order is placed before 9 a.m. Orders received by 9 p.m. are delivered before noon the next day. This service is available for orders placed in Tokyo, Kanagawa, Chiba and Saitama Prefecture. Until September, the charge for this service was an additional 500 yen per order. About 35% of total shipments use this delivery service. (Effective October 1, 2014, this service is offered free-of-charge, and free delivery has also been extended to the Kansai area. About 50% of total shipments have access to this quick delivery service). The rest are delivered free-of-charge if the total amount of a single customer order exceeds 3,000 yen. If the total order is less than 3,000 yen, the delivery fee is 350 yen.

**Marketing and sales:** The company operates separate websites for fashionable apparel, luxury brands and second-hand fashion brands, so that apparel brands and shops can maintain their brand image.

The company tries to develop a friend-like relationship with customers regardless of the size (and profitability) of their orders. In order to provide sincere hospitality like the kind of service extended to personal friends, the company operates its own customer service function. It communicates directly with customers, using 150 different kinds of e-mail messages, so that customers can get the sense that they are receiving a personalized message. These e-mail messages include the care instructions for items a customer has just purchased, and announcements of attractive interior items to those customers who have changed their shipping address. The company calls this approach "Customer Friendship Management," or "CFM."

**Services provided to shops participating in online shopping malls:** Service staff members assigned to each shop share information on sales trends and make proposals regarding merchandizing and sales promotions. This direct communication with participating shops enables the company to carry sufficient product variety and inventory at its logistics center. Sufficient product variety and inventory are crucial if the company wants to offer customers both an extensive selection of products and quick delivery.

**Human resources management:** The company has introduced a six-hour workday system, from 9 a.m. to 3 p.m. (without a lunch break), and employees can leave the office at 3 p.m. if there is no need for overtime work. Employees are encouraged to live near the company, and those who do receive an extra 50,000 yen (roughly US\$500) per month. (Employees are better able to contribute to the local community and cultivate ties with the local community if they live close to the company, according to management.)

**Research and Development:** The company has created its own internal supply chain management system. This system integrates the merchandise registration system and the operating system for the e-commerce sites with the order processing and inventory management system, thereby eliminating the need for closing procedures for the sake of system operation and the relaying of any supplemental data.

The company also designs its website internally. This enables frequent improvement in the website's design, and speeds up development when new services are added. Handling this function in-house also allows the company to maintain its unique characteristics.

### **Fit among Activities**

The activities of START TODAY are selected and aligned with the company's mission statement: "We deliver what we love to people who say 'Love it!'" Activities are selected and coordinated around key strategic choices, namely the requirement that new hires be fashion lovers; the provision of products that fashion-conscious customers would want; the operation of an online shopping site focused on fashion items that allows for a convenient shopping experience; and the internalization of the logistics function, with the centralization of these operations at the company's own logistics center, ZOZOBASE. (Please refer to START TODAY's activity system map, which appears at the end of this report.)

### **Innovation that Enabled Strategy**

- A fashion-focused shopping mall concept that enables maintaining brand image while simultaneously allowing for product comparisons.
- The selection criteria for determining which shops may be included is whether any members of the staff really love the brand.
- Adoption of a six-hour workday
- Use of a financial incentive paid to employees who live close to the company
- Provision of precise measurements for all products carried.

### **Trade-offs**

- Does not target customers with whom employees can't relate in terms of their fashion choices. Employees who can share the customer's thinking (in other words, these employees would be target customers themselves) is crucial to this company's success.
- Does not try to visually express the unique characteristics of ZOZOTOWN in its website design. By using mainly black, white and grey, ZOZOTOWN provides a neutral platform upon which participating shops can add their own colors.
- Does not send sales promotion messages from START TODAY. The participating shops are responsible for conducting sales promotion activities within their own shop space.
- Does not sell from purchased stock (as a matter of principle). Sells on a consignment basis.
- Does not advertise its online shopping malls through the mass media. Focuses on one-to-one marketing through a CFM (Customer Friendship Management) approach.
- Does not sell web-based advertisements on its online shopping websites. It does not earn income from advertisements. Instead, it keeps the website simple for easy shopping.
- Does not pay employees based on their performance. All employees receives exactly the same base salary and bonus regardless their position.
- Does not accept an eight-hour workday. The company has introduced a six-hour workday, but pays

all employees the same base salary (per diem) that they would receive for an eight-hour workday. This has resulted in a 50% reduction in overtime.

