

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

Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

<https://www.porterprize.org> E-mail: porterprize@ics.hub.hit-u.ac.jp

Porter Prize 2006 Winners

Organizing Committee
Graduate School of International Corporate Strategy, Hitotsubashi University
2006 Sponsor
Daiwa Securities Group Inc.

◆ Single Business Category Winners

Gulliver International Co., Ltd. (Used car sales business)

Shifting the focus in the used-car sales business from sales to purchasing, thereby developing a new strategy that ensures a high level of customer satisfaction by offering a high purchase price for trade-ins and transparent pricing, while simultaneously achieving high profitability for the company.

BOOKOFF CORPORATION LIMITED (Used book store chain)

Creation of an innovative strategy for developing the second-hand book market for “ordinary books,” supported by a totally new method for setting the purchase price that is not based on the contents of a book but on its appearance, simplified store operations that involves the management of inventory through the use of colored labels, and a personnel management system to motivate and enhance the performance of part-time staff.

◆ Division of Multiple-Business Company Category Winners

Precision Micro Motor Division, NIDEC Corporation (Manufacturing of motors)

Specialization in brushless DC motors, and achieving an overwhelming share of the global market through innovations, flexibility in responding to customer needs in design and manufacturing, and active new customer development.

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

Gulliver International Co., Ltd.

Shifting the focus in the used-car sales business from sales to purchasing, thereby developing a new strategy that ensures a high level of customer satisfaction by offering a high purchase price for trade-ins and transparent pricing, while simultaneously achieving high profitability for the company.

Industry Background

The used-car sales industry in Japan faced various difficulties. First of all, used-cars are perishable merchandise with quick price erosion, which can occur in a very short period of time; therefore inventory management is the key to success in this business. This tendency is especially evident in Japan, where there is a short replacement or trade-in cycle for new cars and consequently an abundant supply of used cars in the market. As a result, if a used car which has been traded in is held for two or more weeks, the price must be lowered to attract buyers. At the same time, each individual used car is different from other cars of even the same model, and it may not match the needs of the customer who walks into a dealership. To solve this problem, used-car dealers keep many cars in their inventory so as to offer customers a larger selection and increase the likelihood of having on hand a model that meets their needs. However, this results in the need for a large display space and consequently pushes up landing lease fees and personnel costs. If used cars go unsold, the unsold inventory is then auctioned off to used-car wholesalers. The sales price of used cars at auctions should be lower than the retail price, but keeping a vehicle in inventory would invite a further deterioration in its price.

Another difficulty lies in the achievement of customer satisfaction. Each used car is different, and dealers have a major advantage over customers with regard to information concerning a vehicle's history. This lack of information puts customers at a disadvantage, and being unable to tell whether a car is reasonably priced they will not readily accept the offer price. Furthermore, under the conventional business model, used cars were purchased from the owner at the lowest possible price, and then resold at the highest possible price. This process, which fails to accommodate customers' needs, cannot deliver customer satisfaction.

Executive Summary

Gulliver International was founded in 1994. Since then, it has maintained its practice of holding used cars in its inventory for only 7 to 10 days to minimize price deterioration. This is an extremely short period of time, compared to the conventional industry practice of holding cars in inventory for 2 to 3 months on average. What made this possible was its decision to sell used cars at auction instead of selling them to retail customers, and Gulliver made the purchase of used cars from individuals a priority. Gulliver ensures a positive profit margin by offering owners a relatively high purchase price for used cars to build up its inventory, and then sells them as quickly as possible.

Gulliver expanded its sales channel from the conventional auctions for wholesalers to include online auctions, which Gulliver operates, and also online retail sales to individuals. Despite this sales channel expansion, the average duration of used cars held in inventory is the same (7 to 10 days), and this helps to improve Gulliver's profitability. In addition to improving its profit margin by selling to individuals, Gulliver receives handling commissions from auction operations. Furthermore, Gulliver undertakes the cross-selling of auto loans, auto insurance and quality guaranty services to used car buyers, which also helps it to improve profitability and achieve business growth.

Unique Value Proposition

The target customers of Gulliver International are car owners. With a brand strategy that emphasizes transparency in pricing and reliability through the full disclosure of purchasing assessment criteria, Gulliver earns the trust of sellers, and buying their cars at a high price wins their confidence. In this way, Gulliver successfully attracts car owners who otherwise would have traded in their cars to new car dealers.

Gulliver's policy of ensuring pricing transparency and reliability is also fully practiced in their used-car sales. Information on a specific individual car, including its repair history, is fully disclosed to buyers. As a result, 150,000 used cars have been sold to retail consumers since Gulliver started retail sales operations in 1998.

