

# **Learn from Companies Possessing Competitive Strategy**

## **Three Companies Awarded the 2007 Porter Prize**

The award ceremony for the Porter Prize was held in Tokyo last year in December. The Porter Prize\* is awarded to companies that have established unique positions in their industries and which have achieved high profitability. (\*Sponsored by the Graduate School of International Corporate Strategy, Hitotsubashi University with the assistance of the Daiwa Securities Group). On what points were the companies evaluated and how were they able to secure high profitability? Professor Porter gave an overview and honed in on the competitive strategies of the award-winning companies in a lecture held in tandem with the awards ceremony.

### **Established in 2001 to Revive the Competitiveness of Japan**

Japanese corporations came to hold a lead position in both cost and product quality from the 1970s to the 1980s through their work on total quality control and *kaizen*, or the process of continual improvement.

These methods paid off and Japanese became particularly strong in terms of international competitiveness in the 1980s. Circumstances changed completely in the 1990s, however. The limitations of business models that pursued quality and cost began to emerge and Japan lost its competitiveness.

It was Harvard University Professor Michael Porter who analyzed this and stressed that Japanese companies must not stop at competing on quality, but should transition to competing through strategy and innovation to regain their competitiveness. In “Can Japan Compete?” which he published in 2000, the professor stressed that “uniqueness that brings about true profitability is important in strategy.”

The Porter Prize was established in 2001 to spread these views of Porter among Japanese corporations and encourage them to improve their competitiveness. It was Professor Hirotaka Takeuchi of the Graduate School of International Corporate Strategy at Hitotsubashi University (ICS), who also serves as the committee chair for the Porter Prize Organizing Committee, that came up with the idea.

Sixteen companies and seven business divisions have received the award in the years leading up to last year, the seventh year of awards. Each of the companies and business divisions receiving the award were implementing a unique and superior strategy recognized by Porter as the key to their success and for profitability exceeding the average for the industry.

What exactly, then, is considered a unique and superior strategy from the viewpoint of the Porter Prize? Associate Professor Emi Osono, who also serves on the organizing committee, raised five points: 1) Providing unique value that other companies do not provide, 2) a value chain to implement that, 3) trade-offs (deciding what not to do), 4) a fit among the various activities that allows each activity to reinforce the others and 5) consistency of the strategy over a certain period of time.

The return on invested capital (ROIC) and the return on sales (ROS: operating profit/sales) are used to measure the profitability of companies which have applied for the prize. ROIC is a numerical indicator which shows how efficiently invested capital has been used to produce profits. The organizing committee views ROIC as the best measure of corporate economic value and thus focuses on this.

---

## Choice is the Essence of Strategy: Building a Unique Position

### Lecture

#### Professor Michael Porter, Harvard University

**Profile:** Graduated from the Department of Mechanical and Aerospace Engineering at Princeton University. Received an M.B.A. from the graduate school at Harvard University and then took a doctorate degree in economics. He is an authority on the theory of competitive strategy and in research on international competitiveness. Included among his key works are *Competitive Strategy*, *On Competition*, *Competitive Advantage*, *The Competitive Advantage of Nations*, and *Can Japan Compete?*.

The goal of Japanese companies up to this point has been growth. That is the reason why many companies have rushed to imitate other companies, leaving Japan to lapse into dire conditions for approximately the last ten years. The Porter Prize was created to break free of these conditions.

Many managers strive to have their company be the *best* in the industry. What we propose is securing a *unique* position.

The efficiency of business operations must be increased to be the best in the industry, but it is difficult to maintain an advantage with this because other companies will follow suit. Every company will bring in superior equipment and utilize a supply chain.

It is possible to secure a sustainable competitive advantage if a company secures a unique position within the industry.

For example, a certain grocery chain in the U.S. offers natural, fresh foods that are organically grown without agrochemicals or additives. This naturally incurs costs so the prices are high as well. There are loyal customers though who are happy to pay the high prices. The methods used by this chain to launch new stores, staff them and service the customers is also completely different from the methods of other stores. It is difficult for other stores to imitate them because this chain has not adopted the approach of being better at doing what other companies do.

A manufacturer that designs, manufactures and sells household furniture has restricted its products to furniture that customers can take home in their cars and assemble themselves. They have done away with large furniture. In other words, they have made a clear trade-off to do one thing and not do another. We believe that the essence of strategy lies in these types of choices.

