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 2007 Winners

Organizing Committee
Graduate School of International Corporate Strategy, Hitotsubashi University
2007 Sponsor
Daiwa Securities Group Inc.

◆ Single Business Category Winners

Kaihara Corporation (Denim Textile Manufacturing)

Specializes in blue denim fabric for fashion jeans. Vertically integrated manufacturing from spinning to weaving to finishing. Offers quality, speed and product ideas sought worldwide despite high price.

Maruho Co., Ltd. (Pharmaceutical)

Specializes in dermatology and topical applications. Achieves strategic positioning as specialty pharma.

Ryohin Keikaku Co., Ltd. (Private Branded Product Retail)

Achieves full potential of Muji Ryohin value proposition of “high quality, no waste, low price with a reason” by complete control of value chain through company brand-only product planning and distribution (so-called SPA model)

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

Kaihara Corporation

Specializes in blue denim fabric for fashion jeans. Vertically integrated manufacturing from spinning to weaving to finishing. Offers quality, speed and product ideas sought worldwide despite high price.

Executive Summary

Kaihara was established in 1893 as a kasuri (cloth with splashed patterns) textile manufacturer in Hiroshima, which was home to a cluster of Bingo kasuri workshops (Hiroshima was called Bingo historically). Kasuri textile makers dye yarn with indigo using a calculated pattern so that when the yarn is woven, a pattern will appear. The Kasuri industry declined after printing technology became popular, and the cluster of Bingo kasuri workshops was torn down.

In 1970 Kaihara started a denim business as a subcontractor for major cotton spinners like Kurabo. It focused on the dyeing function, using dyeing machine that the company had developed in-house. In 1977, it had a 75% share of the Japanese market for denim dyeing. Yet, Kaihara was not satisfied with this accomplishment. Kaihara gradually added weaving, finishing, and cotton spinning operations, and began dealing directly with global apparel companies. Kaihara gradually established a reputation for “Kaihara denim,” and became one of the most expensive suppliers of denim fabric.

In our five-year financial analysis, Kaihara’s profitability was at its highest in 2002, and then declines. Reasons behind this decline in the ROIC include investments to upgrade its 30-year-old equipment, investments for a new factory in Miwa (the amount of Kaihara’s capital investment was ￥80 to 90 million per employee, and most recently, the rising energy costs. The declines in ROS are explained as follows: The Japanese apparel market experienced a peak in the denim boom in 2002. Although denim is still popular, its market size has been gradually decreasing to the normal level. Kaihara does not expect the declining trend in profitability to continue. Rather, it expects profitability to start improving after 2010, when the Miwa factory will commence full operation and the manufacturing capacity of yarn increases, thereby enabling Kaihara to reduce its yarn costs. Kaihara enjoys a much higher level of profitability compared with its Japanese competitors. The ROS was 0.26%, 1.32%, 0.53% in 2004, 2005, and 2006 for Nisshinbo’s textile business (data provided by Kaihara), and 3.53%, 3.47%, 1.21% for Kurabo’s textile business (data provided by Kaihara), while 11.3%, 9.6%, and 9.0% for Kaihara.

Kaihara specializes in blue denim textile manufacturing, and has achieved the vertical integration of the entire process (from cotton spinning, to dyeing, weaving, and finishing). It can produce denim with various nuances with precision and stability, which has resulted in high brand recognition among global apparel companies for “Kaihara denim,” as well as a domestic market share of 50%.

Industry Background

Although vertical integration is common in the textile industry outside of Japan, few companies in Japan vertically integrated cotton spinning, textile manufacturing, sewing, and product planning in the past. When Kaihara vertically integrated the entire process —from cotton spinning to dyeing, weaving, and finishing — it was an exception in Japan. Later, other Japanese producers of denim fabric became virtually vertically integrated through their subsidiaries and alliance partners.

The Japanese textile industry moved its production activities overseas in the 1970s. Kaihara’s commitment to manufacturing in Japan, especially in the northern mountainous area of Hiroshima-prefecture, is very unique.

Unique Value Proposition

Kaihara's target market segment is jeans for casual fashion and premium fashion. Kaihara's customer list includes Levi's, GAP, UNIQLO, Edwin, Seven Jeans, Hugo Boss, and Pierre Cardin. At $4.5 per yard, Kaihara denim is very expensive. Denim produced by Chinese local manufacturers costs $2.5 per yard and denim produced by factories in China owned by U.S. textile manufacturers costs $3.5 per yard.

