



## 2012 Porter Prize Winners

Ajinomoto Fine-Techno, Electronic Materials Division	(Electronic materials)
Credit Saison, Credit Card business	(Credit card services)
Tokyo Itoi Shigesato Office	(Online magazine and merchandise sales)
Recruit Lifestyle, Jalan	(Online hotel reservations)
(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 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)**

### **Ajinomoto Fine-Techno, Electronic Materials Division**

**Ajinomoto Fine-Techno, Electronic Materials Division is clearly focused on a product area in which it can achieve differentiation through technology leadership. It complements this focus strategy with an open innovation strategy. It is unique, however, in its development of a tight network encompassing various players in Japan's packaged printed circuit board industry and global CPU manufacturers. AFT maintains the position of global leadership in an extremely competitive market.**

#### Industry background

The packaged printed circuit board, one of the most important components of a CPU, determines the data processing speed of a personal computer. Inside a packaged printed circuit board there are layers of printed circuits. Insulation films prevent electrification between layers, which enables printed circuits to function properly. In a sense, the insulation film functions as a wall. At the same, it functions as a canvas. The flatter the surface, the narrower the copper line width can be. Also, the characteristics of the surface determine which methods of printing can be used.

Some of the chemical manufacturers who supply insulation materials are large diversified companies or medium-sized companies. Others are small chemical manufacturers, which, like Ajinomoto Fine-Techno, specialize in a particular area. Major packaged printed circuit board manufacturers include Ibiden, Shinko Electric Industries, Samsung Electro-mechanics, and Nan Ya (Taiwan), who supply to Intel, AMD and other CPU manufacturers.

Ajinomoto Fine-Techno's Electronic Materials Division (hereafter, AFT) focuses on interlayer insulation film for packaged printed circuit boards for CPUs used in personal computers, the area in which improvements in the CPU's processing speed are being undertaken most aggressively.

In the semiconductor industry, leading CPU manufacturers have a very strong say in setting technological requirements and choosing the components and materials used in CPUs for personal computers. The direct buyers of interlayer insulation materials are packaged printed circuit board manufacturers, and they all tend to follow the lead of the CPU manufacturers. If the leading CPU manufacturer has selected a supplier for a specific material, the others will source that material from the same supplier. This has created intense competition among suppliers. The leading CPU manufacturer switched suppliers each time it introduced a new model for three consecutive model changes implemented in 1993, 1995 and 1997, until it began sourcing from AFT in 1999. Since then, AFT has been that leading CPU manufacturer's sole supplier of insulation materials for seven consecutive models. AFT supplies to other CPU manufacturers besides the leader, and enjoys a 100% market share in the high end.

AFT has achieved technological leadership by focusing on varnish (which determines the technological performance of insulation materials), investing in technologies and developing capabilities that respond to specific customer needs, while leveraging the network of companies in the cluster of

electric materials and printed circuit manufacturers in Japan in order to respond to the needs of global customers.

### **Unique Value Proposition:**

AFT specializes in interlayer insulation film for packaged printed circuit boards for the CPUs used in personal computers. Its interlayer insulation film is called Ajinomoto Build-up Film (hereafter, ABF). ABF enables faster processing speed for CPUs, lower manufacturing cost, and more stable quality.

To improve the processing speed, the printed circuit board needs density and narrower line width. Interlayer insulation film, which has a smoother surface and better adherence for copper, serves this purpose. AFT completely changed the printing process from one requiring the application of copper over the entire surface, with the unnecessary parts scraped off (a subtractive method), to a process involving the plating of copper only where necessary (a semi-additive method). This helped AFT to go beyond the technological limit of 75 microns achieved under the subtractive method, and enabled it to downsize to 15 microns, while simultaneously lowering the cost.

The use of film rather than ink or sheets is what made possible the stable quality and lower cost. Prior to the introduction of film, CPU manufacturers used a liquid insulating material, which made it more difficult to achieve a smooth surface and was more prone to attracting foreign materials before drying. It also created byproducts that required special treatment before being discarded because of their negative impact on the environment. With this method, only one surface at a time could be treated. Competitors are currently supplying insulation materials in sheet form for lower-end printed circuit boards. These, however, cannot be processed continuously the way that insulation film can.

AFT's target customer is manufacturers of high-end CPUs for personal computers. ABF is used in all CPUs produced for personal computers. It is also used in CPUs for tablet PCs and mobile phones, because of the rapid acceleration in processing speeds.

Since AFT is the only supplier of the film, it is difficult to comment on its relative price compared with those of competitors.

### **Unique Value Chain:**

The uniqueness of AFT's value chain is its focus on the R&D and production of varnish, which determines the performance of an insulator. AFT has been working closely with other companies to develop the raw materials to be used in the varnish, and also to develop a method for making the varnish into film. It communicates extensively with other industry players to understand their needs.

R&D: Basic technological research is conducted at Ajinomoto Company's Research Institute for Bioscience Products & Fine Chemicals, where technical competence in organic and polymer chemistry is developed. At the laboratory, Ajinomoto moves researchers among different application areas, encouraging cross-pollination.

AFT is able to identify customers' needs with regard to next-generation insulation materials through its technological service activities, , and also through its communications with various business partners, which include materials suppliers, the film manufacturer, CPU manufacturers, and printed circuit manufacturers, as well as the suppliers of materials or manufacturing equipment to printed circuit manufacturers, such as those involved in the pre-conditioning, layer-building, laser drilling, copper

line plating processes. Actually, the idea to develop insulation in film form was originally presented by one of the printed circuit manufacturers. Recognizing that it did not have the technological capability to develop such films, AFT worked closely with a film manufacturing company to develop ABF.

Sales: The sales force focuses on quarterly order-taking, and the sales force is small. There are only ten people, who cover the global market.

Manufacturing: AFT focuses on varnish production. Varnish formulations are shipped to the film manufacturer, who produces the films.

AFT customizes its products for each customer, and manufactures to order.

Outbound logistics: AFT does not carry a large inventory because it manufactures to order.

Films are kept at low temperatures and sent to printed circuit manufacturers by a transportation company that uses temperature-controlled logistics.

Company infrastructure: In the early 1990s, Ajinomoto started a project to develop an insulation formulation, and continually invested in technology development at the headquarters for about ten years before ABF was accepted by the leading CPU manufacturer in 1999. The company has a history of differentiation through technology leadership.

### **Fit among Activities**

AFT's activities are selected and coordinated around key strategic choices, namely: 1) a focus on a product area in which it can achieve differentiation through technology leadership (i.e. varnish); 2) a focus on key customers; and 3) the identification of customer needs (through close communication with players in the packaged circuit board cluster in Japan and key global customers). (Please refer to Ajinomoto Fine-Techno's activity system map, which appears at the end of this report.)