Unique Value Chain

Procurement

Some 60% of the used cars Gulliver purchases are brought into its outlets by the car owners, while the remaining 40% are a result of Gulliver staff visiting owners' homes to conduct vehicle inspections. Although staff assigned to local outlets carry out the actual inspections, the headquarters determines the purchase price. Its headquarters collects information on the used car transactions made at 150 auction locations all over Japan, and updates the database twice a week, reviewing the most recent half a million transactions to identify which models and colors are selling in a specific region. Based on this information, Gulliver is able to set a purchase price that is higher than those offered by its competitors for popular models.

Sales

Gulliver has four different methods for selling used-cars. The first method involves sales to other used car dealers through 150 auction sites all over Japan. Because of the high transportation costs involved, most used car dealers usually do not participate in auctions in remote locations. In contrast, Gulliver takes advantage of all opportunities to sell its inventory at a reasonably high price. It collects sales information on used car auctions held all over Japan, and identifies the local demand characteristics of each auction site (i.e. popular models, colors, and accessories, as well as the optional equipment installed), and draws on this knowledge of consumer preferences when making purchasing decisions. Based on an analysis of this data, the Gulliver's headquarters can quickly make a decision as to which auction site would be the best match for the used car it has purchased. As a result, the probability of a sale for the used cars Gulliver puts on auction is 70%, which is much higher than the industry average of 50%.

The second method is sales to individuals at Gulliver's outlets for a short period prior to the auctions. The details of Gulliver's inventory of 4,000 used cars are recorded and constantly updated on its database, and information for each car, including pictures, a detailed repair history, and notes about any scratches and dents, as well as the sales price can be retrieved on a PC at any one of the Gulliver's sales outlets. The third method is sales to other used car dealers using the same information platform as in the second method, through a "timed auction," in which the vehicle goes to the first bidder at a set price before a specified deadline. The fourth method is the real-time online auction also operated by Gulliver, and bidding is open to other used car dealers. The highest bidder wins the right to purchase the auctioned car. In any of these four methods, Gulliver's used cars are sold within 7 to 10 days from the date of purchase.

Delivery Transportation

Gulliver has established a car transportation subsidiary, and internally handles physical distribution.

After-Sales Service

Gulliver contacts each individual customer who has bought a used car after 1, 3, 6, and 12 months from the date of purchase. It inquires about the car's condition, asks whether there have been any problems, and

provides notification of the expiration date of the guaranty as well as offering periodic servicing.

Marketing

To create brand recognition, build a positive brand image, and to distinguish itself from other conventional used car dealers, Gulliver actively invests and advertises using TV commercials, magazines and Internet advertisements. For example, in one TV commercial Hideki Matsui of the N.Y. Yankees is featured, projecting a clean, upbeat and honest image. The design of the Gulliver's sales outlets also impart a clean and bright image, as a result of the use of lots of glass panels. This image is consistently employed by all the franchisee outlets as well.

Fit among Activities

Gulliver's activities are designed and arranged around the central objective of buying a large number of good-quality used cars and selling them as quickly as possible. To increase its inventory of used cars in good condition, Gulliver must offer an attractive price to the seller. To do this, it must have the ability to assess the value of individual cars and accurately forecast the likelihood of a sale. Furthermore, it is also important to develop a process and create an environment in which an owner of a used car can feel comfortable and happy about selling its car to Gulliver. To this end, Gulliver must ensure transparency through the open disclosure of information, ensure trustworthiness by assigning the inspection function to local outlets and pricing to the headquarters, and by actively investing in advertising to establish a positive brand image.

On the selling side, Gulliver prepared a number of sales routes, which operates on its own to ensure a rapid turnover in inventory. (Please refer to the attached "Activity System Map" for more detailed accounts of the relationship between these activities.)

Innovation that Enabled Strategy

- Strategic positioning of Gulliver as a "Specialist in Used Car Purchasing" that does hold cars in inventory for very long
- Centralization of pricing at the Gulliver headquarters, and a fair and transparent price
- The first in the industry to be open with customers about the condition of a used car and the appropriate sales price
- The first in the industry to launch an online used car sales system that enables general consumers to view photos of used cars and read written descriptions.
- The first in the industry to launch a real-time Internet auction for used-car dealers
- The first in the industry to extend an auto loan for used cars which covers the difference between the current sales price and the estimated resale price in three years, or the guaranteed remaining value set for the auto loan (with a guaranteed repurchase by Gulliver after three years as long as the vehicle is in good condition (showing reasonable wear and tear).

Consistency of Strategy over Time

At the time of its establishment in 1994, Gulliver dubbed itself the "Specialist in Used Car Purchasing." It defined its business as the buying of used cars from general public, and the sale of these vehicles at used car auctions (attended by used car dealers), a market in which demand is constant. Since then, Gulliver has extended its sales routes to include individual consumers, and has also started operating its own auctions. The core concept, however, remains the same: a rapid turnaround time for all inventory. Although Gulliver has added new auxiliary services, such as auto loans, extended guarantees, and delivery services, it does not

interfere with the existing core concept, but has created opportunities for generating additional revenue through cross-selling and enhanced customer satisfaction.

