# 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

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# Porter Prize 2004 Winners

Organizing Committee
Graduate School of International Corporate Strategy, Hitotsubashi University
2004 Sponsors
Daiwa Institute of Research Ltd.
Monitor Group

## ◆ Single Business Category Winners

### DAIDO LIFE INSURANCE (Life Insurance)

Unique sales systems whereby the company provides death risk coverage to owners of small and medium-sized enterprises (SMEs), and also arranges sales alliances with associations of small businesses and organizations of CPAs and certified tax advisors, as well as appoints CPAs and tax advisors as insurance sales agents.

### PHOENIX Electric Co., Ltd. (Electric Light Bulb and Tube Manufacturing)

Provision of flexibility in product design and the assurance of high quality at a low cost to customers, through the establishment of a unique system for allocating responsibility among its customers and manufacturing partners, despite having a highly specialized technological product – a super-high-voltage mercury lamp used in projectors and large-screen rear projection TVs, which requires exact matching and customization to fit other components, such as an electric power stabilizer.

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

## DAIDO LIFE INSURANCE

Unique sales systems whereby the company provides death risk coverage to owners of small and medium-sized enterprises (SMEs), and also arranges sales alliances with associations of small businesses and organizations of CPAs and certified tax advisors, as well as appoints CPAs and tax advisors as insurance sales agents.

Daido Life ranks eighth in the industry in terms of total assets, accounting for only 3.3% of the industry's total assets. However, Daido focuses on small businesses, and serves 380,000 corporate clients, which represent 21% of Japan's 1.82 million SMEs, according to the Establishment and Enterprise Census of Japan (2001), conducted by the Ministry of Public Management, Home Affairs, Posts and Telecommunications (MPHPT). Daido also holds a 23.1% share of the market for individual term insurance policies, a product category that precisely meets the needs of the SME market.

### Unique Value Proposition

Daido Life provides insurance products that cover risk exposure for corporations primarily in the death of the business owner or president. Daido specializes in individual term insurance policies (death benefits are available only during a specified term) catering to the specific needs of its target segment. Individual term insurance products accounted for more than 89% of Daido's total sales in 2003. With this type of insurance, the policyholder is a corporation (covering the death risk of the owner/president as the insured), and the beneficiary is also the corporation.

**Value to client companies**

Daido's insurance products are meticulously designed to meet the specific needs of SMEs. For example, Daido offers super-long-term life insurance coverage for a company president/owner up to the age of 100, which can be converted into both a death payout and retirement allowance for the president/owner. Another example of a plan that caters to the specific needs of its customers is the ability of Daido to increase its insurance premium if the company is on a growth trajectory or if the insured individual is promoted. It can also reduce the premium if the company's debt position improves. Daido's system allows for revisions in policy items so that insurance policy contents can be adjusted taking into account changes in a company's operating environment.

Daido has also established alliances with property and casualty insurance firms to offer packages which combine life insurance with property and casualty insurance. Through these combined insurance products, Daido is able to extend broader coverage to SMEs beyond the scope of conventional life insurance polices, and thus more precisely meet their specific needs. Moreoever, such broad combined coverage can easily be arranged by any of Daido's sales agents.

Furthermore, Daido not only offers insurance products to SMEs but also provides information and consultation on labor management issues and the low interest rate loans extended by government agencies. Daido has developed tie-ups with SME-related national organizations, such as the Tax Payment Associations (TPA). The insurance products extended by these associations to their members are made available at a group insurance rate that is much lower than the premium rates available to an individual SME in its purchase of insurance for its employees.

Daido has developed sales agent contracts with many certified public accountants (CPAs) and tax accountants (CPTAs). As a result, CPAs and CPTAs can recommend insurance products as a part of their consultations on financial and tax matters. This, in turn, represents high value to client companies.

**Value to Sales Agents and Affiliates**

For CPAs and CPTAs, the inclusion of insurance products in their management counseling services means enhancing the added value of their professional services, in addition to the extra commissions received from Daido as payment for their sales agent services. Organizations and associations to which SMEs belong can expand and enrich the welfare programs they offer to their members, on top of gaining administrative fee income from Daido.

To sum up, Daido's partners, by participating in the company's sales channel, can provide value to the final customer (SMEs), while receiving value from Daido. Meanwhile, Daido gains substantial value from the efficient sales activities carried out by its partners. Thus, all three parties enjoy a "win-win" relationship.