- Does not outsource systems development.
- Does not outsource logistics management.
- Does not outsource website design.

### Consistency of Strategy over Time

The founder and CEO Yusaku Maezawa has always wanted to deliver the things he likes to others who would also like those things. He started out operating a catalogue sales business for imported CDs and records in 1995. He added fashion items from his favorite brands to the product lineup when he switched from catalogue sales to an online shop in 2000. Despite the commonly held belief that fashion items could not be sold online, Maezawa gradually increased the number of brands carried by his online apparel select shop. In 2000, he succeeded in selling 100 million yen worth of merchandise. (When starting out, he had to take ownership of the stock he sold.) In 2004, when the total number of brands reached 250, with 17 participating shops, he reorganized these online select shops into one online shopping mall, “ZOZOTOWN.”

Throughout the company’s history, the core concept of the business has been to “deliver the things we love to people who say ‘Love it!’” This is reflected in the company’s unique selection criteria for participating shops, which is to carry only those brands that have been strongly recommended by at least one employee. In other words, the company has consistently upheld its commitment to carrying only those products that employees like, and has limited its activities very selectively. While continuing to be guided by its mission statement – “We deliver what we love to people who say ‘Love it!’” – the company has added new product categories, such as luxury brands and second-hand fashion items, and has begun offering new services, such as WEAR.

### Profitability

Both return on invested capital and return on sales exceed the industry average with wide margin.

Return on invested capital (ROIC) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2009	2010	2011	2012	2013
51.1%	20.7%P	30.8%P	26.3%P	58.6%P	47.2%P

Interquartile range (IQR) = 14.9%P

Return on invested capital = Operating income / Average invested capital

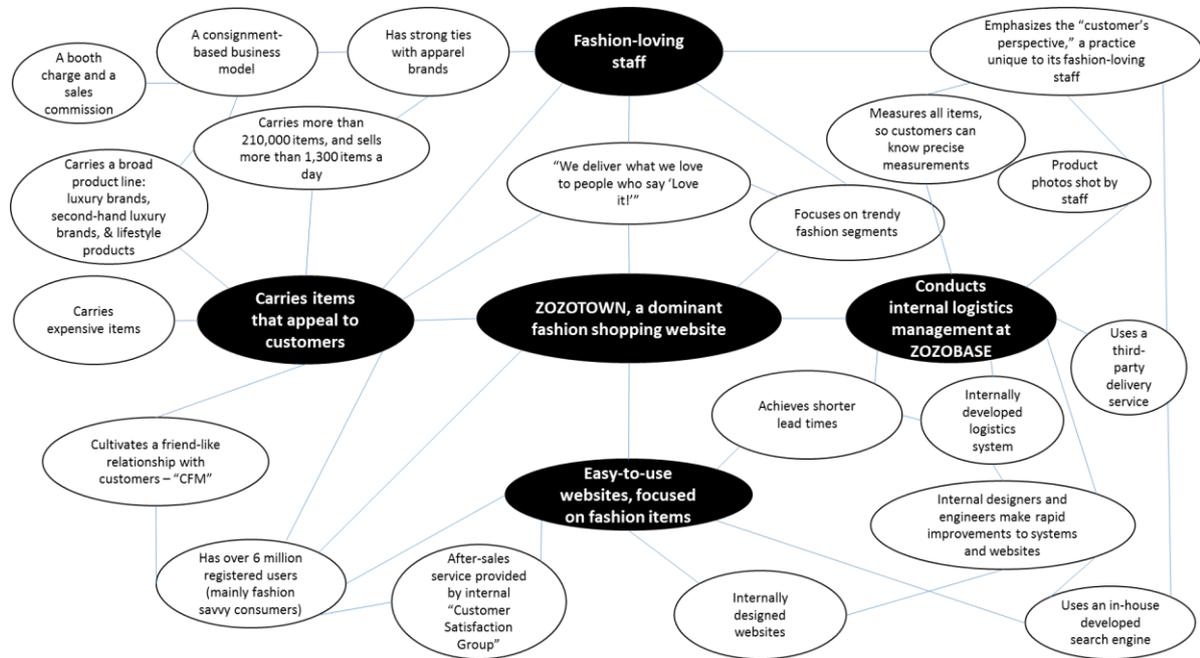
Return on sales (ROS) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2009	2010	2011	2012	2013
21.5%	13.5%P	18.4%P	17.5%P	18.5%P	27.8%P