Trade-offs

- Does not keep inventory longer than a certain period of time. Gulliver will sell the car at to other used car auctions if it exceeds the time frame.
- Does not display cars at its dealerships.
- Does not allow dealerships to set the price for used cars or decide at which auction site a car will be sold.
- Gulliver does not recruit people as a franchisee if they have experience in the used car industry.

Profitability

Gulliver surpasses the industry average by a wide margin, in terms of both in return on invested capital and return on sales.

Return on Invested Capital (ROIC)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 60.6%	Annual Margin Above Industry				
	2001	2002	2003	2004	2005
	62.5%	55.4%	48.8%	66.7%	44.6%

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

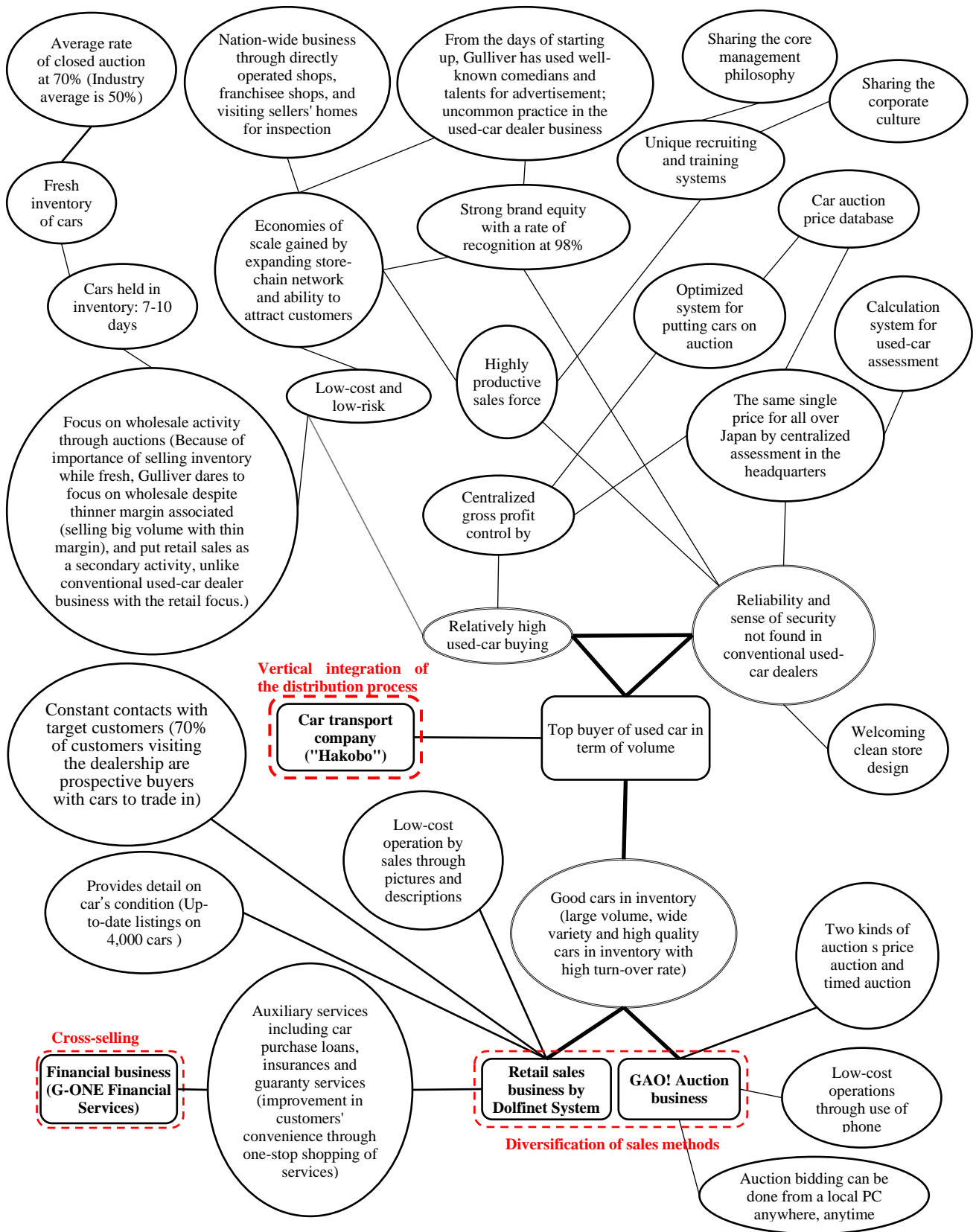
Return on Sales (ROS)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 2.8%	Annual Margin Above Industry				
	2001	2002	2003	2004	2005
	4.4%	1.5%	1.3%	2.6%	4.3%

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

Activity System Map of Gulliver International Co., Ltd.