### **Innovation that Enabled Strategy**

- Technological innovation to enable a line width of 15 microns.
- Technological innovation to make possible an insulating material in film form.

### **Consistency of Strategy Over Time**

The core of AFT's competitive strategy is to achieve differentiation through technology leadership, focus on a product area in which it can achieve differentiation, and identify customer needs before others do. These strategies remain unchanged from the beginning.

In 1970s, Ajinomoto began research and development activities focused on epoxy resin and surface treating agents, leveraging its expertise in materials and the manufacturing of amino acids. (Note that Ajinomoto's core product, MSG, is a kind of amino acid.) In the early 1990s, it chose packaged printed circuit boards for personal computers as a target market for epoxy resin. It would be very difficult to achieve a strong performance, but if successful high returns could be expected.

It was apparent that the leading CPU manufacturer was the decision maker to choose the manufacturer of the components and materials in the circuit board market for personal computers. This was another reason why AFT, as a latecomer, chose this market where the number of decision makers was limited.

Having said that, AFT had to understand the needs of various players, as well as those of the market leader. Even in the business planning stage, Ajinomoto communicated extensively with various players,

trying to understand their needs. Now, it has succeeded in developing a very tight communication network throughout the circuit board industry value chain.

### Trade-offs

- Does not enter electronic materials other than an insulation formulation.
- Does not get into upstream (chemical materials) or downstream (film manufacturing) processes of the value chain. Focuses on varnish R&D and production.
- Does not develop sheet or liquid forms. Focuses on film.
- Does not target low-end printed circuit boards. It focuses on high-end applications. (Tablet PCs and mobile phones have been using low-end printed circuit boards and insulation materials in the form of sheets. However, as more processing capability is required for tablet PCs and mobile phones, some of the manufacturers have started using ABF. AFT believes that the lower-end market segment will move up to the high end. For this reason, it has decided to remain at the high end and wait there.)

### Profitability

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

#### Ajinomoto Fine-Techno, Electronics Materials Division

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

Difference from industry average over 5 year period	Difference from industry average, by year				
	2007	2008	2009	2010	2011
34.3%P	52.4%P	30.2%P	31.3%P	32.1%P	24.8%P

Inter quartile range (IQR) = 5.1%P

Return on invested capital = Operating income / Average invested capital

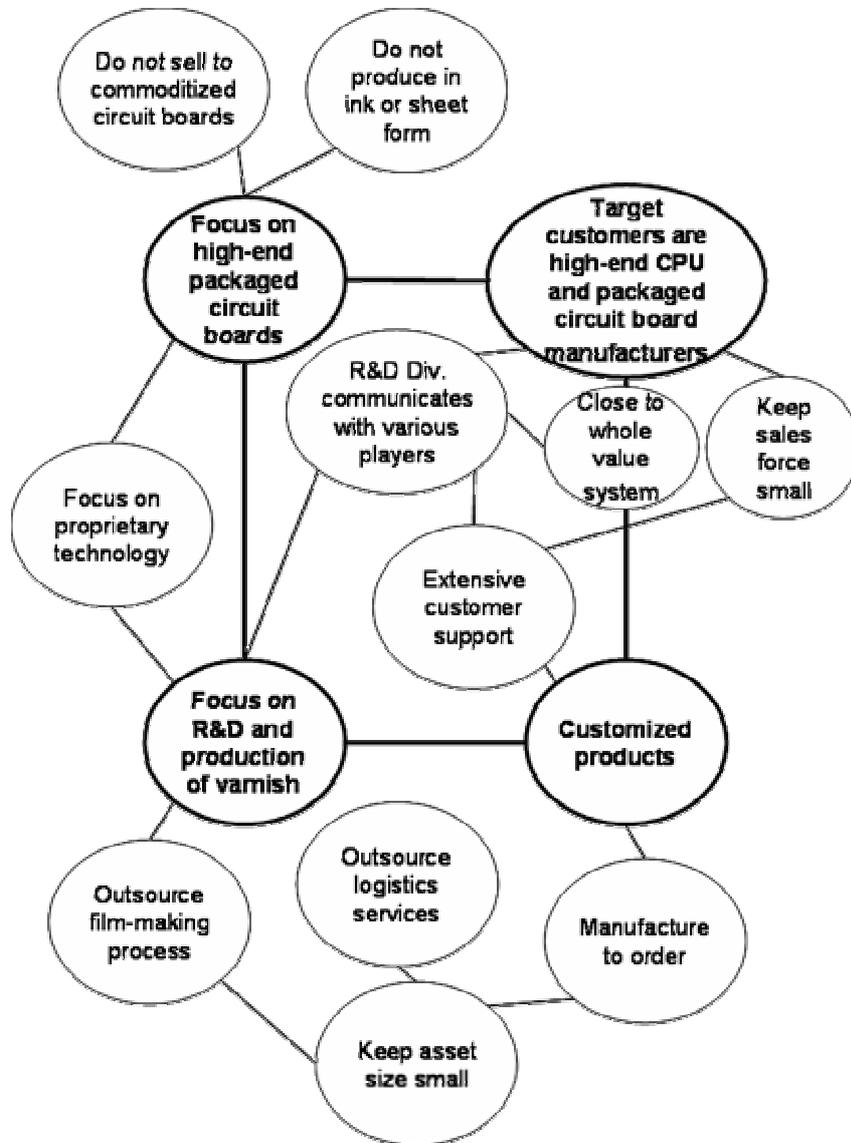
Return on sales (ROS) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2007	2008	2009	2010	2011
35.2%P	37.1%P	34.6%P	33.7%P	33.9%P	30.3%P

IQR = 4.0%P

Return on sales = Operating income / Net sales

**Activity System Map of Ajinomoto Fine-Techno, Electronics Materials Division**



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

### **Tokyo Itoi Shigesato Office**

**Focus on creating contents and value around “the enjoyment of everyday life.”  
High profitability is considered a result, rather than the main objective.**

#### Industry background

We define the industry as web magazines that target individuals (not business professionals in a specific industry). Web magazines are categorized by their contents, commentaries and reviews, culture and entertainment, or news.

The major strategic variables in the web magazine industry are: 1) the width of the target reader segment; 2) the degree of vertical integration; and 3) the source of income—subscription fees, the sale of advertising space, and online shopping.

There are three strategy groups. The first group tends to be less vertically integrated, incorporates both internally and externally developed contents, and sells advertisement space. The most popular web magazines (those that attract the most readers) belong to this group. Some industry players in this group also provide an online shopping function. The second group provides only the platform function. Such web magazines outsource content development, using consumer-generated contents in most cases. The third group, which uses only internally developed contents, is at the other extreme.