IQR = 5.0%P

Return on sales = Operating income / Net sales

**Activity System Map of START TODAY CO., LTD.**





## **Selection Rationale (Recipients are addressed in alphabetical order)**

### **Hoshino Resorts**

**Hoshino Resorts focuses on the operation of resort hotels. By not taking actual ownership of these facilities, Hoshino Resorts has been able to rapidly increase the number hotels operating under the Hoshino master brand. It attracts customers by offering unique services, leveraging the distinctive features of each locale, and has successfully established Hoshino Resorts as a master brand known for its high service quality. At the same time, Hoshino Resorts improves labor productivity through the equalization of tasks and by rapidly allocating tasks throughout the day to multitasking—practices that contribute to job enrichment for the staff and improved service quality.**

Hoshino Resorts operates 32 resorts in Japan under the Hoshino Resorts master brand. There are five categories, three of which have their own sub-brand names. The first is its flagship HOSHINOYA brand, featuring larger properties. The three flagship properties under this brand are a natural hot springs resort in the mountains (Karuizawa), a traditional Okinawan-style resort situated on a subtropical island (Taketomi Island), and a traditional Japanese ryokan (inn) located in a historical city (Kyoto). The second is the KAI brand, a chain of smaller-sized Japanese ryokan (less than 50 rooms) with natural hot springs facilities. The third is the RISONARE brand, modern and stylish resorts that target families and offer a variety of activities. The fourth category comprises an assortment of other unique lodgings, such as a mountain lodge and spa, located along Oirase Keiryu Gorge in Towada Hachimantai National Park (Aomori). The fifth category consists of specific destinations that are open to the general public (not only the overnight guests staying at those facilities), such as restaurants and ski resorts, as well as eco-tours. In its development of resort properties, the company has refurbished existing facilities in some cases, and built new structures in other cases.

There are 45,000 traditional inns in Japan, and most of them are owned and operated by the same owner, which makes it difficult for them to enjoy economies of scale.

#### **Unique Value Proposition:**

Hoshino Resorts focuses on the operation of resort facilities. Its customers are the owners of the resort properties and their investors. Hoshino Resorts changes the resorts into profit-generating businesses by improving the satisfaction of resort users and raising the productivity of both facilities and human resources.

Hoshino Resorts provides resort visitors with *omotenashi* (Japanese-style hospitality). Employees strive not only to meet all customer requests, but also exceed customer expectations by offering a unique experience, one that is particular to a specific facility. For example, in the guest

rooms at the flagship Hoshinoya brand resorts there are no TV sets. This is because the company wants guests to have a non-routine experience. Because the company's resorts are situated in natural settings, guests are encouraged to listen to the sounds of nature (the murmurings of a nearby stream and the singing of birds).

### **Unique Value Chain:**

Hoshino Resorts' value chain is unique in terms of its procurement, operation, marketing, sales, human resources management, and general management.

Procurement: Hoshino Resorts has gained wide recognition as an expert in resort operation, due largely to its proven track record. Consequently, developers and resort owners approach Hoshino Resorts directly, bringing their own proposals.

Operation: In resort operation, Hoshino Resorts has discontinued the use of standard function-based specializations in hotel operations. Instead, it relies on multitasking teams, called "service teams." Each employee performs duties across all four functions—the reception desk, the kitchen, restaurant service, and housekeeping. Since the volume of the work for each function varies for any given day, staff members are rotated throughout the day, meaning that each employee spends time working at all four stations. This practice results in a lower number of employees per room. In addition, the company has developed a system called "*wakurogu*" (work log), whereby job assignments are registered in 15-minute increments. The use of multitasking also contributes to job enrichment, higher employee motivation, and improved service quality. Employees must also create new services that are unique to a particular facility and reflect the flavor of the specific locale in question.

Hoshino Resorts has a Central Kitchen that achieves economies of scale through the centralized purchasing of food materials and the cooking of standardized entrees. These standardized entrees, which are delivered to other facilities, are served together with locally developed dishes and other local specialties that are cooked on the premises at each facility.

Marketing & Sales: Hoshino Resorts' leverages the economies of scale provided by its master brand, while also practicing local customization to create distinctive features unique to a particular facility. Economies of scale contributes to lower customer acquisition costs, while local customization improves the customer retention rate at Hoshino Resorts' 32 facilities.