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

Bookoff Corporation Limited

Creation of an innovative strategy for developing the second-hand book market for “ordinary books,” supported by a totally new method for setting the purchase price that is not based on the contents of a book but on its appearance, simplified store operations that involves the management of inventory through the use of colored labels, and a personnel management system to motivate and enhance the performance of part-time staff.

Industry Background

Second-hand bookstores have traditionally relied on specialization in a niche market as a successful business model. More specifically, it was believed important to develop a specialty and offer a selection of used books that would attract researchers or collectors of rare books in a particular field. This approach requires second-hand bookstores to have in-house capability for assessing the value of a book, taking into account rarity, and historical and cultural value, a skill which takes several years to learn and must be developed through hands-on experience. Because of the difficulty of cultivating specialists capable of assessing the value of books, it was generally believed that it would be virtually impossible to create a chain of second-hand bookstores.

Executive Summary

Bookoff Corporation pioneered the second-hand bookstore chain in Japan. It offers books for the general public, instead of just researchers and book collectors. Its stores are clean, brightly lit and welcoming. Bookoff opened its first store in May 1990, and as of March 2006, it operated 854 bookstores: 291 stores under the direct management of Bookoff and 563 franchises. During the 1990's when the Japanese economy was in the midst of a recession, a few new competitors entered from various industries, but most of them failed and withdrew from this market. Bookoff currently holds more than a 60% share of the second-hand book market. It is still on a growth track, as evidenced by the continual increase in the number of stores and also by the upward trend in revenue per existing store.

Unique Value Proposition

Bookoff created a new market for books, comics, CDs, DVDs and video game software, making it possible for items that had been unused and hoarded at home to be traded in and resold. In other words, general consumers found a place to sell the dead stock that normally accumulates at home.

Furthermore, Bookoff offers general consumers a place to buy second-hand books at low prices through a very simple process. The books sold at Bookoff stores are priced according to their condition and appearance. Books in good condition are sold at half the original retail price of the book when it was new, while those that are faded, torn or dirty are priced at 100 yen. The average price of books sold in Bookoff stores is 20% of the original retail price. Japan's resale system prohibits the discounting of new books, to ensure that prices are maintained at the original price level. Therefore, Bookoff has not only created a new market for recycling books that have been read only once, but also provides a place for people to buy books at low prices.

Unique Value Chain

Procurement

Bookoff focuses on buying used books at low prices. This was made possible by buying directly from

the vast general consumer population. The condition of the book determines the purchase price, which is about 10% of the original retail price if the condition is good, and is as little as 10 yen if it is damaged or in poor condition.

Bookoff staff polish the covers of books that have been traded in, and shave off their edges before putting them out on the display shelves.

Inbound and outbound logistics

Books that were been traded in are sold at the store which bought them. As a result, Bookoff has very short supply chain. Books that are traded in are either brought in by the seller, picked up by a Bookoff staff member at the seller's home, or sent directly to the store in a package from the seller.

Store Operation

Bookoff's store operation has been simplified so a first-year store manager and seven to eight part-time staff can operate each store. Even part-time staff can handle purchasing, price setting, and inventory management after only three days of work in a Bookoff store. Books are displayed on shelves by content category and size, which makes stacking the shelves a simple process. Specifically, book categories include: hard cover books, paperbacks, comics for children and comics for adults.

Bookoff's simplified operations do not mean that store operation is merely an inflexible, mechanical process that leaves no room for improvement. Bookoff's staff are encouraged to come up with new ideas for improving many areas of operation, such as the reallocation of shelf space to match the flow of customer traffic (i.e. the decision to put a certain category of books near the store entrance).

Inventory Management

Bookoff's inventory management has also been simplified. At the time of acquisition, a colored adhesive label is affixed to the book's spine. This color is changed quarterly, to indicate broadly when it was purchased. Inventory at Bookoff is not controlled by maintenance of records for each individual book but rather by the use of these colored labels.

Bookoff aims to sell all the books in its inventory as quickly as possible, and this is the main objective of its inventory management system. To this end, the sales price of a book is drastically reduced when the period in inventory exceeds a certain length of time. Books in good condition are generally priced at half the original retail price, but books with a colored label from two seasons back, if found on a shelf, will be discounted to 100 yen. Also, if there are more than five copies of the same book, the price be slashed to 100 yen for a quick sell. The pricing of music CDs is conducted according to pre-determined guidelines periodically provided by the headquarters.

Marketing

Bookoff's marketing activities focus on how they can increase the amount of books acquired for resale. The message consistently communicated in its advertising (TV commercials, newspaper inserts, billboards and outdoor banners) stress: "Please sell your books (to us)," rather than "We sell books." This derives from the fact that total sales of used books depend entirely on the volume of books Bookoff can buy (unlike the case of new book sales, in which bookstores can freely place orders to procure more stock from wholesalers and publishers.)