## Unique Value Chain

**Solicitation System (Solicitation, Sales and Premium Collection)**

Daido Life's sales channel structure comprises two channels. The primary sales channel consists of accountants and tax accountants as sales agents, who belong either to the TKC National Federation (the largest professional organization of certified accountants in Japan, with 8,800 members collectively serving 550,000 companies as clients) or a separate nationwide co-op of tax accountants. These accountants undertake sales activities, verify application forms, follow up on premium payments, and conduct other administrative activities, including making changes to insurance policies or canceling them for their client companies. They receive service fees from Daido as a sales commission, while the TKC National Federation and the co-op of tax accountants receive administrative service fees from Daido for group insurance.

The secondary sales channel consists of unique sales activities conducted by the sales representatives who make sales calls through industry associations, such as the National Federation of Corporate Management Association (with about 1,190,000 member companies) and the National Federation of Corporate Taxpayers Association (120,000 corporate members). They collaborate with these organizations to which their client companies belong, in conducting their sales activities. Firstly, their primary method for attracting new customers is to target the corporate members of these organizations. The marketing activities for acquiring new customers are either conducted in collaboration with these organizations, or through introductions from accountants or tax accountants. These approaches are more effective than developing a new operational base for sales representatives. (Daido has 50,000 sales representatives.) In addition to their sales activities, these representatives conduct administrative duties, which include the processing of applications, the payment of insurance, and the cancellation of insurance. These organizations collect the insurance premiums for Daido's institutional products, and receive administrative service fees from Daido for sales of group insurance products.

Daido is the only life insurance company that has established tie-ups with the TKC National Federation, the Japan Federation of CPTAs Cooperative Association, the National Federation of Corporate Management Association, and the National Federation of Corporate Taxpayers Association. (As for the last two organizations, other insurance companies provide medical insurance).

**Product Development**

Daido's product development focuses only on insurance products that meet the needs of SMEs. In its core product area of group insurance, Daido conducts development jointly with each organization, and creates products that are only available from Daido.

**Customer Maintenance and Support to Customers**

Daido Life tries to meet peripheral needs related to the insurance products of its customers, which are SMEs. Its efforts include, for example, (1) providing information regarding accounting processing methods for paid premiums or policy dividends paid to policyholders in time for each customer's bookclosing at the fiscal year-end; (2) extending free-of-charge personnel and labor management advisory services, which include an assessment of the rules of employment and the provision of templates for company rule changes; (3) making available various special discounts for lodging accommodations and rental car services to policyholder companies and their employees, to supplement the lack of employee welfare programs at many SMEs; and (4) hosting seminars on corporate management and various business issues, which can also be viewed on videotape.

**Support for Sales Partners**

Daido carries out training programs for those tax accountants who lack experience or expertise regarding the proposal of insurance products and the closing of insurance contracts. It has also developed an insurance counseling support system, a tool for efficiently providing guidance on how to calculate the appropriate amount to be insured. This system works in tandem with an accounting system provided by the TKC National Federation to its member public accountants and tax accountants. Daido also provides support to tax accountants who are members of the Japan Federation of CPTAs Cooperative Association, utilizing an online network, which makes available information on existing insurance coverage, and provides design tools for Daido's institutional products.

**Administrative Processing Operations**

In October 2001, Daido Life and Taiyo Life Insurance integrated their systems departments, creating a separate subsidiary to carry out systems development and maintenance. As a result, only the systems planning function was left at the Daido headquarters. In November 2001, an administrative service subsidiary was created to absorb insurance back-office functions, which include application handling and policy maintenance and management. This administrative services subsidiary was merged with a similar subsidiary of Taiyo Life in April 2004. Each of these steps helps to raise efficiency and reduce costs.

**Asset Management**

Since SMEs' key criteria in choosing an insurance company is primarily financial health, Daido places a greater priority on ensuring stable returns than on achieving high returns in its asset management policy.

## Fit among Activities

Daido has selected SMEs as its target market, and focuses on individual term life insurance as the core product that best fits the needs of this target market. It has developed and established sales tie-ups with SME-related associations and organizations, as well as with public and tax accountants, who counsel SMEs. Both of these approaches are highly efficient and attractive means for reaching the target market. Daido jointly carries out various activities with these organizations, including the development, design and marketing of institutional products, and also consigns to them the collections of premiums. Daido also recruits CPAs and CPTAs as sales agents.