Kaihara can provide denim with various nuances, such as a softness to the fabric, a smooth or rough fabric surface, and deep color saturation. The nuances of denim fabric are not easy to control because the final results depend on a variety of factors, specifically the quality of cotton, the way cotton yarns are spun, and the degree of indigo penetration, the addition of other colors, such as yellow to give an aged look, and the pattern of weaving. The delicate nuances of the denim influences jeans sales, and Kaihara's capabilities to meet specific requests are highly appreciated by its customers. Kaihara is able to meet these requests with precision. It is able to produce the agreed-upon nuances, and it can also reproduce the same nuances when the customer places an additional order.

Kaihara can deliver denim textile to the customers just in time, when customers want it, in the amount customers want. This is increasingly more important as the product life cycle of apparel industry becomes shortened. Kaihara can do this because its production lead time is short and its manufacturing process can accommodate variations.

Kaihara, not only responds to requests, it also proposes new products to its customers. It develops 600 to 700 new prototypes a year, providing variations in yarn count, indigo concentration, twill, and types of washes. Only 20% of this total will be accepted.

Unique Value Chain

Technology development

Kaihara's product development policy is to develop "new" denim rather than "better" denim in order to meet the customers' needs for jeans as fashion wear rather than work wear.

Kaihara develops and manufactures dyeing machines in-house. It also improves the manufacturing machines bought from suppliers by making its own technical modifications. Kaihara has its own ironworks. It also designs the factory floor layouts itself.

Manufacturing

Unlike Nisshinbo and Kurabo, two other Japanese cotton spinners which are virtually vertically integrated, Kaihara conducts all the processes internally in close physical proximity, and tightly coordinates its manufacturing activities.

By spinning cotton yarn internally, Kaihara can ensure that the yarn it uses is of a consistent quality. Low-quality yarn affects the nuances of fabric, as well as damages production efficiency when it snaps during weaving. Also, Kaihara can control nuances of the fabric by controlling the combination of different types of cotton used in the yarn.

Kaihara can produce various kinds of products. For example, Kaihara's manufacturing machines can treat not only ordinary cotton but also various kinds of yarn, such as uneven cotton yarn, stretch cotton, and rayon. Kaihara owns more "vintage weaving machines" than any other competitors.

In order to fill customer orders quickly, Kaihara maintains excess manufacturing capacity. Kaihara inspects its products using several sets of in-house standards for strength, durability, washes, colorfastness and the degree of indigo penetration. The final inspection is conducted manually, and all the foreign matter, such as cotton fibers that are woven into the fabric, will be extracted by hand.

Marketing and sales

Kaihara sells directly to apparel companies, which design the jeans. For overseas markets, the company has an exclusive sales agent in Hong Kong. Kaihara's two Japanese competitors sell through trading companies.

Kaihara is making moves to raise its brand recognition among consumers. For example, UNIQLO now mentions "Kaihara denim" in its product explanation.

After-sales services

Kaihara can trace back each product. Whenever quality problems occur or products fail to realize their expected finish after washing, improvements can be made quickly.

HR management

Kaihara is a family-owned company, and all of the current board members are from the Kaihara family. There is a strict rule against involving relatives other than the original Kaihara family members in the business, in order to prevent politics in the company's management.

Kaihara trains its employees in multiple manufacturing processes and multiple functions. The employees assigned administrative duties are also trained in the manufacturing processes. This serves not only to motivate employees, but also enables Kaihara to increase the manufacturing volume to meet sudden surges in demand. Kaihara's chose to locate its factory in a rural area, to develop strong ties with the community and its employees' families. It knows from experience that in a family-like working environment, employees are more willing to be flexible about working hours. Kaihara rewards its employees through profit-sharing.

Firm infrastructure

The Kaihara family owns 100% of the company's share capital. However, by keeping the amount of share capital small, at ￥50 million, Kaihara limits the return the family can receive as an equity investor.

Kaihara took a risk by vertically integrating its operations. When it began weaving in 1978 and cotton spinning in 1991, both times the company was required to invest an amount that exceeded the amount in its capital account.

Sustainability: Kaihara expects Chinese manufacturers to raise its product quality to a comparative level in about five or ten years. However, the following conditions would have to be met for them to become a competitor of Kaihara. They would need to develop quality control so that they can provide an identical product when customers place additional orders. Also they would also need to be able to meet apparel manufacturers' requests for just–in-time delivery and frequent deliveries of products in small-lot batches.