HR Management

The most distinctive feature of HR management at Bookoff is in its emphasis on making maximum use of the capabilities of every staff member in the store. It uses standardized promotion criteria for both full-time employees and part-time staff, clearly stating as requirements that staff and part-timers work closely together with co-workers, and constantly make diligent efforts to improve their skills, and that all employees be sensitive to the activities and feelings of others. Its corporate culture places the highest priority on helping others to develop and grow. This guiding principle is well understood and shared by all members of the staff. Each store takes the initiative in the training of newly recruited staff members. Much authority is delegated to

the store manager, and store managers can hire and promote part-time staff on their own discretion.

To develop the staff's capabilities, training programs are conducted at the headquarters, and also within divisions and at certain stores that have training capabilities. The leaders of the part-time staff in each store are invited to training programs held overseas, which are designed with the primary objectives of pooling the know-how developed at each store, discussing the latest issues and devising solutions. The secondary objectives are the broadening of participants' perspectives and restore their energies.

Bookoff openly discloses its financial targets and the performance results of each store. This information is shared with every member of the staff, including part-timers, to motivate all employees to work toward accomplishing the store's management objectives.

Fit among Activities

Bookoff's activities are selected and adjusted in line with three central concepts, with the first being simplified and easy-to-understand store operations that can be learned and performed by part-timers after only three days on the job, the second being tight control of inventory turnover, and the third being the effective motivation of part-time staff members in the store. Activity designs call for a purchase price system that focuses on a book's condition, inventory management through the use of colored labels, and the elimination of record-keeping for individual books, decisions all stemming from the concept of simplified store operations. To maintain a high inventory turnover rate, Bookoff drastically discounts unsold books to 100 yen after a period of three to six months, and also slashes the price on excess inventory (i.e. six or more copies of the same book). Furthermore, to raise the motivation of part-time staff and keep them motivated, Bookoff includes them in discussions of management issues, arranges various training programs, and sets clear promotion criteria for them.

Through the cultivation of a team of highly motivated part-time staff, Bookoff manages to keep personnel costs to a relatively low, and simultaneously makes constant improvements to book displays and store layouts, runs the store operations with a high inventory turnover rate and provides customers with a comfortable environment in which to buy or sell books. If part-time staff members are not motivated, a vicious cycle is likely to ensue in which they might slack off instead of buying the books that are brought in. The result would be a stagnation in the selection of books on offer in the store, which would lead to a decline in sales and even fewer books being brought in the future. Keeping part-time staff highly motivated activates buying and leads to increased sales. (Please refer to the attached "Activity System Map" for more detailed accounts of relationship between these activities.)

Innovation that Enabled Strategy

- The purchasing price is determined by the external appearance of the product, not by its cultural value or rarity.
- The selling price is also determined by the external appearance and the length of time in inventory, not by the book's cultural value or rarity.
- Inventory management is conducted through the use of affixed colored labels, with the label color changed every three months.
- Bookoff shaves the edges of the book, and polishes the front and back covers.

Consistency of Strategy over Time

Simplified store operations, so that book buying and inventory control can be performed by newly

recruited part-timers on the third day in the store, and an emphasis on promoting inventory turnover have been the basis of Bookoff operations from the very first day. Since then, Bookoff's merchandise lineup has been expanded to include CDs, DVDs and video game software. The sales prices of products in these additional merchandise categories fluctuate according to supply and demand, thereby rendering Bookoff's simple pricing process ineffective. Bookoff has been able to successfully keep store operations simple by having the headquarters set the prices for this merchandise.

Trade-offs

- Bookoff has chosen not to cultivate a team of specialists with experience and expertise in the assessment of a book's cultural value and rarity.
- Bookoff does not manage inventory by individual book
- Bookoff does not seek to make its stores distinctive by offering a specialized selection of books targeting to particular niche market, nor does it offer consultation services by knowledgeable specialists.
- Bookoff does not keep books in inventory for long period.

Profitability

Bookoff consistently exceeded the industry average in terms of both return on invested capital and return on sales, and its positive lead is even widening.