Hoshino Resorts invests in its master brand, "Hoshino Resorts," to improve its brand recognition. The company has also succeeded in increasing the number of reservations made through its own website and call center. This has given the company greater negotiating power against travel agents, resulting in lower sales commissions paid to agents and increased exposure. The company monitors the ratio of website visitors to number of online reservations, and continually improves its web contents.

When guests check out, everyone is asked to answer a web-based customer satisfaction survey. Staff members work to achieve a 30% response rate, in order to ensure survey reliability. The results are shared with all staff members, who analyze the data and develop proposals for improving customer service. The survey results are also used in customer relationship management. The staff refers to a guest's previous survey responses when that same person comes to stay again at a Hoshino Resorts facility.

General management: Hoshino Resorts measures the productivity of service teams performing all four functions (the reception desk, the kitchen, restaurant service, and housekeeping). Staff members are evaluated in terms of their mastery of skill and quality of delivery for each function. Each individual facility is ranked from S (the most positive) to D (the least positive), according to the staff's mastery of skills in all four functional areas, and the quality of service in all four areas.

Hoshino Resorts has a flat organizational structure. Each resort is organized around "units," such as the Service Team Unit, the Spa Unit and the Activities Unit. One unit consists of 10 to 30 staff members. Each unit has a unit director, and is responsible for customer satisfaction and profitability.

Human resources management:

At Hoshino Resorts, the managerial positions are limited to the general managers of resorts and unit directors. Regardless of their positions, all staff members are expected to contribute their ideas and make suggestions for improving all aspects of the resort's operations. They must pay close attention to the results of customer satisfaction surveys, and stay well informed about the facility's financial performance.

When the company fills a managerial post, a selection is made from among the employees who have nominated themselves for the position in question. As part of this selection process, candidates are required to make a presentation at a Hoshino group-wide conference, held twice a year. Employees are not required to become general managers, but some choose to be.

Finance: Hoshino Resorts attracts financing from individual investors by establishing a real estate investment trust (REIT) for that property.

**Fit among Activities**

Hoshino Resorts leverages both economies of scale and local customization. In addition, it achieves both high customer satisfaction and a lower cost structure. This is possible because the company chooses unique activities, and the activities fit well together. The company's decision to focus on resort operation has enabled it to rapidly increase the number of facilities, which has resulted in economies of scale in procurement, brand investment, sales channels, and use of a Central Kitchen. Multitasking have improved labor productivity, service quality, and idea generation for unique services that reflect the distinctive flavor of specific locales. This is supported by a flat organizational structure, which enables free discussion and information sharing. Employees keep up-to-date regarding customer satisfaction survey results and the financial performance results of their facility. (Please refer to Hoshino Resorts' activity system map, which appears at the end of this report.)

**Innovation that Enabled Strategy**

- Multitasking, with each employee performing all four functions—the reception desk, the kitchen, restaurant service, and housekeeping (launched in 2005).
- A brand strategy that applies the same sub-brand name to small, traditional Japanese inns, some of which have a history of more than 300 years (launched in 2009).
- An extremely flat organizational structure, with only the general manager of a resort and the unit directors in managerial positions at a resort facility.

### Trade-offs

- Does not own facilities.
- Does not keep traditional individual names of inns. Does not pursue value of rarity.
- Does not create a hierarchy.
- Does not evaluate employees based on seniority.
- Does not accept the standard division of labor practiced in the hotel industry.
- Does not limit itself to fulfilling guests' needs. Proactively offers guests "the unexpected" (i.e. experiences they might not expect. (For example there are no TV sets in the guest rooms at the flagship Hoshinoya facilities, so that guests might have the experience of immersing themselves in nature.)

