

Porter Prize

Winners Selection Rationale

This report has been written based on: (1) the materials submitted by the winner for Porter Prize screening purposes; (2) interviews conducted by the Porter Prize Organizing Committee; and (3) publicly available information. It is being published with the winner's permission.

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 profitability
2. Unique value proposition
3. Consistency of Strategy over Time
4. Innovation that Enabled 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.



Organizing Committee

Hitotsubashi University Business School
School of International Corporate Strategy

Sponsor

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Porter Prize 2002 Winners

Organizing Committee
Graduate School of International Corporate Strategy, Hitotsubashi University
2002 Sponsors
Daiwa Institute of Research Ltd.
Accenture Japan Ltd.

◆ Single-Business Company Category Winners

ASKUL Corporation

(Mail Order of General Merchandise)

Unique target market in the form of small and medium enterprises and continuous innovation in its operations

Takeda Chemical Industries, Ltd.

(Pharmaceutical Manufacturer)

Outstanding strategy implementation and pipeline management to win with a strategy of focus, while other mega-pharmaceutical companies pursue scale

◆ Division of Multiple-Business Company Category Winners

Corporate Finance Section, ORIX Corporation

(General Finance)

Using its grasp of the needs of small and medium enterprises and its exceptional financing capability to cross-sell 40 types of financial products and services through offices located across the nation

Selection Rationale (Recipients are addressed in no particular order):

ASKUL Corporation

Unique target market in the form of small and medium enterprises and continuous innovation in its operations

Unique Value Proposition

The definitive aspect of ASKUL's strategy is that it provides value that was previously nonexistent in the industry. The strategy targets small and medium enterprises that normally purchase office supplies at suggested retail prices from local stores and offers them a wide selection of products at low prices and with rapid delivery. More recently, the company is not only selling goods, but also applying the interactive communications made possible by the Internet to offer customer budget management and other solutions. This new value proposition was made possible by innovative systems. These systems opened the door to the possibility of developing customers among the myriad of small and medium enterprises by employing local office supply stores as "agents" and to the possibility of putting to work the face-to-face relationship between local office supply stores and customers to manage receivables.

Strategy Continuity Over Time: ASKUL's product selection and services have rapidly expanded as the company has recognized customer needs. This is demonstrated in the company's construction of a system that evolves – the result of the innovative concept, "ASKUL=Platform." As a "platform," ASKUL controls the Demand Chain Management system and the Customer Relationship database and system. It then serves the needs of small and medium enterprises by making this infrastructure available to trading companies, manufacturers, financial services companies and other "marketing partners."

While the goods and services, as well as the companies participating in ASKUL's value chain change, there is continuity in the strategy. ASKUL's target customer, small and medium enterprises, has been the same since the company got its start as a division of the office supply manufacturer, PLUS Corporation. And the same is true of the system of collaborating with agents. What has changed is the value proposition. Whereas only PLUS products were offered under the original strategy, the company made a strategic modification over 1994-95 to offer the products that customers want, regardless of the manufacturer. The value proposition of providing the goods that customers want at low prices and with rapid delivery has remained the same since.

Profitability: ASKUL made its initial public offering on the over-the-counter market in 2000 and used the capital it gathered to consolidate its distribution centers and introduce a Demand Chain Management system. With the help of those investments, ASKUL's return on invested capital, which fell below the prior-year result in 2000, has consistently exceeded the industry average by a wide margin. The same can be said of ASKUL's profit margin.

Profitability

Return on Invested Capital (ROIC)