Return on Invested Capital (ROIC)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 11.9%	Annual Margin Above Industry				
	2001	2002	2003	2004	2005
	-2.9%	7.2%	12.7%	12.6%	22.3%

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

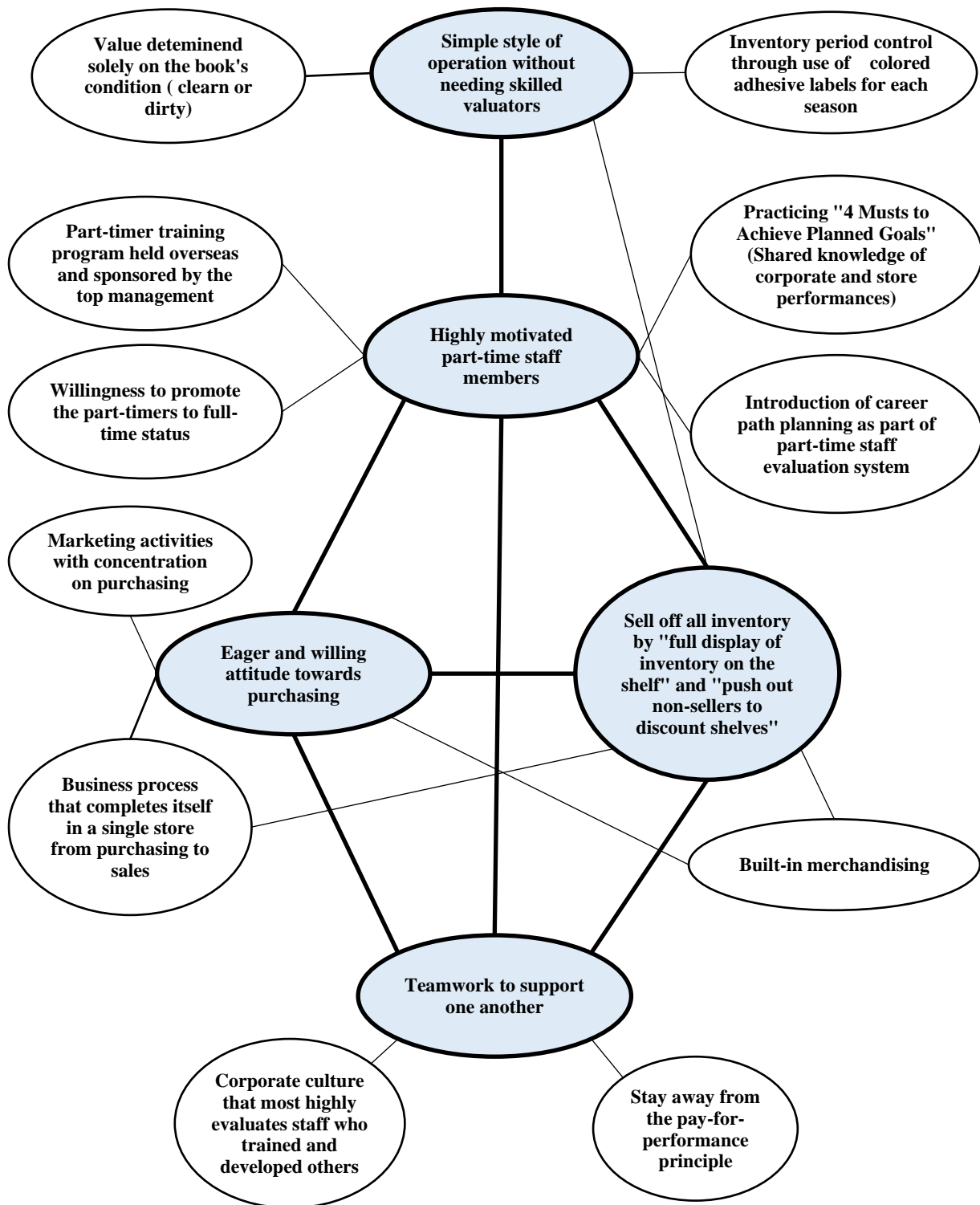
Return on Sales (ROS)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 3.3%	Annual Margin Above Industry				
	2001	2002	2003	2004	2005
	0.4%	2.7%	2.9%	4.1%	6.0%

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

Activity System Map of Bookoff Corporation Limited



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

Precision Small Motor Division, NIDEC Corporation

Specialization in brushless DC motors, and achieving an overwhelming share of the global market through innovations, flexibility in responding to customer needs in design and manufacturing, and active new customer development.

Industry Background / Executive Summary

The small motor manufacturing industry consists namely of three categories of products: DC motors with brushes, brushless DC motors, and AC motors. Brushless DC motors offer many advantages over motors with brushes, offering finer control of the rotation speed, lower rotation noise, the elimination of electro-magnetic noise, less electric consumption, great durability, and therefore better suited to the design of smaller and thinner motors. However, the manufacture of a brushless motor requires the use of semiconductor devices, which makes the manufacturing process more complicated and raises its cost. Brushless motors are used as components in a broad range of products, including hard-disk drives (HDDs), optical disc drives, fans, office automation equipment, home appliances and automobiles. As the range of use broadens, the price of brushless DC motors continues to decline, and there has also been an acceleration in the pace at which brushless DC motors are replacing AC & DC motors.