In building a strategy, it is also important to understand that strategy is a system of activities, to capture the vision in its entirety, and make it one that is consistent.

There are occasionally people who desire agility in the strategy, but strategy is a proposition of value and cannot be changed easily in one to two-year increments. Improvements are, of course, necessary, but it is the clear and unshakeable strategy that enables swift reform.

---

### Introducing the Companies Awarded the Prize

The seventh annual Porter Prize for the “companies engaged in a single business” category was awarded to three companies: Kaihara (a denim manufacturer and wholesaler), Maruho (pharmaceutical manufacturing and sales), and Ryohin Keikaku (manufacturing and retail). There were no awards made in the “business units of diversified companies” category.

Professor Porter handed a commemorative plaque to the representative from each company at the awards ceremony and each of the company presidents gave a celebratory speech at the reception following the ceremony.

### ***Kaihara***

#### *Dominating Blue Denim by Consolidating All Processes Under the Company's Control*

Specializing only in blue denim, the product quality of Kaihara products is extremely high and it is known worldwide as Kaihara Denim. At \$4.50 a yard, the denim is quite expensive compared with other manufacturers in places such as China, which charges \$2.50.

[Photo] Junji Kaihara

The reason why orders come in continuously from apparel manufacturers is that the company can maintain precise control over the fine variations in color and texture. The products have great value since Kaihara provides products that match the samples agreed upon during the development stage and also possess a high degree of reproducibility for reorders.

The company has chosen two unique paths different from the trend of the Japanese textile industry. The first is vertical integration. It had been general industry practice to separate the functions of spinning, dyeing, weaving, sewing, etc., but the company has extended its hand from dyeing to spinning and weaving. It then coordinates the various steps of production closely, thereby always maintaining consistent product quality. It also shortened the time to delivery.

The other path was that of domestic specialization. Kaihara concentrated its plants domestically while other companies were moving overseas in pursuit of lower costs. In fact, it concentrated them in the mountainous area of northern Hiroshima.

President Junji Kaihara spoke of the motivation for that. "It was essential to consolidate all processes under our control in order to produce a product that we could take responsibility for." This gave birth to a unique difference from other companies. Another major factor in the award of the Porter prize was the consistency of its strategy through its history.

### ***Maruho***

#### *Developing into a Leading Company by Specializing in External Medications for Dermatology*

Maruho is a pharmaceutical manufacturer that has specialized in dermatology and external medications. It was not by chance that the company was able to attain this strategic position. Ten years ago, the company derived fully 50% of its sales from drugs for plastic and reconstructive surgery and also possessed the best-selling drug. The competition in this sector was fierce though, and it also involved a variety of medication forms such as internal medication, injectable medication, and external creams. Deciding that it would be difficult to be the leader in the plastic and reconstructive surgery sector, the company chose to specialize in dermatology.

[Photo] Koichi Takagi

Maruho is currently forty-sixth domestically in terms of sales, but is the largest in Japan and ranks twelfth in the world in the dermatology sector.

After specializing in the dermatology sector, the company began to maintain contact with nearly 100% of the 7,800 dermatologists in Japan with a small team of medical representatives of only around 300, visiting 85% of those each month. They ascertain the physicians' needs and provide information.

There are endless offers from other companies to supply licenses to Maruho, due to this powerful sales force and the high level of technical expertise the company possesses in developing external drugs. This enables the company to create new drugs through licensing and joint development without engaging in upstream research and development. The criteria for selecting offers are that there be a low level of customer satisfaction and that it be a sector in which growth in the number of patients can be expected.

President Koichi Takagi gives the rationale for receiving this award, "The strategy was of course a factor, but that was underpinned by a corporate culture of hard work and dedication." The company's organizational power made its strategic choices reality.

### ***Ryohin Keikaku***

#### *Pursuing the Essence from the Consumer's Perspective and Achieving Lower Costs*

The strategy of Ryohin Keikaku in developing its MUJI brand lies in the concept of questing after the essence of an item, specifically through material selection, inspecting the process, and simplifying packaging.

Take clothing and towels for example. The company focuses on the essence of the "feel against the skin" and exercises careful discrimination in selecting the fabrics. It also dispenses with excessive packaging or needless functions. The company's natural cotton products that omit bleaching in the production process are a classic example.

