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Porter Prize Winners 2006

Single-business Companies

Bookoff Corporation Limited (used book retailer)

Bookoff pioneered the second-hand bookstore chain in Japan. It simplified store operations so that any employee, even a part-timer, can operate a store. Bookoff grew rapidly by expanding its chain. In March 2006 it operated 854 stores: 291 stores under direct management of Bookoff and 563 franchises. Bookoff has a 60% market share. Sales is still growing by increasing the number of stores and increasing sales at existing stores. Besides books, Bookoff opened other second-hand stores: children's goods in 1999 and sports equipment, women's clothing, and accessories in 2000. Still, 88% of Bookoff's sales comes from second-hand books.

The traditional second-hand bookstores used to target middle-aged men who were obsessed with rare cultural books that were expensive. At old second-hand bookstores, it takes 10 years of training to understand the value of these books. These stores are usually dark, dirty, and uninviting to walk into.

Bookoff's strategic positioning is a familiar and easy-to-understand second-hand bookstore that sells books, comics, magazines, CDs, DVDs, and video game software. The target customer consists of a wide-range of ages. The stores are clean, bright and easy to walk into.

The value proposition is being inexpensive – half the retail price of a new book or 100 yen. On average, the company sells at 20% of the new book's retail price. It also offers a good selection.

Inbound and outbound logistics: Bookoff has a very short supply chain because the store which buys the products also sells the products. Customers can also send the books to a Bookoff store by postal service.

Store operation: Bookoff's store operation is simple and does not require an IT system. Each store can be operated by a first-year store manager and seven to eight part-time workers. Buying books, setting the purchase price, and managing inventory is so simple that after three days part-timers can do it.

Procurement: Bookoff's value chain is focused on buying used books at low prices. The buying price is determined by the book's condition. If it is clean, the price is 10% of the retail price of a new book. If the book is dirty, the price is 105 yen. As for low-priced books such as comics, the highest purchase price is 100 yen and when it is

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dirty, only 10 yen. As a result, the average buying price of books and comics is 38 yen per book. After the books are purchased, an automatic polishing machine shaves the cut end. This process takes 0.3 seconds per book.

Inventory control: Bookoff tries to sell its entire inventory. The selling price of a book is 50% of the retail price and 100 yen when it is dirty. If a book remains unsold for a certain period, the price decreases to 100 yen. The average selling price of books and comics is 201 yen per book. For a music CD, the price is determined at the headquarters, and then each store is informed of the price. Inventory control is conducted by using a different sticker color, which changes every three months. The products are displayed by category and size like comics for kids, comics for adults, comics for young girls, paperbacks, hardcover books, etc.

Marketing: Bookoff focuses advertising theme on buying used books from book owners. It advertises in newspaper inserts, on signboards, and on billboards.

HR management: The store manger has the authorization to recruit part-timers and promote them. Bookoff's promotion criteria are to continuously make a diligent effort and to take care of others. President and COO Mayumi Hashimoto started Bookoff as a part-time employee, earning 600 yen per hour. The next year after she started working for Bookoff, she became a regular employee and three years later she was promoted to an executive position.

Training is held at headquarters, a division or at certain stores that have training capabilities. The leader of part-time employees of each store also receives overseas training to open their eyes to new experiences and knowledge. Bookoff shares financial results and target numbers with part-time employees to encourage them to achieve management objectives.

Sustainability: 10 years ago when the Japanese economy was in a recession, discount clothing chain stores (such as Aoki) and the sporting goods/apparel retailer XEBIO entered the second-hand book retail industry. Ultimately, they sold their interest or became one of Bookoff's franchises. Bookoff could keep inventory turnover high while competitors ended up with bad inventories. Bookoff's CEO and founder Takashi Sakamoto thinks what makes Bookoff different is its know-how for training part-timers and motivating them. As indicated by Bookoff's sharing of financial information with part-time employees, the management's philosophy is that Bookoff can trust part-timers and let them do their job. (For example, on the opening day of the very first store, the founder gave the key of the register and the key of the store to a part-time employee.) As a result, part-timers are motivated to accumulate the know-how to achieve their goals.

In the future, Bookoff hopes to open one store per 50,000 people. This means that there is the possibility of operating 1,500 stores in Japan (currently there are 854

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stores). Bookoff operates eight overseas operations. In Paris, the Opera branch became profitable in just two months. Bookoff's overseas operation is good for an employee who is motivated (may have the opportunity to work there) and for a part-time worker who can feel pride in the uniqueness of Bookoff's business model.

Distinctiveness

- Bookoff is a pioneer of second-hand bookstore chain.
- Bookoff simplified store operations and grew rapidly through store expansion.