Mabuchi Motor, the winner of the Porter Prize in 2001, specializes in DC motors with brushes, and is a leader of the segment holding a 60% share of the global market. Mabuchi's strategy is to pursue standardization as the core concept, which is in marked contrast to NIDEC's strategy of flexibly customizing products to meet customers' specifications. The Porter Prize Organizing Committee believes there can be more than one excellent strategy in the same industry, and that both Mabuchi's award-winning strategy and NIDEC's strategy being awarded at this time are both viable excellent strategies.

NIDEC's Precision Micro Motor Division specializes in manufacturing brushless DC motors, and it accounts for 51% of total corporate sales. Its primary market is for use as a component for HDDs. NIDEC holds a 75% share of the global market in this segment, and an especially high market share of 90% in the smaller HDD market for laptop PCs.

Unique Value Proposition

NIDEC's core strategy is to find ways for brushless DC motors to replace AC motors and DC motors with brushes. Following this core strategy, NIDEC offers unique value that derives from the product features of the brushless DC motor, which includes extremely quiet rotation noise, finely controllable rotation speed, low electric consumption, smallness, flatness, long durability, and an absence of electro-magnetic noise emissions.

Furthermore, NIDEC has advantages over other competitors that also supply brushless DC motors. NIDEC offers a broader product range, and can respond to customer needs better and more quickly, thanks to its development engineering capabilities and manufacturing technology, with shorter delivery times, competitive prices and a stable supply ensured by active investments that precede market expansion.

NIDEC also has a distinctive leading-edge technology, and holds an overwhelming share of the global market for thin brushless DC flat motors.

NIDEC's target customers, which use the motors or a broad variety of applications, include manufacturers of IT equipment such as HDDs, optical disk drives, and fans, as well as producers of OA

equipment, home appliances, and automobiles. As NIDEC designs products tailor-made to customers' specifications, it can selectively choose customers who are likely to place orders for large volume production lots per model to gain economies of scale and consequent price competitiveness. NIDEC values both information advantages and large volume production gains that are available when holding the top share in the global market, and once an application for a specific use is developed, NIDEC includes all major players for that application as its target customers.

Unique Value Chain

Technology development

NIDEC acquired key technologies such as precision molding, precision measuring and metal machining technologies through M&As, which made it possible to differentiate itself by gaining a technological lead. For example, NIDEC is the first company in the world to mass-produce fluid dynamic bearing (FDB) motors, which require state-of-the-art precision machining and precision measuring technologies. NIDEC selectively acquired companies from outside its industry that owned these technologies, so that it could own these technologies in-house to mass-produce and market such leading-edge products. Through these acquisitions, NIDEC also gained ability to engineer and design manufacturing facilities that can protect and prevent the divulgence of the key technologies.

Manufacturing

NIDEC develops and manufactures its own production facilities, and has "made in the market" as a policy. Following this policy, it makes products near its customers, which makes it easier to respond swiftly with flexibility to customer needs.

Sales

NIDEC does not confine itself to selling its products to existing customer industries, but rather seeks areas of usage where brushless DC motors could improve the performance of final products capitalizing on the features of the brushless motors. In search of new usages, NIDEC's sales staff develop and present proposals to prospective customers, and each sales staff member is expected to visit at least 100 companies each month. Thanks to their efforts, brushless DC motors are now used in products not thought to contain motors, such as electric rice cookers and "Washlet" toilet seats featuring a water-jet cleaner and blower.

Pricing cannot be determined by the Sales Division alone but is done through discussions and with the agreement of the Manufacturing Division. Within NIDEC, the Manufacturing Division is held responsible for profitability, and strongly resists discounting. Such an arrangement to prevent discounting by the Sales Division as an easy way of expanding the market share. Strategic pricing, which may be required for selling in a new area of application, can result in a short-term set back in profitability, and therefore requires a decision by top management.

The Sales Division is responsible for keeping agreed-upon delivery dates. In cases where the Manufacturing Division faces difficulties in meeting the delivery date schedule due to shortages of either materials or manpower, the Sales Division makes every effort to procure the necessary resources to expedite delivery.

Firm infrastructure

There is a deep-rooted corporate culture in NIDEC whereby employees are requested to step up and do whatever is needed regardless of their job descriptions, job titles or positions within the organization. The NIDEC motto is: "Do anything immediately without fail, until the task can be accomplished."

NIDEC emphasizes what it calls the "3Q and 6S Index." The 3Qs refers to its three goals of achieving quality workers, a quality company, and quality products (3Qs). The 6Ss stand for sorting, tidying, cleaning, cleanliness, courtesy and discipline in Japanese. If these six functions are duly fulfilled, NIDEC believes it can achieve the 3Qs. NIDEC has developed criteria to assess the level of achievement in the 3Qs and the 6Ss, and

requests a member of top management to periodically inspect and assess the level of achievement for these functions within each unit of the organization.

