

2004 Porter Prize Winners

Phoenix Electric (electric light bulb and tube)

Phoenix Electric focuses on projector lamps, which accounted for 85% of the company's sales (80% of the consolidated sales), of which 80% is for LCD projectors and 20% is for rear-projection TVs. The remaining 15% of the company sales is from halogen lamps for automobiles and other applications and metal halide lamps. These markets are niche markets and the company enjoys a fat gross margin on them.

The projector industry is experiencing a rapid improvement in technology and a reduction in price. The same applies to the projector lamp industry, whose product life cycle is about 6 months. The company's strategy is based on cost leadership with capabilities in flexible design and manufacturing, but it does not compete on price. The company focuses on target customers who are innovators and tries to differentiate themselves through product performance. In order to satisfy these customers, the company developed (a) a patented product technology and (b) a flexible cell production system that allows the company to take small orders, as small as 80 units, and to shorten the production lead time to 10 days while it took competitors 30 to 90 days, at the same time achieving a much lower cost position.

In contrast, Philips, the industry leader, dominates sales to Japanese projector makers, such as Sony and Epson. Philips offers standard products with high volume and, relative to Phoenix, is inflexible in product design and manufacturing capability. As a result, Philips does not compete directly with Phoenix.

The company's pricing is lower than Philips, but higher than Matsushita and Iwasaki Electric, both of which compete on price and barely make a profit. The company intentionally avoids competition with these two strategic groups and sells to a larger number of customers than its competitors do.

The company has a unique value chain which enables it to be a flexible and speedy low-cost producer. While the competitors assemble light tube, light bulb, reflector, and stabilizer and sell the product as a complete set to the customers, Phoenix manufactures only the most profitable part (light tube), while letting the partners in China produce light bulbs and other parts and be responsible for assembly. It, however, guarantees the quality of the whole product. In order to guarantee the quality, the company sells production equipments to its partners, coaches the production process, and tests the quality of the final assembly. Since the Chinese partners do not demand high profitability, the company can lower the price without sacrificing its own profitability.

Distinctiveness: Target those customers who want to differentiate with better light tube but place orders in small number; brighter and durable lamps; flexible and quick manufacturing capability.

Innovation: Patented super-high-voltage mercury lamp technology, which enabled the company to enter the LCD projector lamp market which was cultivated and dominated by Philips; unique value chain using Chinese partners.

Trade-off: Do not engage in price competition; do not sell to those major manufacturers of LCD projectors (such as Sony and Epson) who have the negotiating power; do not compete against Philips, Matsushita, Iwasaki, or Ushio; do not bundle components (stabilizer, reflector, or light bulb); do not sell through third party sales channel, such as trading companies.

Daido Life Insurance (life insurance)

Daido is eighth in the industry in terms of total assets (3.3% of total assets) but is the leading insurer of the individual term life insurance segment in Japan (23.1% share, which is 6.4% points higher than Asahi, the No. 2 share holder). Individual term life insurance (individual insurance and individual annuities combined) accounted for 89% of Daido sales in 2003. Daido has managed to reduce its risk exposure through disciplined investments, as evidenced by the fact that it has the lowest bad loan percentage in Japan (one-half that of Nippon Life, which was ranked No. 2) and the highest solvency margin in Japan for the past three years.

The life insurance industry is broadly divided into two target markets: the household market and the corporate market. Daido has focused on the corporate market, which accounted for 82% of its sales. Among the corporate market, it has targeted the presidents/owners of small and medium-sized enterprises (SME).

Daido has a competitive edge in the individual term life insurance products that cater to the specific needs of these presidents/owners. For example, it offers a super long-term individual term life insurance that extends to 100 years of age, which provides certain tax advantages, including the tax deductible treatment of premium payments. If the president/owner retires before reaching 100 years of age, Daido pays back the premium payment which can be converted to a retirement allowance for the president/owner. Another example of a plan that caters to the specific needs of its customers is the ability of Daido to increase its insurance premium if the company is on a growth trajectory or to reduce the premium if the company's debt position improves.

Daido has a unique sales channel vis-à-vis the SME segment. Over a period of 30 years, Daido has developed tie-ups with SME-related national organizations such as the National Federation of Corporate Taxpayers Association (NFCTA) and the Tax Payment Associations (TPA).

These associations, in turn, recommend group rate discount insurance programs offered by Daido to the 1,200,000 NFCTA member companies and 150,000 TPA member companies.

Daido also has a tie-up with the TKC National Federation, one of the largest associations of accountants in Japan, with 8,500 members who serve 550,000 companies. Daido is the only life insurance company with which TKC has a tie-up. Under this tie-up, Daido's sales agents (5,000 members of TKC who are themselves accountants) sell Daido insurance products as TKC's official insurance products. Doing so reduces the risk on the part of the companies buying the insurance. These associations/federation collect insurance premiums on behalf of Daido. In return, these associations/federation receive administrative fees from Daido, a win-win proposal for both parties. In 1996, Daido started a tie-up with a separate co-op of tax accountants (ZEIRISHI KYODO KUMIAI), which now has about 5,000 members as Daido's sales reps.

Most of the major insurers rely on their in-house sales representatives for their sales activities. In contrast, Daido has achieved a good balance between its in-house representative channel (5,000 reps) and the agency channel (3,000 agents), with each channel accounting for approximately 50% of sales.

Distinctiveness: Targeting of presidents/owners of SMEs, offering products that cater to their needs; tying up with professional associations and federations for its sales activities; and utilizing independents agents for half of its sales.

Innovation: A large number of firsts, including the package sales of life and non-life insurance in 1971, developing a software package for accountants to simulate the impact of insurance policies on corporate accounting in 1988, and the offering of educational, human resources, welfare programs for SMEs.

Trade-off: Do not target household markets; do not engage in price competition; do not offer products besides individual term life insurance.