Innovation:

- The buying price is determined by the external appearance of the product not by the cultural value. The selling price is also determined by the external appearance and the inventory period, not by the book's cultural value.
- Inventory control is by the color of the sticker on the product.
- Bookoff shaves the edge of the book and polishes the front and back of the book.

Tradeoff:

- Does not train employees who can judge the cultural value of books.
- Does not control inventory by titles.
- Does not pursue uniqueness by selection.
- Does not carry books on the shelves for a long period of time.

Superior Sustainable Performance

ROIC

Bookoff Corporation
(%P=percentage point)

5yr Average Difference with the industry	Difference with the industry average in each year				
	2001	2002	2003	2004	2005
11.9% P	-2.9%P	7.2%P	12.7%P	7.2%P	22.3%P

ROIC= Operating Income/(average interest bearing debt + average equity - average cash)

ROS

(%P=percentage point)

5yr Average Difference with the industry	Difference with the industry average in each year				
	2001	2002	2003	2004	2005
3.3% P	0.4%P	2.7%P	2.9%P	4.1%P	6.0%P

ROS=Operating Income/net sales

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Gulliver (used car dealer)

Established in 1994, Gulliver developed a new business model that focused on buying used cars and selling them quickly at auctions. Gulliver sells a car within seven to ten days after buying it, which means it has low inventory and a low risk of value erosion. At first, Gulliver sold only at auctions, but they now have their own online auction site and online retail outlets. Gulliver increased its dealerships to 500 nationwide, which are either directly owned or franchised, after 5 years. In addition, Gulliver maintains a high rate of growth and profitability by implementing both low cost operations and continuous up-selling and cross-selling (such as financial services and guarantee services).

In Japan, the price of a used car depreciates rapidly because the buying cycle of a new car is very short. This means that there is a large supply of used cars. In England, it usually takes three years for the price of a used car to decrease 30-50%, but in Japan, it only takes one year. In other words, the price of a used car in Japan changes every two to three weeks.

Used car dealerships are usually not that profitable. First, most used car dealers have an average of two to three months inventory, which means their inventory depreciates. Second, selling from displayed inventory, which is the typical way to sell cars, made matching the customers' needs and the dealers' supply difficult. Finally, displaying used cars requires expensive real estate and labor costs.

Moreover, used car dealers do not provide high customer satisfaction. In addition to the lack of clear understanding of how dealers determine the price of a car, customers feel that they are pressured to buying a car and being cheated by the salesperson.

Gulliver targets two customers—car owners who want to sell their cars to Gulliver and 150 auction sites where Gulliver sells cars. Gulliver positions itself as a used car dealer that focuses on buying cars at higher prices than other dealers. Its gross margin is lower than conventional used car dealer, but its inventory turnover ratio is higher. Gulliver's revenue sources are 1) price spread between the buying and selling price to auctions, individual consumers, and used car dealers, 2) commission from the deals made on Gulliver's own auction operation, and 3) loans, insurances, and warranties that are guaranteed by G-One Financial Service, its subsidiary.

Unlike other used car dealers that cut different deals depending on the consumer, Gulliver offers its customers the same service and transparent pricing process. The company shares information about the used car, including its repair history. Gulliver stores are also clean and easy to walk into. Because of its transparency and trustworthiness, the company successfully attracted those car owners who would have

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never sold to used car dealers. 70% of the customers who sell their cars to Gulliver end up buying a used car from Gulliver.

Procurement: 60% of the cars Gulliver purchased are brought in to the dealers by the car owners. For the remaining 40%, the company goes to the car owners and checks out the condition of the car. Although a used car is inspected at the dealer first, the value of the car is assessed at Gulliver's headquarters. The headquarters updates a database twice a week and stores 500,000 of the latest successful bid prices from 150 auction sites, which helps to identify the cars (model, color etc.,) that are in demand. Gulliver will buy these cars at a higher price from car owners.

Sales: Gulliver has four sales points. First, the used car is sold at one of the 150 auction sites. Due to its screening process that ensures the quality of the car and its fair pricing policy, Gulliver's success rate is 70%. This is high compared to the market average of 50%. Gulliver's success rate is high since it knows which car will sell, thanks to the information from its auction database.

For the second sales point, consumers have the opportunity to purchase the car over a PC at the dealers using Dolphinet during the seven to ten days before the used car is sent to auction. Launched in 1998 as an industry "first," Dolphinet, provides pictures of the car, detailed repair history, dents or scratches, and its selling price. Dolphinet lists on average of 4,000 cars in Gulliver's inventory.

The third sales point is Gulliver's timed auction, which targets used car dealers. Information about the car is put on Dolphinet, and the company that "raises its hand first" gets to buy the car.

Lastly, Gulliver introduced GAO! Auction, a real-time Internet based auction service which started in January 2005. GAO! Auction targets other used-car dealers. In contrast to Dolphinet, where the price is set, GAO! Auction allows competitive bidding. It should be noted that in all of these four sales points, Gulliver keeps inventories no more than 7 to 10 days.