Fit among Activities

NIDEC's activities are selected and harmonized to achieve its key priorities of expanding market share and securing profits. To achieve these goals, NIDEC must best respond to customer needs with high technology, and at the same time, achieve efficiency in operations. More specifically, it constantly tries to improve its own technology so that customer needs may be fully met, and carries out M&As as needed to acquire the technologies necessary for enhancing both product technology and production technology. As a result of its accumulated technology, NIDEC can design products that satisfy customer needs in a short period of time, and manufacture them in a location close to its customers with a short delivery time. On the other hand, NIDEC tries to sell to as many customers as possible in the same application market to avoid small-lot production runs, and makes each production plant responsible for its own profitability to enhance cost-consciousness. Furthermore, NIDEC actively invests to increase production capacity ahead of anticipated growth in market demand so that it can contribute to the stimulation of business expansion, and in turn, its sales force proactively develops proposals and presents them to prospective customers willing to think out of the box. (Please refer to the attached "Activity System Map" for a more detailed account of relationship between these activities.)

Innovation that Enabled Strategy

- Through a technological innovation in the motor, NIDEC changed the HDD drive mechanism from a belt-drive to a direct-drive method. It has also reduced heat generation in HDDs and succeeded in greatly accelerating the rotation speed, which increased the recording density, and in turn miniaturized the size of HDDs to be housed in a much smaller space.
- NIDEC was the first in the industry to succeed in the mass production of FDB motors. As a result of this technology, it greatly improved the motor performance including its the high-speed rotation precision, low energy consumption, and long durability. Furthermore, the new model of fluid dynamic bearing motors, called RM type motors, are produced through an integrated manufacturing process, and enable drastically shortened manufacturing times and reduced manufacturing costs. At the same time, NIDEC internalized the manufacturing processes and improved profitability.
- NIDEC introduced a stock option program in 1996, at a time when very few companies in Japan were offering such a reward system.
- NIDEC started hiring mid-career recruits from large corporations, which was not a practice in the parts manufacturing industry in Japan at the time.

Consistency of Strategy over Time

Since its establishment in 1973, NIDEC had practiced a strategy of specializing in brushless DC motors, identified new needs regardless of the customer industry, and attempted to win the top market share in each application market. Its original objective in starting the venture was to develop the market for brushless DC motors, but due to the high price and small size of the market for the brushless DC motors, it started out manufacturing AC motors. However, its second year of operation, one of the customers who was also working on the development of brushless DC motors went bankrupt, and NIDEC hired the technical engineers from that company. Since that time, NIDEC shifted its core business and nurtured the brushless DC motor business by replacing the standard AC motors. For example, in 1980, the early days of HDD development, while other companies developed HDDs with AC motors, NIDEC succeeded in mass-producing HDDs equipped with brushless DC motors. In 1982, it also succeeded in mass-producing brushless DC fan motors, thereby replaced

AC motors with a higher performance, higher value-added alternative.

NIDEC's marketing and sales policy of seeking new applications regardless of customer industry derived from its experience in pioneering and developing the U.S. market from scratch. In Japan, the newly established NIDEC had faced strong resistance in selling to major Japanese corporations, which selected their suppliers on the basis of company size and demonstrated history as a supplier. This sales policy, developed in these early days, continues to be a viable strategy.

Trade-offs

- Chose to produce only brushless DC motors.
- Chose not to vertically integrate. (Thereby avoiding competition with products its customers produce.)
- Does not manufacture or sell products in small lots. (However, there is an exception. NIDEC will fill a small order to replace a brush motor, but they are sold through its subsidiary, NIDEC Copal, which has a history and experience in selling products in small lots.)
- Does not concentrate manufacturing facilities geographically. (As it produces close to customers, its production facilities consequently are dispersed around the globe.)
- Does not have exclusive supplier contracts for fear that it may become dependent on its customers as a sub-contractor.
- Does not solicit sales/orders from minor companies (because as minor customers, they are unlikely to warrant sufficient scale in production).
- Does not sell its products through trading companies. (NIDEC manufactures the products and sell them on its own. The only exception is some models of the general-purpose fan motors.)
- Will not let heirs of NIDEC founder Shigenobu Nagamori succeed the company.
- Does not put priority on short-term profitability over investment for growth.
- Does not put priority on improving profitability over expanding the brushless DC motor market.

Profitability

Both NIDEC's return on invested capital and return on sales are consistently higher than the industry average. Especially in the return on invested capital, its lead over the industry average is widening.

Return on Invested Capital (ROIC)

(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry 28.8%	Annual Margin Above Industry				
	2001	2002	2003	2004	2005
	19.5%	19.1%	23.9%	33.5%	40.8%

(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 7.9%	Annual Margin Above Industry				
	2001	2002	2003	2004	2005
	7.2%	6.6%	5.8%	4.7%	6.9%

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

Activity System Map of NIDEC Corporation