Tokyo Itoi Shigesato Office (hereafter, Itoi Office) runs a web magazine that has become very profitable by adopting a strategy that is a clear departure from the conventional strategy, which relies on advertisements. Nonetheless, it has achieved sales of 2.8 billion yen, with 48 employees.

#### **Unique Value Proposition**

Itoi Office runs the website “Hobo Nikkan Itoi Shimbun” (lit. Almost Daily Itoi News, hereafter, “Hobonichi”). Founder and editor-in-chief Shigesato Itoi, one of the most influential cultural figures in Japan today, is known for his copywriting, essays, lyrics, Nintendo game creation, and for the web magazine Hobonichi. (Today, his main activity is the operation of Hobonichi.)

Hobonichi has been posting new articles every single day since its launch on June 6, 1998. Readers enjoy Itoi’s essays on lifestyle topics, as well as interviews, reportage articles, and special features, on topics like “Today’s Slops of the Tongue,” a column based on readers’ contributions and edited by Hobonichi staff. All the contents are generally on the theme of the enjoyment of everyday life. Hobonichi attracts 1.1 million visitors per month.

Hobonichi also produces lifestyle merchandise, which includes the popular Hobonichi Techo (a daily planner), Hobonichi knitted belly warmers, and the Japanese-style nabe hot pot series. These items are sold directly to consumers through the website.

Itoi Office's target customers are individual readers. It intentionally targets the entire spectrum of individuals, ranging from the young to the elderly, both men and women, because its value proposition is to appeal to the universal motivation of individuals, i.e., the enjoyment of everyday life.

Itoi Office offers the same value proposition through its merchandise, and that is to make each day a little bit more enjoyable. For example, the Hobonichi Techo daily planner is not only very easy to use but also helps to make each day more meaningful. For example: 1) it stays open so that users can pencil in information with only one hand—eliminating the need to hold the planner open with the other hand; 2) despite having one page for each day—460 pages in total—it is thin and fits nicely in one's pocket (the paper is thin, but the quality is good enough so that the writing does not show through to the other side of the page); 3) users can enjoy reading the "Quote of the Day"; and 4) it offers flexibility with regard to its use. It can be used as a diary, a photo album, or a scrap book, in addition to being used as a daily planner.

The pricing strategy for Itoi Office is to charge no price for its web magazine. The lifestyle merchandise that Itoi Office produces is relatively high-priced because these are high-value-added items, as exemplified by the Hobonichi Techo daily planner. The Hobonichi Techo daily planner is 3,500 yen, compared with similar planners that sell for 1,000 yen.

### **Unique Value Chain**

Contents planning and development: It views merchandise development as another route for content development. Thus, web contents development and merchandise development activities are well coordinated.

In order to enhance employees' intrinsic motivation, Itoi Office intentionally avoids formalities. So, for example, no sales targets or budget ceilings are set for individual projects or for individual groups. Itoi Office does not conduct periodic planning meetings and it does not have a specific target for the volume of new contents to be introduced. Except for Itoi's top-page column, which must be written everyday, there is no set schedule for the introduction of new contents. Basically, the contents development process starts when an employee comes up with an idea, or when a new idea is brought in from outside. Authorization is not required for starting a new project. Development meetings are held whenever necessary, and are conducted in a casual manner. Itoi Office will arrange a meeting with the editor-in-chief in order to explain a project, get his feedback, and develop the ideas together, but not to obtain his authorization. (Likewise, employees are not required to prepare formal presentations in order to get the editor-in-chief's approval to proceed with a project.)

At the same time, Itoi Office has identified the key factors for successful projects, and employees monitor each project to make sure that it has all three factors. These factors are "motivation, articulation and congregation." Successful projects have all three, and each factor has interaction with society. "Motivation" means that all the projects should start with a staff member's feelings about something of interest. The person may have been impressed by something, or made to feel uncomfortable. The staff member is then asked to elaborate those feelings and raise them to the universal level. "Articulation" means turning that "motivation" into a concrete form, such as an essay, webpage, or merchandise. "Congregation" means to create a situation in which customers can gather and enjoy the contents together.

Itoi Office also practices firm discipline in terms of the quality-side of contents development—it requires that the contents being developed must resonate with readers' "enjoyment of everyday life."

Products or essays that appeal only to a niche segment will be rejected for the reason that it does not meet universal needs. The web contents and merchandise should appeal to a wide range of people.

The company does not conduct marketing research, but Itoi Office will always have employees adopt the viewpoint of the consumer. By sending an article draft or product idea to everyone in the entire organization, employees can get feedback from their colleagues, who adopt the viewpoint of the consumer. All employees directly receive all the feedback from consumers as well. Such feedback helps them to understand consumers' latent needs, which include the need for the enjoyment of everyday life.

Operation: Itoi Office fills orders for its online shopping service, but outsources manufacturing and inbound and outbound distribution. Online shopping merchandise is often made to order, and in such case Itoi Office does not carry the inventory.

Marketing & sales: Itoi Office relies on word of mouth to increase customer awareness. It talks about its original products in its web magazine, and it does not use any other advertising tools. It limits itself to sending emails to its readers only a few times a year.

After-sales service: All messages from readers are shared among Itoi Office's entire staff, so that everyone can understand the kinds of topics that are of interest to readers. Replies to customer inquiries and comments are handled by the individual or team to which the original comments were sent. Replies are also shared with all the employees.

R&D: Itoi Office has developed its own style of editing and communication. It also has developed its own ICT system, customizing it to fit its unique activities.

Human resource management: Itoi's organization is structured around the question of whom to consult for advice and decisions. Within the organization, relatively stable groups have been established. These groups include: Key Products Project Teams, Hobonichi Desk, the Design Group, the Marketing Group, and the Support Group. Each employee has a choice of groups in which to participate. Only in the case of the Key Products Group does the company assign employees to a specific group. This, however, is the exception rather than the rule. Jobs are done through project teams that run across the groups, and each person is expected to join more than one project team. As a result, individual groups are effectively interconnected, in an organic way.

Each project is owned by a team of staff members who are interested in appealing to the same consumer motivations. A single team is responsible for the entire process, from beginning to end. The project leader is responsible for the quality of the contents. Project leaders, however, do not have the authority to give orders, nor are they responsible for evaluating the performance of team members. Their power is based on their commitment to motivating others, their ability to generate unique ideas, their ability to move the project ahead with the cooperation of others, and their willingness to take responsibility for the output.

Itoi Office creates an environment in which evaluation, motivation, and discipline are achieved by making each employee's contribution visible to customers and fellow employees. Information such as the number of hits to the website, sales figures, email messages and tweets from customers, as well as replies to customers are shared among employees on a real-time basis. Teams and other groups have weekly meetings to report their progress and discuss important issues. The minutes from a meeting are

shared with the entire organization later on. In this way, each decision, the results of a particular action, and people's comments are shared with everyone in the organization.