Distinctiveness

- Rare case for a company in a traditional industry to achieve revitalization in the same industry, i.e., textile. Another example is the metal workshops in the Tsubame area, who provided iPod's shiny stainless steel cases.
- Model case of a company in the countryside.

Fit among Activities

Kaihara's activities combine to focus on high quality, accurate and rapid manufacturing of many variations of denim fabric. With its own completely integrated manufacturing process, Kaihara can shorten product development time and shift rapidly from prototypes to volume production. By doing its own spinning, the company can build in quality at an early stage, and the vertical integration also helps it achieve consistent quality. Also the company uses information management regarding materials and procedures for each process to achieve consistent quality and reproducibility. The company sells directly without using trading companies which facilitates joint development with customers and fit of product image, enabling quality and speed.

(See Kaihara Activity-System Map)

Innovation that Enabled Strategy

- • In-house developed dyeing machine.

Trade-offs

- Does not produce denim in colors other than indigo blue.
- Does not produce outside of the Bingo area —does stay within 2 to 3 hours' drive. Does not produce in China.
- Does not sell yarn.
- Does not produce in small-lots batches.
- Does not put scissors to the fabric.
- Does not become a sub-contractor to other textile manufactures.
- Does not sell through trading companies.
- Does not try to minimize cotton inventory.
- Does not go public, remaining instead as a privately-owned company.

Profitability

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

5-Yr. Avg. Margin Above Industry	Annual Margin Above Industry				
	2002	2003	2004	2005	2006
10.3%	18.2%	12.2%	11.5%	7.1%	5.5%

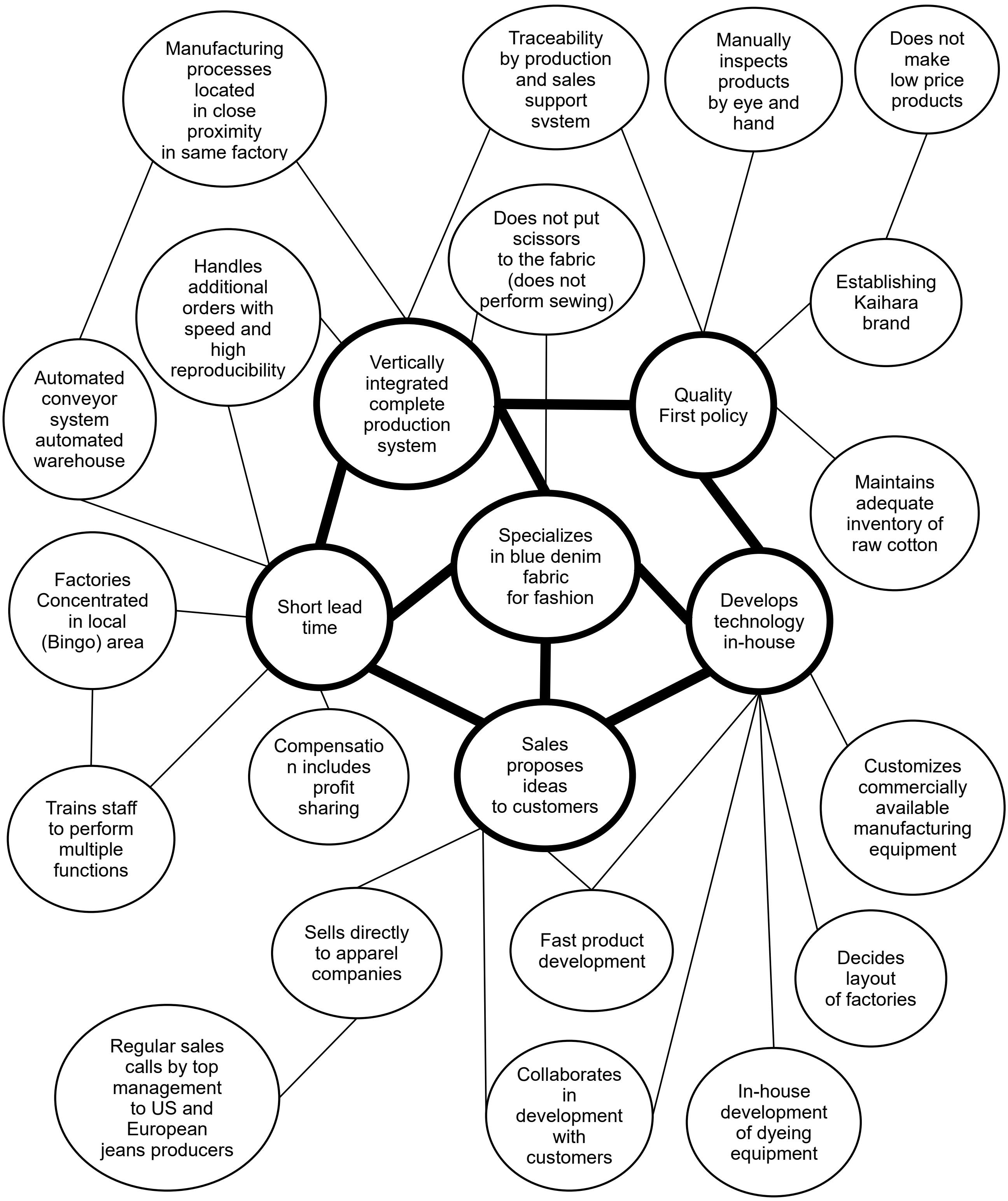
(Note: Return on Invested Capital = Operating Profit / (Shareholders Equity + Long-term Debt + Short-term Debt – Cash on hand)