The above system which Daido has created not only provides benefit to every participant – Daido Life, the organizations with which tie-ups have been formed, CPAs and CPTAs, as well as customer SMEs. The participants also mutually reinforce the system through their own efforts. Thus, the system creates "win-win" relationships, constructing very excellent fits across the target customer, product, sales channel, and administrative operations. (Please refer to the attached "Activity System Map" for a more detailed account of the relationship between these activities.)

## Innovation that Enabled Strategy

- In order to realize efficient premium-collection operations, Daido persuaded and worked with the Association of City Banks and the Association of Regional Banks to develop a unified premium withdrawal system available nationwide. Up until the time this change was effected in 1971, each bank had to establish its own premium withdrawal process, and withdrawal processing for an insurance company became unnecessarily complicated by having to deal with the different procedural requirements of each bank. In other cases, insurance companies had to create a group of staff specialized in premium collections to make visits to policyholders.

- To insure against the risk of death of SME presidents/owners, Daido developed a product package that includes life insurance and casualty insurance, with maximum coverage up to ¥100 million in 1971, at a time when individual life insurance products usually offered protection up to only ¥10 million. In those days, it was prohibited for an insurance company to sell both life insurance, and property and casualty insurance. Daido had to train each member of its sales staff, and required them to pass the examination required for becoming authorized to sell property and casualty insurance. The employees were then registered, thereby becoming able to sell the different insurance products as a set.
- In 1976, Daido began appointing as sales agents certified public tax accountants who belonged to the TKC National Federation. It was the first institutional attempt to organize accountants as sales agents in the life insurance industry.
- Daido developed an insurance-product training system that harmonizes with the accounting system TKC provides to its members, and made this training system available to its tax accountant sales agents in 1988. This enabled TKC tax accountants to efficiently carry out insurance-related consulting and develop proposals for their client SMEs.
- Daido shifted the emphasis of its asset management policy from profitability to stability, as early as 1991, earlier than any other life insurance company in Japan. More specifically, it reduced the proportion of domestic stocks and foreign securities in its portfolio while increasing the proportion of government bonds. As a result of maintaining this policy, Daido's solvency margin ratio, a key indicator of financial health for insurance companies, was among the highest in Japan in 2003.
- In 2000, Daito began offering an accounting processing service for insurance-related items of policyholder SMEs. Noting that the accounting staff in SMEs are not necessarily trained in insurance-related accounting, Daido started advising SMEs on accounting procedures for insurance-related entry items, including paid premium and policyholder dividends, in time for each client's fiscal year-end. Daido was the first in the industry to provide such a service.
- In 2001, Daido started offering on-line services for corporate policyholders, allowing them to verify policy contents or apply for a policy loan via the Internet, another first among life insurance companies in Japan. In addition, Daido's on-line policy loans were processed extremely quickly, so that a loan application completed by 11:00 a.m. would result in a bank transfer of the loan that same day, an attractive feature for any SME that might have a sudden need for cash.
- In 2004, Daido started to implement a system linked to its call center, whereby a sales agent who is scheduled to visit a customer can listen to and confirm the previous recording of the call made by a call center staff member to the customer. This system marks another innovation in the industry.

## Consistency of Strategy over Time

Daido's focus on the SME market, which lead to its development of group life insurance products designed for various SME-related associations, and to a sales tie-up with such associations, began in 1971 when it agreed to underwrite group life insurance for an SME association. Ever since, Daido has maintained and even strengthened its focus on SMEs. For example, regarding the public accountant and tax accountant channel, the tie-up with the TKC National Federation in 1974 was Daido's first, and it gradually built a sales channel through this tie-up. However, in 1996, Daido started to concentrate its efforts on negotiating with each local CPTAs cooperative association to establish a tie-up with the aim of involving more tax accountants and strengthening the channel. As a result, the ratio of members of CPTAs cooperative associations among Daido's all tax accountant sales agents increased from less than 30% in 1995 to almost 50% in September 2004. The number of tax accounting offices that have signed insurance sales agent contracts with Daido has grown to as many as 10,000 today, including both TKC National Federation members and members of the National Federation of CPTAs Cooperative Associations. This represents about 30% of the 33,000 tax accountant offices in Japan.