Itoi Office encourages its entire workforce to adopt flexible working hours. It also encourages people to mix work and private matters. When schools are on summer break, at Itoi Office you can find the children of employees playing in the office, and some employees might be helping the children with their homework.

Before hiring new staff, the HR staff member holds meetings with employees from the groups that have placed a request for new employees to discuss and elaborate how the work will change in the future, and what kind of skills will be required.

Company infrastructure: Although Itoi Office has an organizational structure arranged by function, it shares information among the different functional groups. The minutes from the weekly meetings of each functional group are shared with the entire company. Also, every Wednesday, all employees attend a company meeting, at which the CEO, Shigesato Itoi, shares his views on society, business, and the company's mission. He also discusses the value that a particular project is expected to create, shares his personal reflections, and gives an overview of business performance. The seating assignments for all employees companywide are changed three times a year, by means of lottery, to ensure that people belonging to different functional groups have the chance to sit beside each other.

### **Fit among Activities**

At Itoi Office, activities are selected and coordinated around key strategic choices, namely, the development and provision of contents in an appropriate form to provide more enjoyment of everyday life on a daily basis; a focus on B-to-C business; the management of projects through the monitoring of "motivation, articulation, and congregation"; the fostering of long-term relationships with a large number of customers, and making these relationships based on trust; a flat organizational structure and a free-spirited corporate culture, but one in which all employees share the same vision. (Please refer to Tokyo Itoi Shigesato Office's activity system map, which appears at the end of this report.)

### **Innovation that Enabled Strategy**

- It positions written contents (such as reviews and columns) and physical contents (such as merchandise) in the same category, called "contents."
- It conceptualizes its readers as neighbors who can freely come and go at their own will, and does not try to corral them. Itoi Office is trying to develop a long-term relationship with readers, one that is based on trust.

### **Consistency of Strategy Over Time**

In naming its web magazine, Itoi Office decided to call it a newspaper. The company thought that its product was more like a newspaper than a magazine because of its text-based contents and its lack of segmentation. Itoi Office believed that the web magazine could eventually grow to include a broad range of business activities, which also made it seem more like a newspaper company than a magazine company. (In Japan, newspaper companies own baseball teams, host symposiums and other events.) This is how Itoi Office's web magazine came to be called "Hobo Nikkan Itoi Shimbun" (Almost Daily Itoi Newspaper) or "Hobonichi," in the style of a newspaper. The above-mentioned three elements have remained consistent over time.

However, unlike newspapers, Itoi Office does not charge a subscription fee, and it does not sell advertisement space. This has consistently been its policy from the beginning. When Mr. Itoi started Hobonichi, he wanted to communicate with consumers freely on issues that he personally enjoyed. The Internet, offering a platform that is free and fair, enabled the sharing of creative work with consumers. “Ideas that create and accelerate value should be the driver. But ideas easily become distorted for many reasons, such as for business reasons. In order to allow such ideas to be implemented, we are focusing on those activities for which we can make the final decision, as well as activities that we can enjoy.” This thinking is what inspired Itoi Office to refrain from selling advertisements or charging subscription fees. The thinking also suggests its commitment to promoting “the enjoyment of everyday life.”

When it started, Itoi Office did not know how to make the website financially sustainable. However, it focused on providing excellent contents and developing long-term relationships with readers based on trust, by treating them as neighbors. Almost 18 months after the launch of Hobonichi, in the summer of 1999, employees came up with the idea of selling the T-shirts they had developed as their company uniform. These T-shirts attracted far more orders than they had expected. This prompted them to develop other items, and merchandise became another type of contents, which Itoi Office sold to support its web magazine. The company has begun marketing such products as daily planners, knitted stomach bands, and Japanese-style nabe hot pots. However, it does not engage in sales promotion activities, as such activities are not consistent with the premise of treating its readers as neighbors.

#### **Trade-offs**

- Does not sell website space for advertisements.
- Does not carry paid articles.
- Does not diversify into such business activities as the publishing of house magazines for other companies.
- Does not follow the news, the value of which depends on “newness,” and Itoi Office does not take the initiative in creating value. Instead, employees focus on creating newness by identifying newness in old things or creating something new by themselves, rather than by reporting news that has originated somewhere else. It acknowledges that “newness” can be a source of happiness.
- Does not compete on price.
- Does not standardize the web page design, although standardized page design would allow Itoi Office to post new contents more easily without having to change the layout. It considers the web page design as a mean of expression.
- Does not outsource its ICT capabilities.
- Does not outsource call center activities.
- Does not provide group leaders with the authority to give orders, nor are they responsible for conducting performance evaluations for the other staff members in their group.
- Does not set a sales target for groups, and also does not give them a target for the number of visitors. In addition, the groups are not asked to set such targets themselves.
- Does not use real channels such as paper-based magazines and real stores under its own brand. (It sells “Hobonichi Techo” daily planners through real stores, but these stores are independent retailers, such as LOFT.)
- Does not try to corral customers by creating readers’ communities or by encouraging off-site meetings among readers.
- Does not lead readers to the web magazine from other web sites.

- Does not send many emails to readers as a sales promotion activity for its merchandise.
- Does not pursue rapid expansion of readership if it would damage the value proposition.

### Profitability

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

#### Tokyo Itoi Shigesato Office

(Unit = percentage point)

Return on invested capital (ROIC)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2007	2008	2009	2010	2011
28.3%P	33.1%P	29.0%P	29.9%P	17.3%P	33.1%P

Inter quartile range (IQR) = 4.6%P

Return on invested capital = Operating income / Average invested capital

Return on sales (ROS)