After-sales service: Gulliver's customer service calls the buyer of the car the day after the purchase and again one, three, six, and twelve months. During the phone call, Gulliver asks about the condition of the car, accepts any claims, introduces its service and warranties, and tries to explain the renewal date of the warranty. Gulliver also sends customers wine on their birthday three consecutive years after purchasing a car.

Marketing: Since its establishment, Gulliver invested generously in marketing expenditure to build brand image. The company advertises on television, in magazines, and over the Internet. Hideki Matsui of the NY Yankees advertises for Gulliver in order to portray a clean, bright, and honest image. The stores also have lots of glass to give it

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a bright atmosphere.

Sustainability: Gulliver's business model is focused on buying a large volume of and a wide selection of cars at low margin. The know-how of what cars to buy and sell from the data in its database makes it difficult for other companies to copy Gulliver's business model. Conventional used car dealers that enjoyed a fat margin would find it difficult to adopt Gulliver's business model, where pricing is systemic and no room for maneuvering exists. In 2005, Gulliver's operating income decreased, since it invested capital into its next stage of growth (i.e., recruiting new employees and expanding stores), but its sustainability remains in tact.

Car makers such as Toyota and Honda are entering the used car business. Although this appears to be a big threat to Gulliver, Toyota and Honda are opening only about ten shops a year.

Distinctiveness:

- In an unattractive industry like the used car dealer industry, Gulliver created a new strategic positioning by specializing in buying cars using a sophisticated database system.
- Holding inventory no more than 7 to 10 days at each of the four sales points.

Innovation:

- The centralization of evaluating the car at headquarters.
- Gulliver was the first in the industry to offer customers a fair and transparent price, when they sell their cars to Gulliver.
- It was the first in the industry to be open about the condition of a used car with customers.
- By selling cars to individuals using Dolphinet, Gulliver was the first in the industry to sell cars using pictures and written descriptions. Gulliver was also the first in the industry to create a real-time auction Internet site for dealers.
- Another first in the industry is the following: Gulliver guarantees that it will buy back the used car from the consumer at a pre-determined price in three years. The customer can apply for a loan based on the current price of the used car minus the price Gulliver will pay in three years for the car. This means that the loan is based on an amount smaller than the price of the used car

Tradeoff:

- Does not keep inventory more than a certain period of time. Gulliver will sell the car at auction if it exceeds the time frame.
- Does not display cars at its dealerships because it has a limited amount of land and

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it does not want to increase its lands size.

- Does not assess the value of cars at the dealership. It is completed at headquarters.
- Does not let dealers determine which auction site to sell. It is completed at headquarters.
- Does not recruit experienced industry people for new dealerships since they may follow conventional rules.

ROIC Gulliver International Co., Ltd
(%P=percentage point)

5yr Average Difference with the industry	Difference with the industry average in each year				
	2001	2002	2003	2004	2005
60.1% P	62.5%P	55.4%P	48.8%P	66.7%P	44.6%P

ROIC= Operating Income/(average interest bearing debt + average equity - average cash)

ROS (%P=percentage point)

5yr Average Difference with the industry	Difference with the industry average in each year				
	2001	2002	2003	2004	2005
2.8% P	4.4%P	1.5%P	1.3%P	2.6%P	4.3%P

ROS=Operating Income/net sales

Divisions of Multiple-Business Companies

NIDEC Corpotation, Small Precision Motors (small motor manufacturing)

Nidec is unique in the world in that it specializes only in brushless DC motors. Customers use Nidec's products to make IT machines (e.g., HDDs, optical disks, fans), OA devices, home electronics, and automobiles. The company has an overwhelming share of the world's market in slim-type motors for laptops (90%), hard disk drive (HDD) motors (70%), DVD motors (60%), and fan motors (40%). HDD motors account for 54% of Nidec's sales.

In the small precision motor industry, there are brush motors, brushless motors, and stepping motors. Compared to the brush motors, brushless motors have the ability to control the performance of the motor, are quieter, save energy, are more durable, are smaller and thinner, and do not emit an electromagnetic noise. More complicated to design and manufacture than brush motors, brushless motors were more expensive. But as prices declined, it expected to replace brush motors in some market segments and expand in the future.

Nidec specializes in manufacturing brushless DC motors, which replaced the AC motor and the DC motor with a brush. Nidec's products are custom made according

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to customers' specifications. In contrast, Mabuchi, the winner of the Porter Prize in2001, manufacturers standardized motors in the brush segment. In order to achieve economies of scale on customized motors, the company accepts orders in large volume only. The company also offers differentiated brushless motors such as small thin motor for notebook PCs. Its market share in such segments is even higher.