### Consistency of Strategy over Time

Hoshino Resorts made the decision to specialize in the area of resort operation in 1991, when Yoshiharu Hoshino became the company's CEO. He made a public declaration of the company's plan to pursue this strategy in 1992. At the time, the company owned only one hotel, the Hoshino Onsen Hotel, and focused on improving the hotel's operation. The company simultaneously worked to create a unique management system, by incorporating multitasking, for example. Despite the company's intention to specialize in hotel operation, it was required to purchase resort facilities because ownership was a prerequisite for operation until 2004. Hoshino Resorts gained public recognition for its unique and superior competence in resort operation when it reopened the newly revitalized Resonare Yatsugatake resort in 2001. In 2005, Goldman Sachs asked Hoshino Resorts to undertake the operation of resort facilities that it had acquired in Japan. This was the first time that Hoshino Resorts could focus exclusively on resort operation. In 2013, the company created a REIT for the facilities it owned, and listed the REIT on the Tokyo Stock Exchange. The REIT included HOSHINOYA Karuizawa (which was the renovation of the Hoshino Onsen Hotel, undertaken in 2005), and this sent a strong message that the company would be specializing in resort facility operation.

### Profitability

Both return on invested capital and return on sales exceed the industry average.

Return on invested capital (ROIC) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2008	2009	2010	2011	2012
5.0%	6.3%P	6.4%P	12.1%P	1.0%P	2.6%P

Interquartile range (IQR) = 4.0%P

Return on invested capital = Operating income / Average invested capital

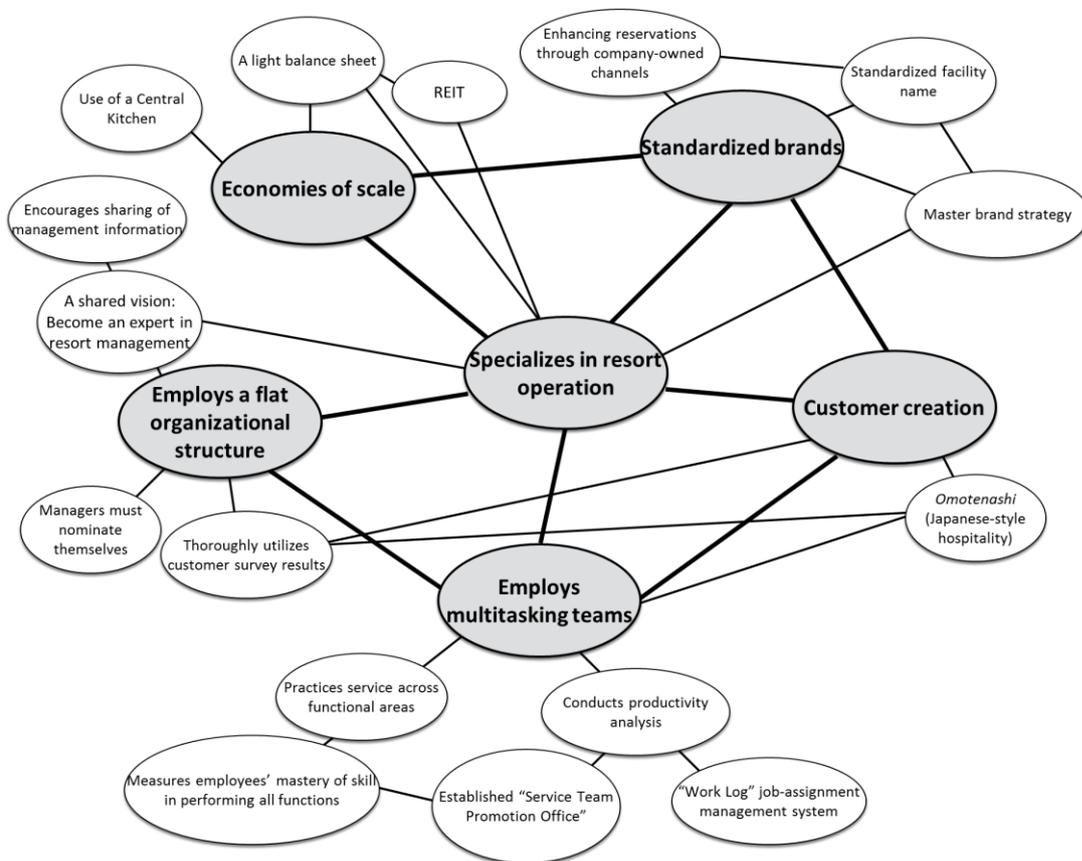
Return on sales (ROS) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2009	2010	2011	2012	2013
8.9%	8.1%P	15.5%P	15.5%P	5.9%P	5.8%P

IQR = 10.0%P

Return on sales = Operating income / Net sales

**Activity System Map of Hoshino Resorts**





## **Selection Rationale (Recipients are addressed in alphabetical order)**

### **YKK CORPORATION Fastening Products Group**

#### **The global leader in the fastening industry with a unique value chain.**

YKK CORPORATION Fastening Products Group (hereafter, YKK) is the global leader in the fastening industry, with a focus on the middle and high end of the market for fastening products in the fashion, sports apparel and industrial materials markets. No other company can compete against YKK in the high function and high fashion areas. YKK is also the technological leader in fasteners, providing fasteners for space suits, for example.