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

5-Yr. Avg. Margin Above Industry	Annual Margin Above Industry				
	2002	2003	2004	2005	2006
8.6%	12.7%	9.9%	7.0%	6.2%	5.9%

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

Activity System Map of Kaihara Corporation



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

Maruho Co., Ltd.

Specializes in dermatology and topical applications. Achieves strategic positioning as specialty pharma.

Executive Summary

Maruho is the only company that specializes in dermatology in Japan. Maruho is also the only company that specializes in ointments in Japan. “Specialty pharma” or “boutique pharma” is not a well-established strategic positioning in the industry, and some industry observers are skeptical about its validity. Other examples of specialty pharma in Japan are Santen and Senju, in the ophthalmic segment.

Maruho changed its product focus drastically from orthopedics to dermatology, even though 50% of its sales were from orthopedics and it had the best- selling drugs in their respective segments. Maruho considered that it would be difficult to achieve a competitive advantage because the orthopedics segment was crowded with many competitors, and it required various dosage forms such as oral medicine, injection drugs, and ointments. It started to consider a change in strategy, with a new focus on dermatology in 1997. It declared its decision to specialize in dermatology in 2002, after the Hawaii camp, which was attended by 623, or 90% of all employees.

Industry Background

Large pharmaceutical firms focus on lifestyle-related diseases, cancers, central nervous system-related diseases, and immunity-related diseases, which have a sales potential large enough to allow for the recovery of expensive R&D costs. Only one out of 10,000 candidates will be introduced to the market, each of which costs ￥50 billion to develop. The size of the Japanese market for circulatory diseases (lifestyle-related diseases), metabolic diseases (lifestyle-related diseases), central nervous system-related diseases were respectively ￥1,300 billion, ￥630 billion, and ￥630 billion. Large firms are trying to produce at least two or three blockbuster drugs that will generate ￥100 billion in sales.

On the contrary, the best-selling dermatology drug in Japan is Maruho’s moisturizing cream, with sales of ￥25 billion. The dermatology market is too small for large firms, which are pulling out of this segment. The size of the global market for dermatology in 2006 was $17 billion, which is only 3% of the overall pharmaceutical market. The size of the Japanese market for dermatology was ￥300 billion, or 4.3% of the overall pharmaceutical market.

Ointment is also a minor dosage form, comprising 3.4% of the Japanese pharmaceutical market. Oral medicines and injection drugs are dominant.

Maruho’s sales in 2006 were ￥46 billion, ranking it 47th in Japan. Its sales were a mere 3.5% of the Japanese industry leader Takeda’s total of ￥1.3 trillion. However, in dermatology, Maruho had the largest sales in Japan in 2006, and ranked 12th in the world.

Unique Value Proposition

Maruho focuses on dermatology and ointments, which is a dominant dosage form for dermatopathies. Maruho’s product line in dermatology is the most extensive by far in Japan.

Maruho provides effective drugs that are comfortable to use, with fewer side effects. Although dermatopathies do not endanger lives, patients care about the drugs’ effectiveness because the symptoms are visible. In general, customer satisfaction is low, which means that drugs can be differentiated according to their performance.

Maruho also provides product and medical information to dermatologists. Because there are no other pharmaceutical firms that specialize in dermatology, Maruho is recognized as a reliable source of information.