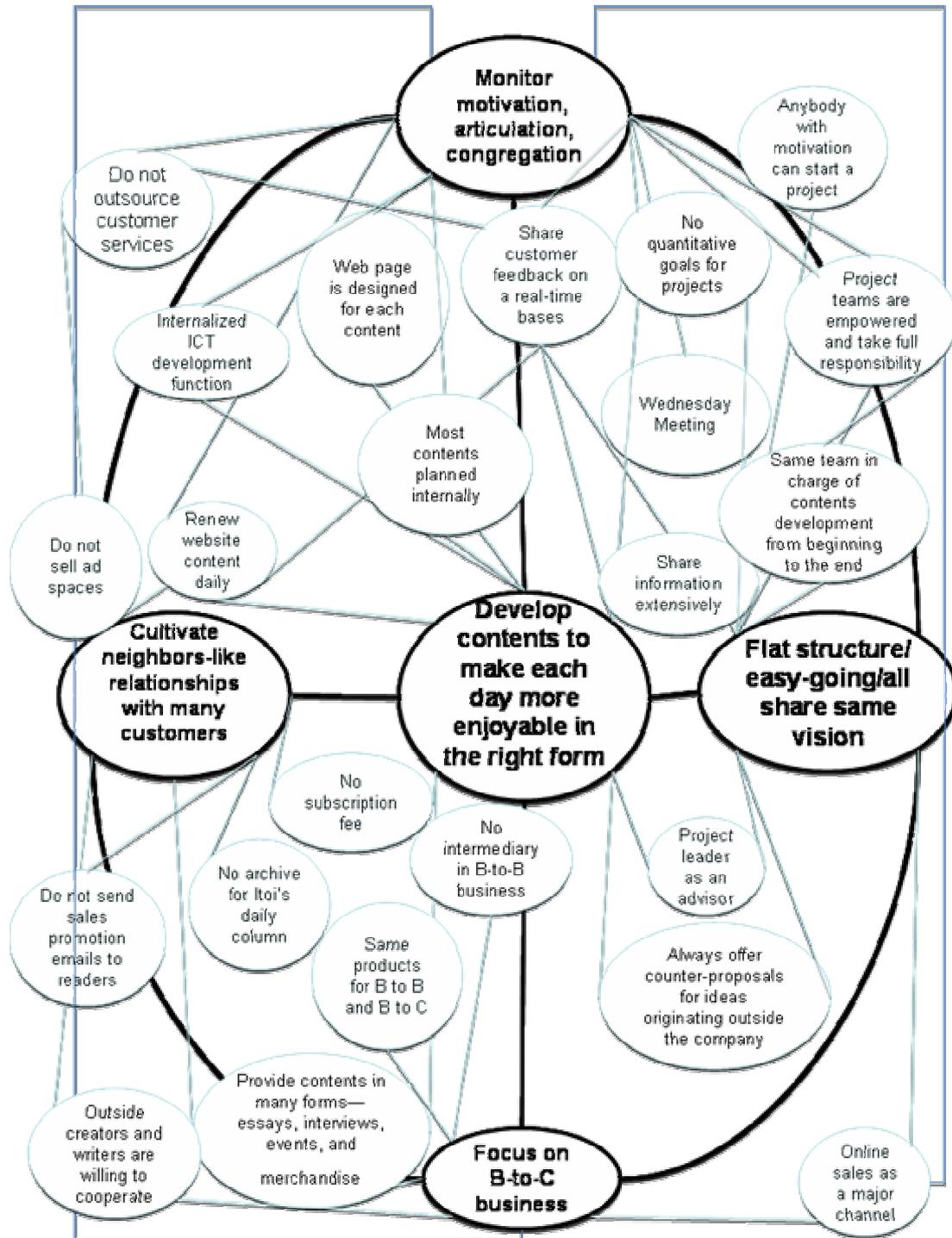
(Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2007	2008	2009	2010	2011
9.5%P	8.7%P	8.4%P	9.9%P	7.0%P	12.5%P

IQR = 2.1%P

Return on sales = Operating income / Net sales

**Activity System Map of Tokyo Itoi Shigesato Office**



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

### **Credit Saison, Credit Card business**

**Redefined the credit card service as a daily financial service to support shoppers, instead of being just a status symbol.**

#### Industry background

The credit card industry in Japan is made up of three strategic groups. The first group comprises the subsidiaries of banks, which include Sumitomo Mitsui Financial Group with the largest market share of 17.5%, and Mitsubishi UFJ Financial Group with the market share of 16.2%. The second group is affiliated with private companies in certain industries, such as retailers (Aeon Credit with a market share of 8.2%) and manufacturers (Toyota Finance with a market share of 7.0%). This group targets the customers of their parent companies and their credit cards are called “the house card”. The third group consists of independent credit card issuers, and includes Credit Saison, which has the second-largest market share of 17.2%. (Market shares are based on issuers’ data in 2011)

Credit Saison targets female shoppers, who were not target customers of industry incumbents. It has continuously introduced new innovations that went against industry norms.

Originally a subsidiary of Saison Group, it handled the house card, and gradually expanded its customer base. Now, it has 35 million cardholders and an annual transaction volume of 6 trillion yen, the second-largest in Japan. No other house card has been able to evolve sufficiently to reach this stage.

#### **Unique Value Proposition**

When Credit Saison launched its service in 1982, industry incumbents were positioning credit cards as a status symbol. By promoting them as a daily financial service, Credit Saison offered a unique value proposition. The incumbents targeted individuals who had worked for more than ten years at one of Japan’s well-established companies and owned their own homes. In contrast, Credit Saison decided to target women as its main customer segment. It issued a credit card to anyone who could be reached by telephone at the number the customer had registered. In the early years, the majority of its customers were women in their twenties and thirties who shopped at Seibu Department Store, one of the subsidiaries of the Saison Group. Even today, 70% of Saison cardholders are women.

Based on its value proposition of being a “daily financial service,” Credit Saison provides convenience. Since its began in 1982, it has been issuing credit cards on the spot that can be used immediately, without charging a membership fee. (It provides this service at 60 service counters, out of its total of 140 counters.) This is especially important for Credit Saison, because it is aiming to increase the number of new card members among shoppers, when they visit a store to shop. In 1992, it introduced a method of authorization that does not require a signature at Seiyu Supermarket stores.

The user fees for a Saison card are much lower, on average, than those charged by competitors. In addition to requiring no annual fee, in 2002 Credit Saison introduced an Eikyufumetsu Point system

(lit. eternally imperishable points). Customers can use and earn their points by shopping at the Eikyufumetsu.com online mall, in which a variety of web-based retailers are enrolled (a customer can earn 20 times as many points at Eikyufumetsu.com, compared with other retailers, whether online or real stores). This system encourages customers to use their points, which are now worth 70 billion yen in total. Its premium card, the Saison American Express Card, charges an annual fee of only 3,150 yen for the Blue card, 10,500 yen for the Gold card, and 21,000 yen for the Platinum card, despite providing almost the same services as the original American Express Card. The Saison American Express Card has attracted many card members, again mainly women.

As explained above, Credit Saison puts priority on generating revenue through customers' shopping transactions rather than through membership fees. For Credit Saison, "good customers" are those customers who use its credit card more often, not those who have great financial credit but only limited shopping needs.

Credit Saison introduced a variety of financial services to cross sell to its customers. These services include an online ticketing service called e+, investment trusts, the shared ownership of a racehorse, lease and rental services, mortgage loans, and credit guarantee services.

### **Unique Value Chain**

Procurement: Credit Saison is the first credit card issuer in Japan that offers credit cards from four card services (VISA, MasterCard, American Express, and JCB).