Daido has also been continuously innovative in the development of insurance products for SMEs and support services for the organizations with which it has formed tie-ups and for the sales agents in its extensive network. Thus, Daido has consistently been focusing and reinforcing its strategy to target the SME market, making best use of tie-ups with SME organizations and associations of tax accountants.

## Trade-offs

- Daido made a conscious choice to not compete in the life insurance market for individuals, and deciding against adopting a sales approach involving visits to individuals at their homes or offices.
- Daido does not sell a whole life insurance policy with a term rider or an endowment insurance policy with a term rider, both of which are positioned as key products by other major life insurers, which target the individual market and offer life protection combined with a certain savings function. The reason for Daido's decision is that such products do not fit the needs of SMEs in terms of product features or tax benefits. Term insurance as a product offers a higher level of profitability for an insurance company compared with insurance products that include a savings function, which is important for individuals.
- Daido chose not to engage in price competition. Individual term insurance is a product that is easy for customers to understand. This characteristic often leads to price competition. Because of new entrants, primarily from abroad, competition in the life insurance industry in Japan has been intensifying. This has resulted in reduced premium rates for individual term insurance policies and lower fees paid out to insurance sales agents. However, Daido chose not to involve itself in price competition, but by improving its sales and support services and by emphasizing joint activities with organizations through a tie-up relationship, it has been able to increase sales of new policies and maintain existing policies with a low surrender rate.

## Profitability

Daido's return on invested capital has consistently been better than the average return for the life insurance industry. Its return on sales has also been higher than the industry average.

**Return on Invested Capital (ROIC)** (Unit: Percentage points)

| 5-Yr. Avg. Margin Above Industry | Annual Margin Above Industry | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| 27.7% | 21.3% | 41.3% | 23.0% | 23.0% | 40.2% |

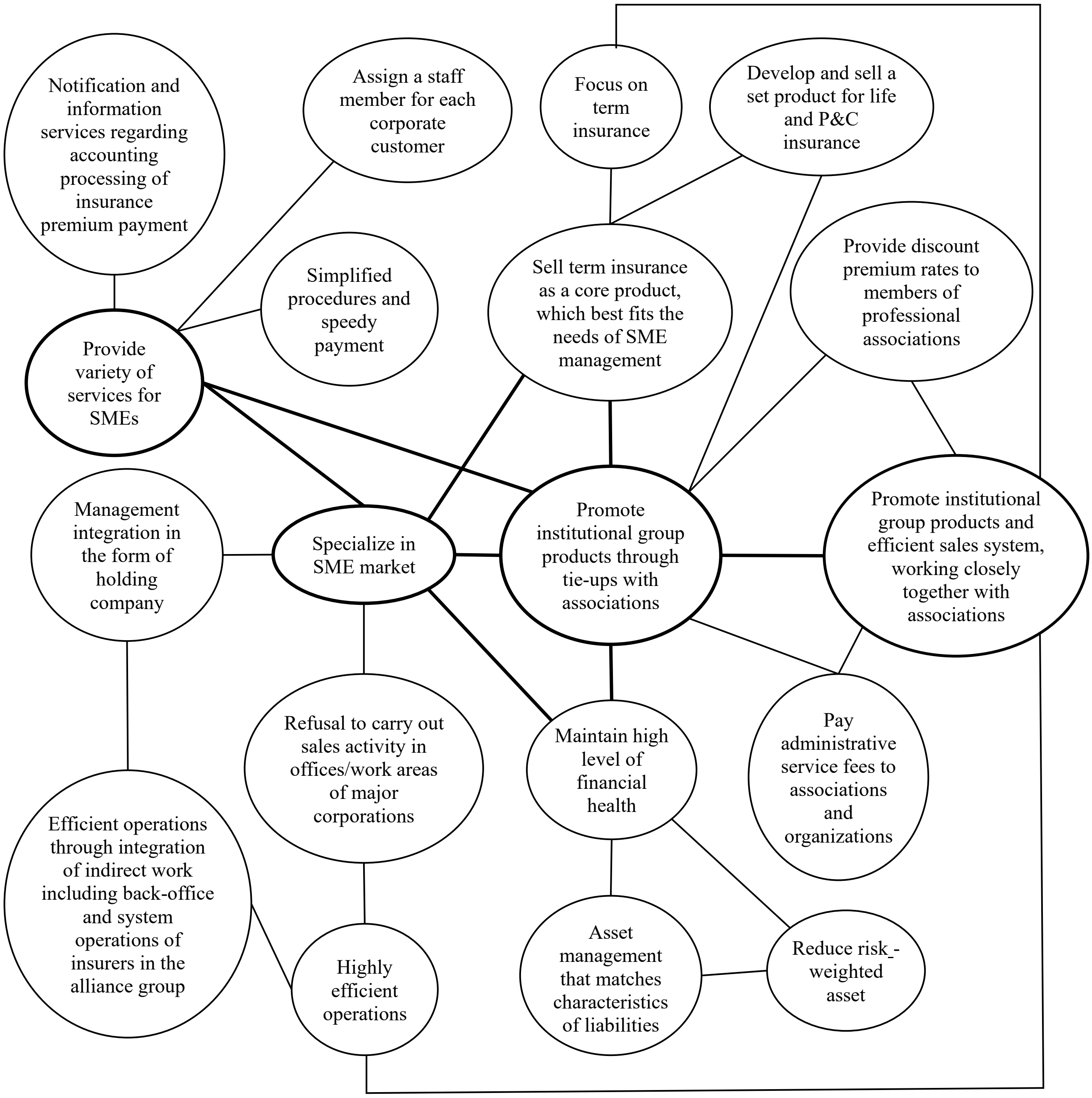
Note: Return on Invested Capital = Operating Profit / (Shareholders Equity + Long-term Debt + Short-term Debt – Cash at hand