It has operations in 70 countries and regions, to be closer to customers, and customizes its products in order to accommodate a wide variety of customer needs. Extensive vertical integration results in high-performance products, stable quality, and lower costs. Such factors are critical in this business, because although a zipper may be a low-cost component of apparel products, one defective product can ruin a customer's trust in the apparel brand. People might be able to wear an article of clothing even if some stitches are not straight, but when the zipper is broken, the item is useless. For bag manufacturers, the zipper is one of the most critical parts of the bag, because it is one of the few parts that might break.

#### **Unique Value Proposition**

YKK has the broadest product line and serves the widest range of customers. It has established a competitive advantage in each segment, except in the low end of the market. In general, YKK, which offers an extensive lineup of high-quality products, is known for its stable and responsible supply, as well as its capabilities for developing new models that are customized to meet specific customer needs.

The market for the fastening business is broad, and YKK has been successfully responding to customer requests for product customization needs of various customers through one-to-one marketing. Customer needs vary from segment to segment, and even within a segment certain customers require unique fastening solutions. The luxury fashion segment is primarily located in Europe, and these customers require a heightened sensitivity toward fashion and extravagance. Sports apparel customers, located mainly in North America and Europe, place an emphasis on high-function products. Customers who provide sewing services to the fast fashion business are located in China, Southeast Asia and South Asia. They require a large variety of fasteners, to be offered at relatively low prices. Customers (apparel makers) serving local demand for apparel products in emerging markets look for even lower prices. Some of these customers are local, while others are global. In the case of the fast fashion business, the apparel companies are located in Europe but the sewing companies (who are the direct customers of YKK) are located in Asia. In the industrial materials segment, the customer base is extremely diversified. Customers in this segment include automobile seat manufacturers, for example. Special applications for YKK fasteners include use in space suits (pressurization suits), thermal

curtains in the H-IIA Rocket, drainageways for the Akashi-Kaikyo Bridge, milk tanks for bulk transportation, and fishing nets, to name a few.

YKK's product line is made up of both standardized and customized products, and the company's stock keeping unit (SKU) is huge, totaling several tens of thousands of items.

### **Unique Value Chain**

YKK's value chain is unique in its vertical integration. YKK internally develops and manufactures materials, machinery and fasteners in order to maintain the best quality in the industry. The company's research includes material technologies, in such areas as metals, resins and fibers.

Manufacturing: The shorter product life cycle of apparel products has prompted the company to set up extensive manufacturing operations in numerous countries, to be closer to overseas customers and to ensure that all customers receive the same high-quality products. (YKK has factories in 39 countries and regions.)

YKK develops its own manufacturing machinery, and automates most of the production process. It also has flexible manufacturing capabilities. The Machinery & Engineering Group, which is in charge of manufacturing technology and machinery, supplies manufacturing technology and machinery to YKK factories all over the world.

Research & Development: The company has established five technical centers in Japan, the U.S., Italy, Taiwan and Indonesia, and these five technical centers all undertake long-term research.

YKK has 15 product development offices in overseas locations, and the company plans to add five more, bringing the total to 20 at the end of March 2015 (the fiscal 2014 year-end). New offices are being opened in Turkey, India, Bangladesh, Vietnam, and Brazil to respond to the transfer of sewn product manufacturing operations from China to ASEAN and South Asian countries. At these overseas centers, YKK undertakes the development of new products together with its local customers. A development team in Europe focuses on luxury bags and luxury apparel, and YKK's customer list includes many luxury brands. In North America, the company is developing fasteners that fix fabric covers to automobile seats, as well as the machinery for attaching those fasteners to automobile seat covers (the company leases this machinery to auto seat manufacturers). In Shanghai, a specialized development team serves fast fashion customers, who often require a large variety of fastening products, reasonable prices, and short lead times (i.e. delivery within five days after an order has been placed).

The R&D Center in Japan develops core technologies and also functions as the headquarters for all of YKK's R&D facilities worldwide.