Obtaining new card members: Sixty-five percent of the employees of Credit Saison are working in the sales function to increase credit card membership. Credit Saison operates 140 service counters inside the stores of numerous affiliated retailers, and the company's employees are assigned to these service counters. No other industry players invest in this function to this extent. Instead, they rely on their alliance partners to obtain new card members.

Credit Saison periodically examines the profitability of its 140 service counters, and continuously closes unprofitable counters and opens new ones in other locations.

Credit Saison makes it easier for customers to become card members by issuing a credit card within thirty minutes. This is possible through the use of a proprietary software program that was developed in 1996 based on its original credit screening know-how. The application process is done on a tablet PC and does not involve any paper.

Service to card members: Credit Saison provides several services to encourage card members to use the credit card more often. It introduced a method of authorization that does not require a signature in Seiyu Supermarket stores, Eikyufumetsu Points (lit. eternally imperishable points), and the online mall Eikyufumetsu.com.

Service to retailers: In order to increase the sales of affiliated retailers, it makes suggestions to affiliated retailers, based on analyses of consumer behavior outside a particular store, facilitates the planning of sales promotion campaigns involving stores in the same geographic area, and helps retailers to communicate to card members through emails and magazines. These services are provided by the sales force, namely, from ten sales offices and 140 Saison Counters. The sales force is deeply rooted in the local community, and sales personnel implement their duties in cooperation with affiliated retailers.

Bill collection and dunning: Credit Saison positions the activities of collection and dunning as “advising and consulting services.” Although many industry players rely on the tacit skills of seasoned staff members, Credit Saison has developed a system that enables anyone to do a good job. The system relies on operation manuals and requires investment in an ICT system. Only 10% of the call center staff are full-time employees (the rest are part-timers).

In 2007, together with Mizuho Bank and UC Card, Credit Saison established a subsidiary that conducts credit screenings, the issuance of cards, the management of the credit limit, billing, and call center activities. It provides these services to its competitors. It enjoys cost leadership with economies of scale.

Human resource management: Credit Saison is trying to develop an organization where women can flourish. All the shop managers at Saison service counters are women, and 50% of the corporate officers are women. Employee evaluations are based solely on performance, not on age, educational background, or business experience. Credit Saison is trying to develop innovative employees and create an “open, frank and innovative” corporate culture. It refers to its corporate culture as “a corporate culture based on humanism.”

Company infrastructure: Credit Saison aggressively forms alliance with other companies, especially from the retail, finance and telecommunications service industries, to issue different types of credit cards. At the same time, it monitors the profitability of each credit card business, and if it does not reach the internal hurdle rate, Credit Saison will terminate that business. It also monitors the profitability of its card services counters, and relocates the ones that are unprofitable.

The company leverages its capabilities in credit screening and the management of credit risk, and has diversified into other financial services, such as investment trusts, which can be cross sold to card members.

### **Fit among Activities**

Credit Saison’s activity systems are selected and coordinated around its corporate vision to be the “Leading Edge Service Company.” The main strategic choices include offering services that customers would want in their daily lives—those that are convenient, useful, and provide peace of mind; cultivating a community-based sales force to increase card membership; achieving low-cost operations that support the competitiveness of its services; and fostering a corporate culture that is based on humanism, one that is “open, frank and innovative.” The fit among activities is good. For example, Credit Saison no longer sends members a new card if the previous card has not been used for three years. This has resulted in lower costs. It is able to do this without the customer’s prior consent because it does not charge an annual fee. (Please refer to Credit Saison Credit Card Business’ activity system map, which appears at the end of this report.)

### **Innovation that Enabled Strategy**

- On-the-spot issuance of credit cards with no annual fee requirement (since 1982, a first in the industry).
- Introduced a cash dispenser for making a cashing advance (in 1982, a first in the industry).
- Introduced international cards—VISA and MasterCard—with no annual fee (in 1988, a first in the industry).
- Introduced a method of authorization that does not require a signature on the groceries floor of

Seiyu Supermarket stores (in 1990, a first in the industry).

- Introduced an optical character reader (OCR) in the application process (in 1992, a first in the industry).
- Introduced Eikyufumetsu Points (in 2002, a first in the industry).
- Started an online mall to encourage card members to use their points and earn points by shopping at the mall (in 2006, a first in the industry).
- Introduced the Saison American Express Card, which has the centurion logo. It was the first time for American Express to allow affiliated cards to carry this logo (in 2010, a first in the industry).

### Consistency of Strategy Over Time

Credit Saison started its business in 1982 by issuing the Seibu Card as the “house card” for the department store. It transformed itself from a house card issuer into an independent card issuer by striking alliances with various business partners, mainly in the retail industry. Despite this transformation, the core components of its strategy have remained unchanged: 1) work to improve the alliance partners’ customer service and increase their sales; and 2) position the credit card as a daily financial service and enhance customer convenience by introducing innovative services. It introduced the on-the-spot issuance of credit cards and with no annual fee requirement when it started its business, which were both industry-firsts. It continues to introduce first-in-the-industry innovations. Although it introduced a membership fee for its American Express Card, its membership fee is set at a very reasonable level compared with the benefits that the card provides. It puts priority on customer convenience and the generation of revenue through customers’ shopping transactions rather than through membership fees.

### Trade-offs

- Does not position the credit card as a status symbol.
- Does not enter the acquiring side of the credit card business, where bank-affiliated credit card companies were already dominant. Focuses on the issuing side of the business.
- Keep investment in TV commercials at a minimum level, but instead advertises on-site in retailers’ stores.
- Does not rely on the tacit skills of seasoned staff members for consultations and dunning activities.

### Profitability

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

#### Credit Saison, Credit Card business

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

Difference from industry average over 5 year period	Difference from industry average, by year				
	2007	2008	2009	2010	2011
1.9%P	1.7%P	1.7%P	2.0%P	0.9%	0.3%P