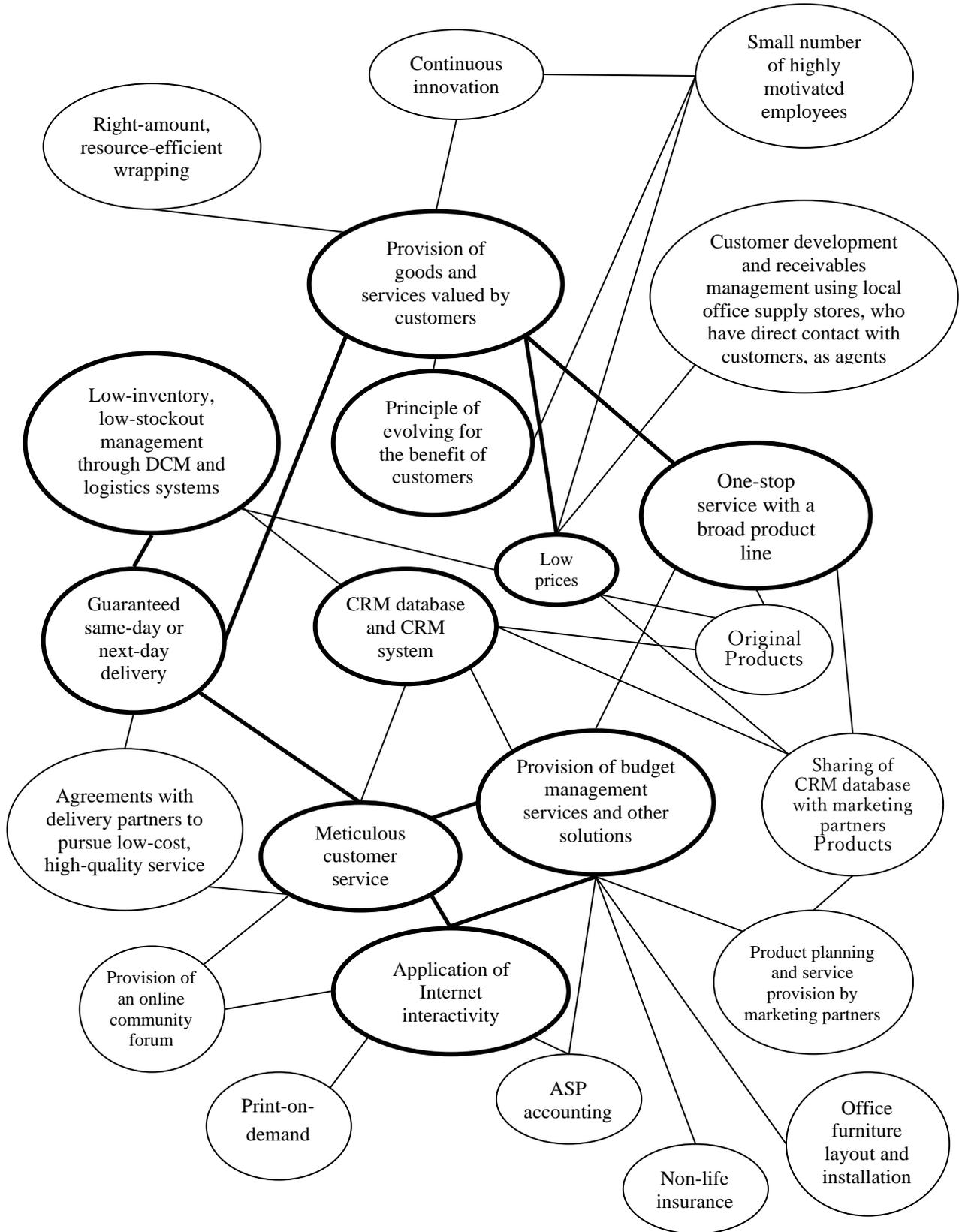
(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 37.3%	Difference from the Industry Average for Each Year				
	1997	1998	1999	2000	2001
	69.12%	116.01%	119.43%	21.3%	26.32%

Return on Sales (ROS)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 1.35%	Difference from the Industry Average for Each Year				
	1997	1998	1999	2000	2001
	4.72%	2.39%	0.10%	-0.37%	1.72%



Selection Rationale (Recipients are addressed in no particular order):

Takeda Chemical Industries, Ltd.

Outstanding strategy implementation and pipeline management to win with a strategy of focus, while other mega-pharmaceutical companies pursue scale

Unique Value Proposition

Providing pharmaceuticals and information in four core therapeutic areas consisting primarily of lifestyle diseases is Takeda's value proposition. Takeda focuses its development and marketing activities on these areas. Through both in-house development and aggressive licensing, it has pulled together a robust product line targeting core therapeutic areas. Furthermore, by accumulating knowledge and applying it to attain qualitative improvements, and by efficiently using IT resources, its MRs have achieved the highest customer satisfaction in the industry, despite greater numbers of MRs at competing companies. This is the result of a clear trade-off of those characteristics sought after by the world's mega-pharmaceutical companies, which use M&A to increase their scale and, thereby, broaden their research and development activities and expand their pipelines.