Marketing & Sales: YKK customizes its products, responding to specific customer requests. The company operates sales offices and manufacturing plants in 70 countries and regions worldwide. By working closer to its overseas customers, the company is able to provide a quicker response.

YKK's global accounts include a company that has more than 2,000 sewing factories in 60 countries. YKK's Global Marketing Group (GMG) has its main office in Hong Kong, and several overseas bases. GMG handles 50 apparel companies with global accounts and 700 global sewing contractors. GMG allocates designated sales staff to each customer, and ensures that customers are supplied the same product and the same quality worldwide. GMG communicates with both buyers at

the global apparel company and sewing contractors in emerging countries to provide a concerted response. YKK is the only supplier that can provide such concerted services to global apparel companies.

Human resources management: YKK has started sending Japanese employees to its overseas facilities at a younger age, and has been keeping them there longer (for 10-15 years, or even more than 20 years at some overseas facilities). Employees working overseas are encouraged to “go native” in their assigned countries. This is because the company believes in the importance of on-the-job business experience for its employees. The company calls this practice “*yasen no ittoryu*” (mastery in the field). YKK simultaneously conducts off-the-job training programs, called “*dojo no ittoryu*” (mastery at the gymnasium or academy).

General management: YKK’s region-based organizational structure focuses on six regions: 1) North and Central America; 2) South America; 3) Europe, the Middle East, and Africa (EMEA); 4) China; 5) Asia; and 6) Japan. Each region is invested with decision-making power, and this enables the company to accommodate differences in customer needs, which vary from region to region.

YKK’s corporate philosophy is: “Cycle of goodness—No one prospers without rendering benefit to others.” This means that YKK contributes to the local community and economy as a local entity in the country in which it is operating. In line with this philosophy, the company chooses sites for industrial development that will allow it to contribute to the local economy. The company is committed to reinvesting profits in local operations, rather than repatriating those profits to Japan. In instances where YKK’s fastener-related operations in an overseas market prove to be unsustainable due to insufficient profitability, rather than withdraw from that market YKK will establish some other kind of business, to retain its staff and continue providing employment opportunities for local workers. YKK’s commitment applies to workers in local areas in Japan too. YKK calls Kurobe City (Toyoma Prefecture), where the company’s mother factory and R&D function are located, its “head temple of technology.” Over the years, the company has been moving some headquarter functions from Tokyo to Kurobe.

YKK’s executives spend many hours discussing with employees the company’s philosophy regarding the “Cycle of goodness,” its management principle, “YKK seeks corporate value of higher significance,” and its core values. A list of YKK core values includes the following: “Do not fear failure, experience builds success,” “Create opportunities for employees,” “Insist on quality in everything,” and “Build trust, transparency and respect.” The last one was added under the founder’s direction when the first oil crisis erupted in 1973. He declared: “We will never raise prices opportunistically, even if we lose 10 billion yen.” The list of trade-offs below illustrates how much the company is guided by its philosophy and core values, which have influenced the formation of its unique competitive strategy.

YKK was founded in 1934, and has remained unlisted for its entire history. This is because the company’s founder, Tadao Yoshida, believing that stocks are a certificate of participation in the business, started up an employee stock ownership plan. This policy has been upheld by his successors, and the company’s largest shareholders are its employees.

The founder also wanted employee participation in management. He compared YKK to a forest, made up of various kinds of trees (young and old, tall and short), each must live its own life. He

wanted YKK to be a vital organization, in which employees can voice their own opinions, regardless of their positions or specialties.

### **Fit among Activities**

In YKK's Fastening Products Group, activities are selected and coordinated in order to simultaneously realize: 1) flexibility for customization; and 2) economies of scale for technological leadership and global service. (Please refer to YKK CORPORATION Fastening Products Group's activity system map, which appears at the end of this report.)

### **Innovation that Enabled Strategy**

- The Global Marketing Group (GMG), which enables YKK to serve global apparel companies. YKK is the only fastening products manufacturer that can provide service on a global basis.
- In 2011, the Analysis Room of the Analysis Technology Center of YKK's Machinery and Engineering Group achieved a first in Japan when it became registered by the U.S. Consumer Product Safety Commission (CPSC) as a Firewall Testing Center that can guarantee the quantity of lead constituent in a product. The Analysis Room, recognized as one of the most reliable testing centers in the world, analyzes YKK's products for both domestic and overseas markets and contributes to YKK's quality assurance system.
- Developed and started selling the "ez-TRAK fastener," which allows insertion from the side as well as from above. Very easy to use for children, the elderly, and people who are wearing gloves (2008).
- Developed and started selling fasteners that open easily and quickly just by pulling the elements to both sides. Eliminates the need to pull down the slider (2012).