Inter quartile range (IQR) = 1.2%P

Return on invested capital = Operating income / Average invested capital

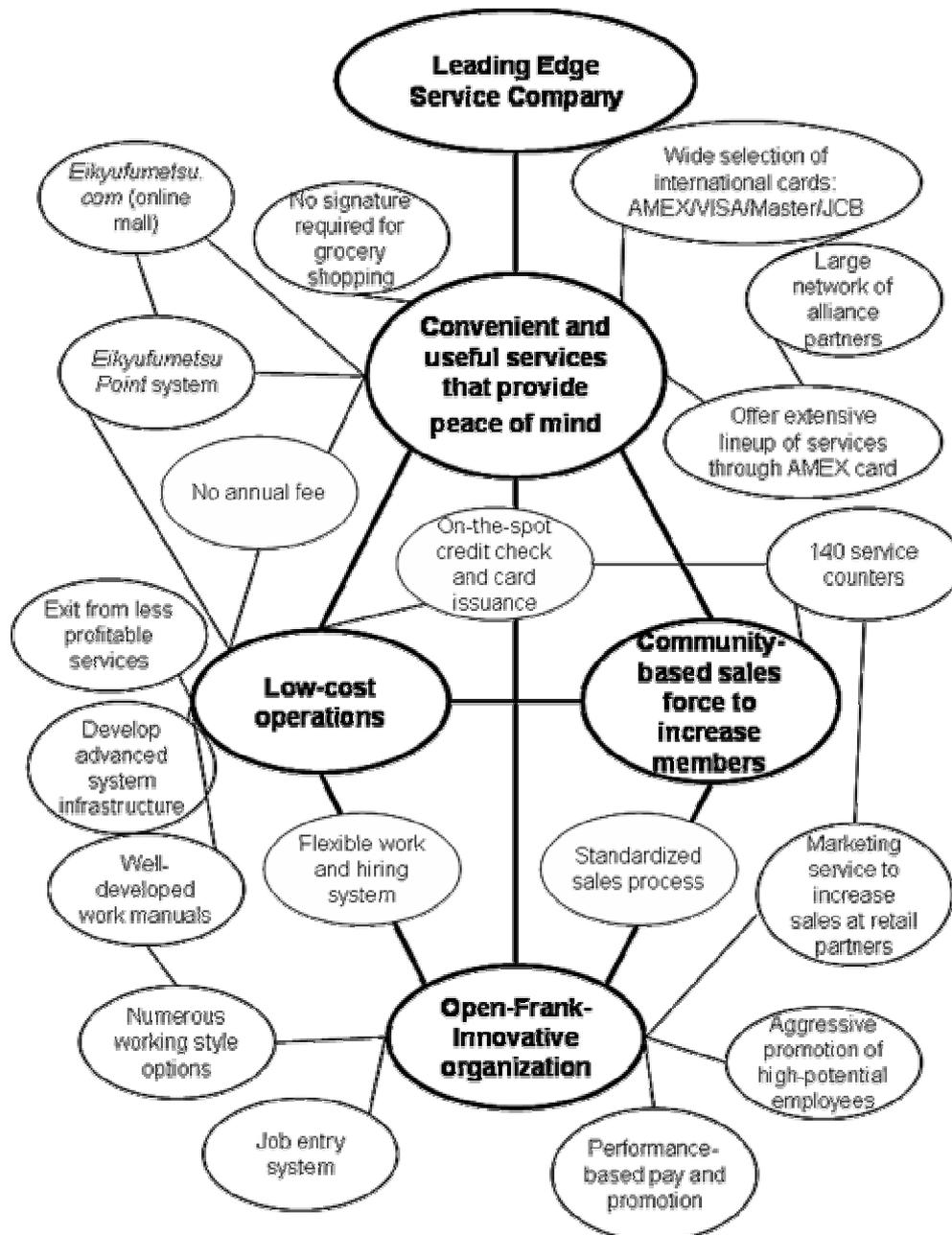
Return on sales (ROS) (Unit = percentage point)

Difference from industry average over 5 year period	Difference from industry average, by year				
	2007	2008	2009	2010	2011
7.5%P	3.1%P	6.4%P	5.4%P	0.1%P	-6.2%

IQR = 28.5%P

Return on sales = Operating income / Net sales

**Activity System Map of Credit Saison, Credit Card Business**



## **Recruit Lifestyle, Travel Information Div. (Jalan net)**

### **Creating more and happier matches between travelers and hotels through online hotel reservation site, Jalan net.**

#### Industry background

There are three strategic groups in the online hotel booking industry. The first group offers the broadest line of hotels. The second group focuses on business travelers. The third group focuses on the high-end niche segment.

Jalan net is a unique case in which a latecomer caught up with the industry pioneer in the online services business, where the first-mover advantage comes into play. Recruit Lifestyle entered the market in 2000, which is four years later than early entrant (and early leader) Tabino Madoguchi (lit. the “Window for Travel,” now Rakuten Travel). However, Jalan net, with its unique value proposition, expanded the market, established itself, and achieved a higher profitability.

Contrary to the early movers, who targeted early adopters (the business traveler segment), Jalan net successfully created a market through micro-segmentation of the majority segment. Jalan net helps them to find a hotel that fits their particular needs by uniquely defining customer segments (such as customers traveling with pets, and customers who want to take leisurely trips). Customers experience Jalan net as if it were a personalized service. This raises the switching cost for customers.

#### **Unique Value Proposition**

Jalan net’s mission statement is as follows: “Have people meet the region, so that the world will be filled with more smiles.” If all the hotels could improve to a five-star rating in their customer evaluations, all the customers would be happy and travel more, more business would be generated, and the industry would expand.

Recruit Lifestyle believes that its mission can be achieved by: 1) increasing the total number of transactions through total customer support, which begins with the provision of travel information and ends with the collection of feedback from customers after their trips; 2) working with hotels and inns to improve their service quality; and 3) helping local areas to improve their attractiveness as a travel destination and develops programs to attract more tourists.

Jalan net is a double-sided platform that targets both travelers and hotels as its main customers. On the travelers’ side, Jalan net targets individual travelers. Jalan net’s target customers on the hotel side are hotels and inns of various sizes and types located all over Japan.

For travelers, Jalan net helps them to find a hotel or inn that fits their particular needs by uniquely defining customer segments. To make this possible, first, Jalan net tries to offer the longest list of hotels available. Its list includes small inns and hotels located in less popular areas of Japan. Second, Jalan net makes searching fast and easy. It lists hotels giving priority to those with the highest customer ratings as a default setting. Jalan net also makes sure to provide both the positive and negative customer reviews it receives, including even the complaints, and does not alter the customers’ original statements.

As an example of its travel packages, the “Jalan Package” enables customers to check the seat availability on flights or Japan Railway (JR) trains on a real-time basis, and make reservations for both hotels and transportation in one click at Jalan net.

For hotels, Jalan net helps them to more effectively attract new customers. It provides a platform that is visited by many potential travelers, a place where each hotel can propose a unique value proposition, get honest customer feedback, and gain better exposure if its customer rating is good.

Jalan net also provides services that make the hotel’s work easier. Hotels can post room offerings, with prices that vary depending on the day of the week, the season, and the schedule of local events. Hotels can also offer special packages for a limited time only, and this and other information can be communicated through blogging. This system also allows hotels to analyze historical records for customer bookings, and make a comparison with local booking trends. This information can then be used in the development of marketing strategies for hotels.