Innovations That Enable the Strategy

The strategy of concentrating on strategically selected areas, while also looking for market opportunities and paying close attention to knowledge accumulation is one that includes as an integral element a focus on four core therapeutic areas – 1) diabetes; 2) cancer, urological disease and digestive tract diseases; 3) circulatory and central nervous system diseases; and 4) allergies and diseases of the bones and joints. Another integral element is the transfer of bulk vitamin and other non-medical operations to other companies or joint ventures. However, implementing a strategy of focus in the pharmaceutical industry, where the risk associated with research and development is high, is no simple matter. Weekly general product strategy meetings in which strategies are determined in a top-down system led by the CEO enable rapid judgments and decision-making under conditions of extreme uncertainty and allow the organization to take strategic action. In turn, rapid decision-making makes efficient research and development possible. Takeda is able to make judgments regarding risks associated with development process overlapping and make decisions (for example on whether to license or develop in house) with appropriate timing. It has also built an organization suited to its strategy. By introducing transparency to its personnel evaluation system and basing its compensation system on performance, Takeda has created an organization that appreciates actions consistent with its clearly delineated strategy.

Focusing on particular areas makes it necessary to pursue sales widely throughout the world and Takeda was one of the very first Japanese pharmaceutical companies to establish a marketing operation in the US, the world's largest market. In recent years, Takeda has made sales companies in Europe and other place wholly owned subsidiaries in a move to increase its marketing power.

Profitability

Takeda's return on invested capital and profit margin exceed industry averages and are doing so by margins that widen with each year.

Return on Invested Capital (ROIC)

(Unit: Percentage points)

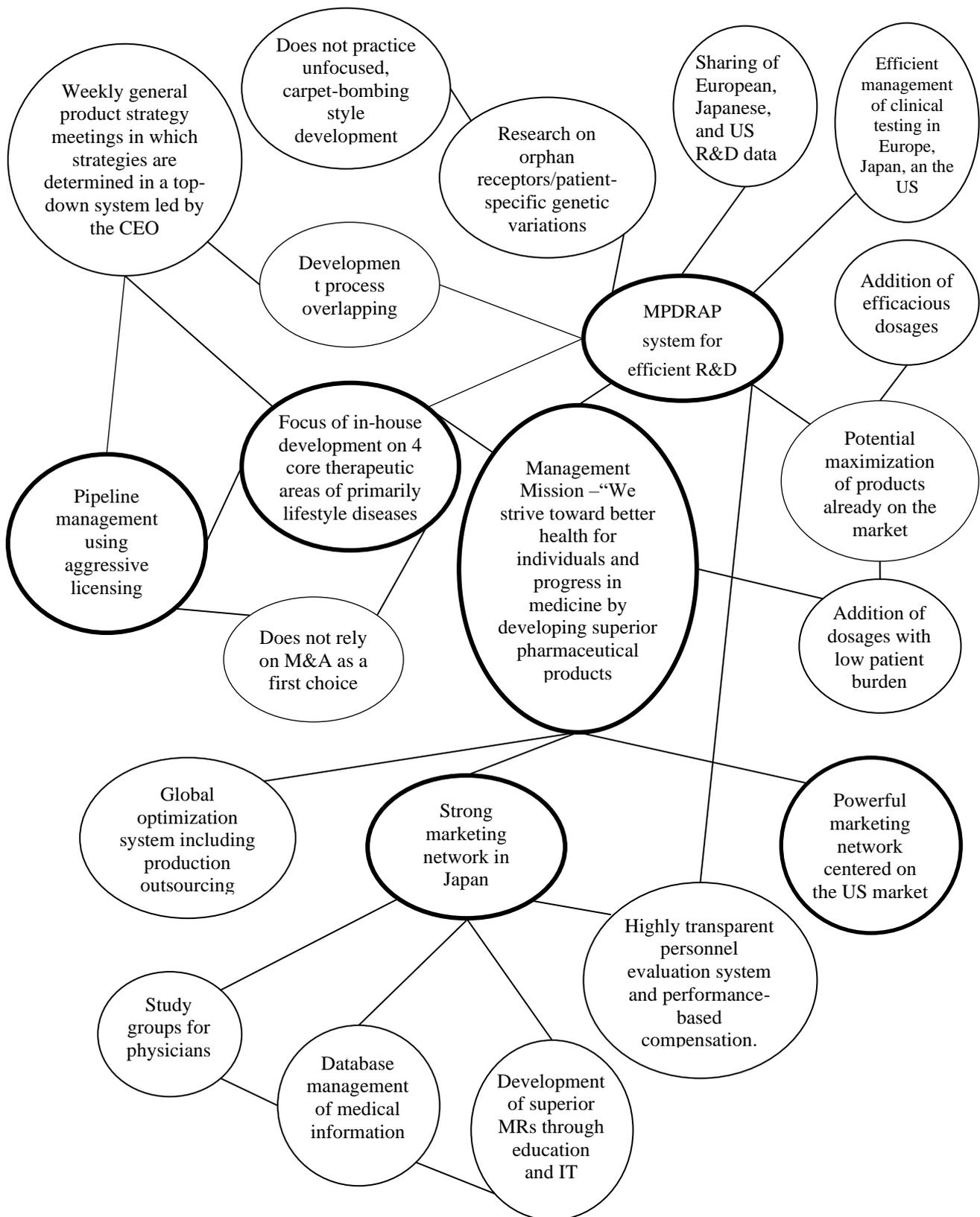
5-Yr. Avg. Margin Above Industry 5.63%	Difference from the Industry Average for Each Year				
	1997	1998	1999	2000	2001
	1.03%	2.22%	2.47%	5.49%	15.97%