[Photo] Tadamitsu Matsui

The company's beautiful and simple products were born of this clear sense of values. This is precisely why it is difficult for other companies to copy them.

The pursuit of those three points also leads to cost reductions, which in turn lead to low prices. This is expressed in the motto the company has had since its founding, "Low priced for a reason."

The company was also the subject of focus for the many trade-offs it made (things it chose not to do). These include short-term discounts to attract customers, the use of celebrities in advertising, and work other than that required for servicing customers.

In his acceptance speech, the company president, Tadamitsu Matsui, emphasized that "the unique characteristic of this brand is that it possesses the viewpoint of the customer and this is shared by all company employees. The approximately 7,500 items offered by the company were selected from this consumer viewpoint. They also keep changes in the product line to 25% or less a year. Customers can therefore feel assured that the products they like will always be on the store shelves.

### ***Looking Toward the 2008 Porter Prize***

There are several merits to applying for the Porter Prize, aside from the honor of receiving one.

President Kaihara commented, "The things I had rolling around in my head regarding the strengths and weaknesses of the company and the strategy were committed to writing and charts in the course of the interviews during the selection process, giving them a clearer shape."

President Matsui said, "We looked at our company anew from the perspective of competitive strategy in taking on the challenge of the Porter Prize. We could see only weaknesses from the inside, but adopting an objective perspective naturally allowed us to ascertain our strengths."

Professor Takeuchi, the Organizing Committee Chairman commented, "Applying for the Porter Prize requires a certain level of effort just to complete the documents." It is the hidden objective of the organizing committee to have the companies learn the essence of their strategy by producing the documentation.

President Takagi said, "Several people from the business planning division suggested that we apply for this. Nearly all employees other than myself and these few knew nothing about the application until we had received the prize. The employees were all genuinely pleased."

Acceptance of applications for the first round of screening for this year will begin in the first part of May. The guidelines for application will be available for download from the home page from March 1. The address is noted at the lower right, so please access this page if you have an interest.

## **ADVERTISEMENT**

**Planning & Production: Advertising Bureau, Nihon Keizai Shinbun**

**Porter Prize Organizing Committee: The Graduate School of International Corporate Strategy, Hitotsubashi University**

**Porter Prize supported by: Daiwa Securities Group**

Please see the following home page for details on the Porter Prize and how to apply for it:

<http://www.porterprize.org/>

### **Kaihara Hi-Textiling**

Founded in 1893 as a company that produced Bingo Kasuri patterned fabric. The focal point of the business was moved to denim fabric in 1970 and the company specialized in dyeing, taking 75% of the domestic market share for dyeing denim in 1977. The company is currently engaged in all processes from spinning to finishing. Levi, Edwin and Gap are among its customers.

Kaihara Corporation  
1450, Tsune, Shinichi-cho  
Fukuyama-shi, Hiroshima-ken 729-3107  
Tel.: 0847-57-8111  
URL: <http://www.kaihara-denim.com>

### **Maruho**

Founded in Osaka in 1915. A manufacturer of pharmaceuticals for therapeutic use. The company specializes in external medications and in dermatology. It holds top domestic share in pharmaceuticals for dermatology. The company's long-term vision is to be "a boutique company for pharmaceutical products related to dermatology" and its goal is to make greater contributions to society through pharmaceutical products.

Maruho Co., Ltd.  
1-5-22, Nakatsu, Kita-ku  
Osaka-shi 531-0071  
Tel.: 06-6371-8876  
URL: <http://www.maruho.co.jp>

### **MUJI**

MUJI was launched as a private brand for Seiyu products in 1980. Ryohin Keikaku became independent of Seiyu in 1989 as a manufacturer and retailer handling everything from design and development through sales. The company currently has 182 directly managed stores and 147 shops that offer its products. It has also opened 75 stores overseas, including a store in the U.S., in New York City last November.

Ryohin Keikaku Co., Ltd.  
4-26-3, Higashi Ikebukuro  
Toshima-ku, Tokyo 170-8424  
Tel.: 03-3989-4403  
(Gen. Affairs/Personnel, J-SOX Rep.)  
URL: <http://ryohin-keikaku.jp>