### **Trade-offs**

- Does not diversify from its founding fastening products business.
- Does not outsource the development and production of fastener manufacturing machinery.
- Does not conduct R&D on core technologies outside of Japan. R&D operations are centralized in Kurobe City (Toyoma Prefecture).
- Does not target the lower end of the market.
- Does not prioritize efficiency or profitability when responding to customer requests. Even if development projects do not result in large volumes or longer product life cycles, those results can be applied to other customers, because of the company's broad product lineup and customer base.
- Does not hesitate to undertake capital investment for the purpose of expanding the number of overseas manufacturing plants. Responding to the needs of overseas customers has always been the priority.
- Does not grow through M&As.
- Does not put cost cutting or scale expansion ahead of quality. Quality must be the priority.
- Does not sell through trading companies or agents. All sales must be conducted through the company's sales units, which are located closer to customers (including customers overseas).

- Does not go public. YKK believes that a stock is a certificate of participation in the business, and only those who participate in the business should own stock. The employees—the company's largest shareholders—are expected to participate in management.
- Does not raise funds through a public offering of stocks. The company raises funds from its employees, who buy the company's stock using part of their salaries and bonuses, through the employee stock ownership plan. Needless to say, employees receive dividends.

### **Consistency of Strategy over Time**

One of the keys to YKK's competitive strategy is its commitment to quality. The company has undertaken vertical integration to achieve better quality. Vertical integration includes R&D, manufacturing and sales, and, especially, the internal development of materials and machinery.

The idea for this strategy occurred to Tadao Yoshida, YKK's founder, during the company's very early history. Yoshida started a business that undertook fastener assembly in 1934. He began exporting fasteners to India in 1935. There were problems with quality (caused by subcontractors), and faulty fasteners were being returned to the company. This experience made Yoshida realize the importance of quality. To ensure product quality, he began using better materials, internalizing more processes, and investing more in his factories.

In 1947, Yoshida realized that fasteners made in the U.S. under an automated process cost much less than those produced by hand in Japan. These mass-produced fasteners were higher quality and better functioning. Yoshida, who had been trying to sell fasteners for 9 cents, received a counter offer to be a sales agent for an American-made fastener, which sold for 7.40 cents. Seeing the advantages to be gained through mass production, Yoshida committed to the mechanization of operations and the automation of manufacturing. YKK started out with imported machinery, but then found a Japanese machinery manufacturer to develop similar machinery. The new machinery, which was installed in 1951, enabled YKK to achieve both higher quality and lower manufacturing costs, and the company promptly discontinued all handwork. In 1953, the company succeeded in developing a proprietary chain machine and applied for a patent. YKK has been developing machinery internally ever since.

Another key to YKK's competitive strategy is its commitment to manufacturing closer to overseas customers. YKK constructed the company's first overseas factory in New Zealand in 1959. Throughout the 1960s, factories were built in Europe and the U.S., where labor costs were much higher than in Japan. The company believed that paying the higher labor costs would be to its benefit, because it could hire qualified engineers who would be responsible for machinery maintenance. From the very beginning, YKK has been consistently choosing to be closer to its overseas customers.

The company plans to increase sales in the lower end of the market by expanding into apparel and sports brands originating in Asia, where higher cost competitiveness will be required. Still, it will continue to apply the same strategy of achieving differentiation by offering the best quality in the class.

### Profitability

Both return on invested capital and return on sales exceed the industry average.

Return on invested capital (ROIC) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2009	2010	2011	2012	2013
1.6%	2.4%P	-6.1%P	0.3%P	-1.1%P	1.1%P

Interquartile range (IQR) = 5.6%P

Return on invested capital = Operating income / Average invested capital

Return on sales (ROS) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2009	2010	2011	2012	2013
7.5%	8.1%P	9.0%P	7.8%P	6.7%P	12.6%P

IQR = 7.1%P

Return on sales = Operating income / Net sales

**Activity System Map of YKK CORPORATION Fastening Products Group**