Return on Sales (ROS)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 4.96%	Difference from the Industry Average for Each Year				
	1997	1998	1999	2000	2001
	-0.56%	1.11%	1.00%	5.92%	18.49%

Activity System Map--- Takeda Chemical Industries, Ltd.



Selection Rationale (Recipients are addressed in no particular order):

Corporate Finance Section, ORIX Corporation

Using its grasp of the needs of small and medium enterprises and its exceptional financing capability to cross-sell 40 types of financial products and services through offices located across the nation

Unique Value Proposition

ORIX Corporation's Corporate Finance Section offers the presidents of small and medium enterprises of both intermediate scale and stability one-stop access to the various financial products and services they need, through 644 business offices located across the nation. This unit has assembled the systems necessary for cross-selling a wide variety of products. For example, each business office's marketing team – not specialized departments – develops plans and creates custom proposals for each customer. These plans and proposals are accumulated and shared, as is know-how for offering solutions to customers, and marketing is a joint effort of product specialists and marketing teams. Furthermore, credit-granting and research capabilities are found not only in the headquarters, but also in individual business offices. And the evaluation system rating marketing staff and business offices is unique for its focus on gross profit, provision and sharing of information, etc.

Differentiation Based on Customer Needs:

ORIX has created the optimal system for meeting the financing needs of the presidents of small and medium enterprises. This system is characterized by the existence of 644 business offices located across the nation because customers are also located across the nation. Furthermore, the cross-selling of various products and services by individual employees appropriately addresses the needs of small and medium enterprises where the primary decision-making power is concentrated in presidents. And the examination capabilities necessary for financing small and medium enterprises has, through leasing operations that are essentially unsecured financing, been accumulated in each business office.

Profitability

ORIX's return on invested capital exceeds the industry average, and its profit margin greatly exceeds the industry average. The margin of superiority for both is increasing year-by-year and both are rising in absolute terms, as well. It should be noted that the Corporate Finance Section sells the products of other business units and that sales and profit figures for these products accrue to those other business units. This means that they financial results of the Corporate Finance Section are conservatively stated.

Return on Invested Capital (ROIC)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 0.40%	Difference from the Industry Average for Each Year				
	1997	1998	1999	2000	2001
	0.23%	-0.60%	0.53%	0.785%	1.13%

Return on Sales (ROS)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 19.67%	Difference from the Industry Average for Each Year				
	1997	1998	1999	2000	2001
	16.55%	11.29%	19.35%	22.15%	28.09%

Note 1: Return on Invested Capital = Consolidated invested capital × the Corporate Finance's percentage share of consolidated invested capital / Operating profit.

Note 2: Profit Margin = Operating profit / Operating revenue.

Note 3: ORIX reports accounting information in conformity with US GAAP. If it were to report accounting information in conformity with Japan GAAP, the difference between its performance measures and industry averages would be even greater. Regarding profit margin, this figure should be viewed with the understanding that in the financial sector, profit margin differs significantly among companies due to their individual accounting practices. The Porter Prize Organizing Committee has taken account of this situation and has attempted to at least partially deal with it by computing industry averages with samples of sufficient size.