Compared to other brushless motor makers, Nidec has better developing capability, manufacturing technology, and shorter lead time to introduce new products. The company has stable supply capacity as a result of having invested proactively in advance of the market growth. The company enjoys low costs by procuring materials in bulk.

R&D: Nidec is the first company in the world to mass produce fluid dynamic bearing (FDB) motors, which was supported by such technologies as precision mold, precision measuring device, and metal processing. The company acquired these technologies through M&A.

Manufacturing: Nidec builds its own production equipment and facilities and has centralized its operations to be close to its customers (Made-in-Market strategy). This way, Nidec can quickly respond to its customers needs.

Sales: The sales division is responsible for setting the price and meeting the delivery date. Once set, the sales division cannot offer price discounts. If it becomes necessary to discount the price, the decision is left up to top management. The sales division makes proposals to potential buyers. For example, it successfully approached companies in the personal hygiene (e.g., washlet toilet) and rice cooker markets and made proposals to use brushless motors in their products. It also cold calls companies listed in the phone book regardless of potential and asks if it can stop by for a visit. Sales representative visit more than 100 companies a month.

Firm infrastructure: Job titles within the company do not matter. There is an atmosphere of cooperation in order to achieve its goals and the employees work together with each other. There is a saying, "Do the job quickly, give it your best, work until it's completed."

The company emphasizes what is known as the "3Q6S" Index, which reflects its drive to reach its goal of quality workers, a quality company, and quality products (3Qs). The 6S's stands for sorting, tidying, cleaning, cleanliness, courtesy, and discipline in Japanese. If they are maintained at a high level, Nidec believes it can achieve the 3Qs. Staff members at the management level inspect whether or not employees have reached the 3Q6S level and give them a grade.

Sustainability: In the fan motor segment, there is a threat from Asian competitors since the technology is simple and the investment required for facilities is

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not large. Hence, Nidec is not focusing on this segment. Nidec has a large share of this market for thin laptops that requires cutting edge technology. Technological barriers make it difficult for competitors to enter this market segment.

Mabuchi Motors, the leading DC brush motor manufacturer, is trying to enter the brushless market. Having just started, it is very difficult for Mabuchi to catch up to Nidec.

The biggest risk for Nidec is that its customers will begin to view it as insolent and arrogant, and begin to look for another supplier for brushless motors. Another risk factor is finding a successor for Nidec's CEO Shigenobu Nagamori, who is famous for his charisma. This should not be a problem since potential candidates are being groomed for this position.

Nidec is one of the four companies listed in "Can Japan Compete?" as a model of the new Japanese company. (See pp. 176, 177.) The other three are Shimano (winner of Porter Prize in 2004), Kyoden, and Rohm.

Distinctiveness:

- Nidec specialize in brushless DC motors.
- Nidec proposes new ways for customers to use its motors to replace other types of motors.
- Nidec relies on customization to achieve overwhelming market share and high profitability.
- Shorter time to introduce new products.
- Nidec responses quickly to customer needs through its Made-to-Market strategy.
- Utilizes M&A to acquire new technological capabilities.

Innovation:

- For the HDD motor, Nidec changed the belt drive method to the direct drive method, which cut heat output and space requirements.
- Nidec mass produced the FDB for the first time, improved the motor's performance, and improved the company's profitability. FDB was not only a product innovation; it required manufacturing process innovation.
- Has been offering stock options since 1996, which has been almost non-existent in Japan.
- Recruits staff from established companies, a break from the typical Japanese corporate model.

Tradeoff:

- Concentrates on a limited set of application areas and resists the temptation to

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vertically integrate.

- Does not manufacture in small lots. (However, there is an exception. Nidec will sell a small order to replace a brush motor but they are sold through its subsidiary, Nidec Copal.)
- Does not concentrate manufacturing facilities geographically. They are spread out throughout Japan since they are located close to customers.
- Does not have exclusive contracts for fear that it may become a sub-contracted company.
- Does not solicit sales/orders from minor companies because it may not bring enough scale.
- Does not sell its products through trading companies.
- Will not let the heir of Nagamori succeed the company.
- Does not prioritize short-term profitability over investment for growth.
- Does not prioritize improving profitability over expanding the brushless market.

ROIC NIDEC Corporation
(%P=percentage point)

5yr Average Difference with the industry	Difference with the industry average in each year				
	2001	2002	2003	2004	2005
28.8% P	19.5%P	19.1%P	23.9%P	33.5%P	40.8%P

ROIC= Operating Income/(average interest bearing debt + average equity - average cash)

ROS (%P=percentage point)

5yr Average Difference with the industry	Difference with the industry average in each year				
	2001	2002	2003	2004	2005
7.9% P	7.2%P	6.6%P	5.8%P	4.7%P	6.9%P

ROS=Operating Income/net sales