**Return on Sales (ROS)** (Unit: Percentage points)

| 5-Yr. Avg. Margin Above Industry | Annual Margin Above Industry | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| 1.7% | -2.9% | 1.6% | 2.5% | 1.9% | 1.8% |

Note: Return on Sales = Operating Profit/Operating Revenue; compared to all the life insurance companies listed on the Tokyo Stock Exchange

## Activity System Map of Daido Life Insurance Company



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

# Phoenix Electric

**Provision of flexibility in product design and the assurance of high quality at a low cost to customers, through the establishment of a unique system for allocating responsibility among its customers and manufacturing partners, despite having a highly specialized technological product – a super-high-voltage mercury lamp used in projectors and large-screen rear projection TVs, which requires exact matching and customization to fit other components, such as an electric power stabilizer.**

Phoenix Electric is an electric lamp manufacturer specializing in projector lamps. With sales of ¥6,570 million yen at the end of fiscal 2003, (ended March 2004), it was less than one-tenth the size of its major competitors, and yet it had far outpaced competitors in terms of profitability.

## Unique Value Proposition

Phoenix Electric focuses on super-high-voltage mercury lamps for projectors and rear-projection TVs, which account for 80% of total sales. The markets for both projectors and rear-projection TVs have grown rapidly, driven by the simultaneous pursuit of technological innovations and price reductions. The projection lamp is one of the key components in both products, and the customer (appliance set manufacturers) expects not only enhanced functional performance but also a low price. (The other key component is an image element, such as a LCD panel, and both the projection lamps and image elements largely determine the performance of a completed set.)

Target customers of Phoenix are companies which aim to differentiate themselves in terms of function, and the use of Phoenix's superior lamp would enable them to develop a unique set product. To this end, Phoenix attends fully to its individual customers with flexibility and speed, undertaking product development, production and after-sales service. As a result, customers will have more options for the products they purchase from Phoenix, and achieve more freedom in design with the technological support in set product development.

Furthermore, Phoenix sets its prices lower those offered by the industry leader, which sells standardized products and does not customize products for individual customers. Phoenix has a low-cost structure, while maintaining high profitability, and provides its services at a relatively low price.

## Unique Value Chain

**Product Development**

Phoenix Electric develops high-performance products using proprietary technology. Long before any of its competitors, Phoenix had developed new technology specifically for rear projection TVs at a time when other companies were simply modifying existing projector lamp technology to convert their lamps for use in rear projection TVs. As a result, Phoenix products achieved significant differentiation through the inclusion of distinctive features, such as the complete enclosure of the lamp to prevent an explosion (no other company offers this product feature), a lower voltage start-up (at 2,500V, compared with the 50,000V needed for competitors' products), variable output according to ambient brightness (in the range of 100 – 150W), and an instant restart.