Local sales representatives provide free consultations to hotels, and offer them suggestions and recommendations on how to boost room occupancy rates. They advise hotels on how to develop new accommodation packages, how to more effectively publicize their accommodations and services, and how to generate more word-of-mouth publicity and raise customer satisfaction. In the provision of such consulting services, the sales representative analyzes the hotel’s booking records, as well as data from a database containing information on all affiliated hotels. Through such consultations, hotels can also gain access to the best practices in the industry.

Jalan net’s service fee, paid by the hotel, is less expensive than the fees charged by conventional travel agents. When Jalan net started out, its fee was about half the amount charged by the leading travel agency competitor. Among online hotel reservation service providers, there is not much difference in the service fees they charge.

The uniqueness of Jalan net’s value proposition is that it considers its business as fulfilling a kind of “intermediary” role. This means that the more smoothly matching between hotels and travelers can take place, the more profitable Jalan net will be, and the entire system will get into a virtuous cycle. This approach is based on Recruit’s traditional business concept, called “ribbon-zu” (lit. ribbon image). First, both sides need to be increased. This will result in a bigger knot. Also, a good match should be achieved—it should be the right one—so that both customers (the traveler and the hotel) are happy. In line with its commitment to achieving a good match and satisfying both customers, Jalan net does not offer better positioning on its website for a fee, as this would damage the quality of the match.

### **Unique Value Chain**

**Procurement:** Hotels can display rooms and accommodation packages online by using the reservation management system provided by Jalan net. Local sales representatives encourage the hotels to post their rooms and accommodation packages on the Jalan net website.

Recruit Lifestyle has formed alliances with airlines and railways to make it possible for customers to confirm seat availability on a real-time basis, design their own package tours, and make reservations with one click for a package that includes both transportation and accommodations at Jalan net.

**Marketing and sales:** Regarding the sales personnel who engage in hotel-focused sales activities, Recruit Lifestyle recruits residents of the targeted local areas. Jalan net inherited sales people from Jalan travel magazine, which was founded in 1990. The sales staff visit hotels, ask them to join the list,

and then develop service packages for them. In most cases, Recruit Lifestyle looks for people with the motivation to revitalize the local economy.

Since 2010, Jalan net has been operating a call center-based customer support group, which covers the more than 20,000 hotels listed at Jalan net. This group responds immediately to customer calls, and handles customer requests with great efficiency.

Recruit Lifestyle treats activities such as advertising not an expense, but rather as a purchasing cost that is required for sales. It makes aggressive investments with the aim of attracting more visitors to Jalan net.

Leveraging its scale, Recruit Lifestyle employs nationwide TV commercial campaigns to raise customer awareness and stimulate demand for traveling.

Recruit Lifestyle uses a search-word listing. It also encourages inflow from affiliated websites. It shares information on hotels and accommodation packages with the Jalan magazine to increase the number of website visitors.

Jalan net has achieved economies of scope in attracting users by leveraging Recruit Lifestyle's other business units. For example, by sharing the point system with its beauty-focused website, Hot Pepper Beauty, Jalan net can attract Hot Pepper Beauty's customers to Jalan net. Also, PONPARE (a group purchasing service for collective ticket buying), is a powerful tool for attracting users to Jalan net.

After-sales service: Jalan net has a Customer Satisfaction Promotion Office to accept inquiries and complaints about Jalan net and the hotels.

The Jalan Research Center provides various seminars throughout Japan for local governments and local associations comprised of businesses that deal with tourists to help them identify the unique attractive features of their local areas. Jalan Research Center helps participating localities to improve their attractiveness as a travel destination and develops programs to attract more tourists.

HR management: Jalan net provides attitude training as well as skills training. Attitude training includes a discussion of the meaning of work, each individual's personal vision, and the sharing of Jalan net's mission.

### **Fit among Activities**

At Recruit Lifestyle, activities are selected and coordinated in order to maximize the number of happy matches between travelers and hotels. Among them, the key strategic choices are: 1) giving priority to attracting tourists; 2) providing services to hotels through the use of local sales staff; and 3) working to reinvigorate the tourist industry. (Please refer to Recruit Lifestyle Jalan net's activity system map, which appears at the end of this report.)

### **Innovation that Enabled Strategy**

- Recognized that the majority segment is actually the long tail, and that it could be micro-segmented.
- Bought search words that are not directly related with travel, instead of obvious ones like "Hakone," "Saturday," "traditional Japanese hotels," and "reservations." The latter will more likely lead to customers who actually make reservations, because they have a better developed

incentive to travel. This results in a better ROI for online reservations companies. The former search words imply that the user is not accustomed to using online reservations services.

### Consistency of Strategy Over Time

Jalan net has been consistent in its competitive strategy and its core activities, which include the following. It tries to meet travelers' needs by offering the longest list of hotels and by providing an efficient search tool. It does not accept payment from hotels for a better position higher up on the list. Local sales staff advise hotels on ways to improve their services and offerings.

Its mission has evolved and changed over the course of several years following its launch. However, there is no contradiction between the company's new mission and the strategy and value chain that were already in place. Rather, the new mission has helped Jalan net to sharpen its focus. Jalan net's original mission was to list all the hotels and inns in Japan, a mission that was inherited from Jalan magazine—"a booking media that allows customers to make reservations at any hotel or inn in Japan." Jalan net aimed to develop the longest list of hotels and inns in the industry. Jalan net eventually realized that it was not trying to create any new value for the customers beyond that. This prompted Jalan net to declare a new mission, which is to contribute to the growth of the travel industry by working with hotels and submitting proposals on ways to improve the travel experience, in addition to providing an online service for making reservations at any hotel in Japan.

### Trade-offs

- Does not place information regarding other services (such as restaurants, bridal services, recruitment, housing, and school information) on its website, in order to keep the focus on travel-related services.
- Does not sell advertisement space to non-travel advertisers.
- Does not sell better positioning on its website to hotels for fee.
- Does not focus on any particular customer segment.
- Does not concentrate teams of sales representatives in big cities. Does recruit sales staff locally, in each region.

### Profitability

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

Return on invested capital (ROIC)		Recruit Lifestyle, Jalan (Unit = percentage point)				
		Difference from industry average, by year				
Difference from industry average over 5 year period		2007	2008	2009	2010	2011
16.8%P		32.1%P	23.0%P	16.3%P	12.2%P	18.8%P

Inter quartile range (IQR) = 6.9%P

Return on invested capital = Operating income / Average invested capital

Return on sales (ROS)		(Unit = percentage point)				
		Difference from industry average, by year				
Difference from industry average over 5 year period		2007	2008	2009	2010	2011
32.9%P		28.8%P	32.6%P	33.4%P	29.5%P	38.3%P

IQR = 12.2%P

Return on sales = Operating income / Net sales

**Activity System Map of Recruit Lifestyle’s Travel Information Division (Jalan net business)**