**Marketing and Sales**

Phoenix engineers participate in its customers' product development process from the early stage of set design. They cooperate and provide technological assistance, so that Phoenix lamps can achieve the maximum performance when built into the customer's set, by testing and evaluating the condition of lamp usage in the completed set. (This high-performance special lamp is exposed to extremely harsh usage conditions, and the lamp can not perform at its best, and may even explode or experience a reduced useful life if the required correct usage conditions are not met in terms of air-cooling capacity and the compatibility with the voltage stabilizer, and the optical system of the set.)

As Phoenix carries out sales through close involvement in the customer's product development process, it does not rely on intermediaries but sells directly to its customers. Customers highly appreciate this close working relationship. Phoenix is also selective in its choice of customers, targeting those who do not possess strong price bargaining power. It constantly seeks new customers, and consequently serves a larger number of customers than its competitors.

**Manufacturing**

Phoenix has developed its own unique production method (with a number of patents registered), and is able to realize high-performance products that offer high quality and a much higher yield than its competitors (Phoenix achieves a yield of 65 – 70%, compared to the 50 – 60% of other competitors.)

Phoenix develops and designs all of its production facilities and equipment, which combines cell production methods with conveyer methods. As a result, Phoenix can produce as little as a single unit of any given model from among a variety of different models. It can also conduct small-lot multiple-model production on its production line. As a result, it can accept small-lot production orders of as few as 80 pieces. Furthermore, it also has achieved a very short delivery time of 10 days, completing everything from materials procurement to production completion in that time. (Competitors' delivery times range from 1 to 3 months.)

Phoenix's production process structure is based on an allocation of responsibility through a division of labor. Phoenix supplies light bulbs to its manufacturing partner in China, which assembles the final component. Because of the lower level of profit margin demanded by the partner, Phoenix is able to offer the final assembled component at a lower price than would be possible if it were to completed the whole process (through assembly) on its own. In contrast, other competitors who produce in China have not been able to achieve much cost savings by merely taking advantage of the lower labor cost.

**Purchasing**

Phoenix actively seeks new supply sources overseas. For most of the suppliers Phoenix appoints, Phoenix is their first export customer in Japan.

**Quality Assurance**

Given the extremely hard usage conditions to which super-high-voltage mercury lamps are exposed, it is not unusual that problems occur. However, difficulties most often arise as a result of problems with the set or mishandling by customers. When encountering such a situation, Phoenix does not simply find fault with the set or with the customer's handling, but makes efforts to solve the problem by collaborating with the set manufacturer. If the set manufacturer cannot solve the problem on its own, Phoenix would go as far as to redesign the lamp. Phoenix also provides direct customers and set manufacturers with all product information for each individual component, including in-house quality test results for each step of the manufacturing process, as well as performance data, so that set manufacturers can go back to their production process and verify the quality information on their own.

**Personnel and Labor Management**

Phoenix implements a stock option program for all of its employees. This program was introduced while Phoenix was going through a turn-around, and it was the first company in Japan to implement a stock option program as part of its turn-around action plan. Phoenix distributes 6.6% of its operating profit as a bonus at the close of its financial year, on top of the semi-annual bonuses.

## Fit among Activities

The super-high-voltage mercury lamps in which Phoenix Electric specializes are prone to problems, such as a failure to perform as intended, explosions, and shortened lives, possibly caused by insufficient air cooling, or a mismatch with either optical systems or set designs. In other words, the lamp is a component that must be integrated into the completed set. To meet this requirement, Phoenix provides support and assistance to both the set manufacturers and production partners to ensure the deliverance of completed sets which meet performance specifications and quality standards, and Phoenix produces in-house only the high value-added parts.

Since Phoenix has selected as its target customers assembled set manufacturers, it was imperative that it develop an activity structure that would allow for product flexibility and maintain functional integrity with the set as a whole.

As outlined above, Phoenix Electric achieved a perfect fit across its target customer, product architecture and activities through unique means not found in any other company.

(Please refer to the attached "Activity System Map" for a more detailed account of the relationship between these activities.)

## Innovation that Enabled Strategy

- Phoenix delineates its product boundaries in unconventional ways. While competitors assemble the light tube, light bulb, reflector, and stabilizer and sell the product as a complete set to the customers for quality assurance purposes, Phoenix manufacturers sells only the lamp assembly unit. In order to ensure the high performance of its lamps, Phoenix openly discloses the required specifications of the power stabilizer that matches its products. Thus, customers can exercise a choice in sourcing, either by manufacturing the stabilizer themselves or by procuring a stabilizer from one of the specified stabilizer manufacturers.
- Phoenix has established a unique way of allocating responsibility in its production flow through a division of labor. Phoenix only manufactures light tubes, the most profitable part requiring high precision and state-of-the-art technology, while its production partner in China handles final assembly. Phoenix ensures manufacturing efficiency and enhanced quality by providing in-house developed manufacturing equipment, as well as by offering training in manufacturing technology to its partner in China. These activities also reinforce a relationship of mutual dependency between Phoenix and its production partner. Phoenix tests the quality of the final assembled units, and guarantees the quality of the finished product. For the set-manufacturing customers, the sourcing of Phoenix products enables the lower pricing of their sets, while Phoenix can enjoy and maintain a high level of profitability.
- Phoenix has developed and patented a unique method for manufacturing its lamps using a double sealing structure. With this technology, Phoenix can manufacture high-performance products at low cost, as it enables higher wattage and greater durability with a much improved manufacturing yield.
- Phoenix also has developed a quality management system (a trace-back system) that enables quality assurance even in cases of small-lot, multi-model production.

## Consistency of Strategy over Time

In November 1995, Phoenix Electric filed for Chapter 11 bankruptcy protection in Japan and experienced de facto bankruptcy. Prior to this unfortunate event, Phoenix was a large-lot, narrow product-line manufacturer with a focus on halogen lamps for general lighting use, metal halide lamps, and halogen lamps for bicycles. Although most of these products were sold in large quantities, the profit margin was thin.

After filing for bankruptcy, Phoenix made a major shift in its strategy. Phoenix selected projector lamps as its target market, a market in which it could differentiate itself from its competitors primarily by taking advantage of metal halide arc lamps. Ever since, it has consistently been focusing on improving customers' convenience by cultivating close working relationships, and by conducting flexible and speedy small-lot production of multiple models, focusing on high value-added activities.

## Trade-offs

- Phoenix Electric concentrates on lamps for projectors and rear projection TVs as its target product, and does not expand its product range.
- Phoenix does not compete on prices.
- Phoenix does not offer standard products in large volume.
- Phoenix does not compete to win the customers served by major competitors, such as Philips, Ushio Electric, Matsushita Electric, and Iwasaki Electric.
- Phoenix does not compete on prices to win a supply contract with major projector manufacturers.
- Phoenix has developed a direct sales channel through the maintenance of a close working relationship with the customer, and therefore, it does not sell its products through a third party, such as a trading company.
- Phoenix does not sell auxiliary parts to which it cannot provide any value added, such as power stabilizers, as a set together with the lamp assembly unit.
- Phoenix does not produce parts that can be manufactured either by its customers or by other manufacturers. Phoenix has already shifted production of such parts to its production partner or to its customers.
- Phoenix does not seek solely to maximize the size of its sales or profit. Instead, it seeks to maximize sales per employee and profit per employee as more important targets.

## Profitability

Phoenix Electric consistently surpasses the averages of the lamp manufacturing industry in both return on invested capital and return on sales, and its superiority in these indices are even showing an upward trend.

**Return on Invested Capital (ROIC)**

(Unit: Percentage points)

| 5-Yr. Avg. Margin Above Industry | Annual Margin Above Industry | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| 15.0% | -2.6% | 8.6% | 8.4% | 23.4% | 20.0% |

(Note: Return on Invested Capital = Operating Profit / (Shareholders Equity + Long-term Debt + Short-term Debt – Cash at hand)

Return on Sales (ROS)

(Unit: Percentage points)

| 5-Yr. Avg. Margin Above Industry | Annual Margin Above Industry | | | | |
|---|---|---|---|---|---|
| | 1999 | 2000 | 2001 | 2002 | 2003 |
| 8.6% | 3.3% | 8.2% | 6.1% | 11.3% | 10.4% |

(Note: Return on Sales = Operating Profit/Sales Revenue)

## Activity System Map of PHOENIX Electric Co., Ltd.