Maruho proposes new methods of treatment. Noticing an increase in sensitive skin, Maruho proposed that moisturizing should be part of the medical treatment. This proposal resulted in an increase in research papers by dermatologists discussing the effectiveness of moisturizing to cure some types of skin diseases (from 10 in 1990, to 500 in 2006). Maruho had successfully created a new market segment.

Unique Value Chain

Technology development

Maruho's R&D is not seeds-oriented but needs-oriented. Maruho does not conduct upstream research by itself. Rather, Maruho conducts joint-development with other pharmaceutical firms or accepts a license to finalize and sell compounds developed by other firms. In 2001 Maruho licensed in Oxarol from Chugai, who expected sales of ￥80 million. Maruho developed an ointment, and through its sales force it won the top market share irrespective of the fact that Astellas and Teijin-Pharma were four years ahead and had already established strong market positions. Maruho developed Oxarol into a ￥3.2 billion business, which is 40 times of Chugai's estimate. This success proved the effectiveness of Maruho's development and sales capabilities, and invited more license offers (88 offers between 1970 and 2001, compared with 180 offers between 2002 and 2006). Maruho has accepted 15 licenses since 2002. By not conducting the upstream R&D activities, Maruho's product development lead time was shortened from the industry average of 15 years to 5 years. Consequently, Maruho can respond to customer needs sooner. Also, Maruho decreased the risk involved in R&D. For those companies which conduct the entire R&D process internally, only one out of 11,000 candidates will be commercialized. In the case of Maruho, it failed with one out of 15 candidates for which it had obtained the license, which makes it one out of 15.

Maruho develops drugs that are already in the market by adding properties and dosage forms, and changing existing drugs in other forms into ointments. One example of property adding is its best-selling product Hirudoid, which was originally introduced to the market in 1954 and had since then stayed at a lower rank. With a recognition that a growing number of people are experiencing dry or sensitive skin and the realization that existing products are not good enough, Maruho, working in cooperation with "opinion doctors" (opinion leaders among doctors), successfully added a new property to this drug so that doctors could use it for people with sensitive skin. Sales of Hirudoid increased from ￥0.5 billion in the 1980s to ￥22 billion in 2005. Maruho continuously improved Hirudoid and added new forms of dosage such as a "softer cream" and a lotion. Sales of these products have been growing at a double-digit rate.

Maruho's knowledge in developing dosage formulations allows the company to develop effective ointments comfortable to use. To build on this knowledge, Maruho opened the Pharmaceutical Engineering Laboratory in 2006.

Manufacturing

Maruho manufactures its products in its factory in Shiga prefecture, while its competitors often outsource manufacturing. It is the only Japanese pharmaceutical firm that has a 2-ton class emulsifier, and its manufacturing capacity for ointment is 20% of the total production volume in Japan. In 2006, Maruho's manufacturing volume was largest in Japan.

Marketing & Sales

Maruho has only 300 medical representatives (MRs), which is much less than a large firm's 1500-2000 and a medium-sized firm's 500. However, Maruho's MRs focus their activities on dermatologists. They know almost all the 7,800 dermatologists in Japan, and visit 85% of them in one month. This is not easy because the majority of dermatologists are private-practice doctors rather than hospital doctors, and sometimes there is only one clinic in a municipality. Other pharmaceutical firms will visit dermatologists at university hospitals but not those at clinics.

Maruho supports seminars and association activities to gain an understanding of customers' needs, to provide support and to develop relationships with dermatologists. A customer survey conducted by the independent market research firm LCA-J concluded that Maruho was the company most trusted by dermatologists.

After-sales services

Through its MRs, Maruho provides medical information extensively.

HR management

Maruho invests ¥300,000 per employee per year (this figure includes employees in the manufacturing department, and can not be compared against large pharmas, which often exclude the manufacturing department). All newly hired employees go to a camp and undergo training for four months. Instructors, who are managers at Maruho also spends four full months on a camp. Although Maruho has only 876 employees, 18 employees have already obtained MBA degree from U.S. or European business schools.

Firm infrastructure

Maruho is a privately-owned company, and does not want to be listed.

Sustainability

Even after the patent life, Maruho's products sustain sales against generics because generics are not as comfortable to use. Maruho continues to be a privately-owned company, which protects it from a hostile takeover. Maruho has growth potential in overseas markets, and it considers acquiring a sales company in Europe.

Distinctiveness

- Succeeded as a "specialty pharma."
- Demonstrated a strategic positioning for small–and medium-sized companies in the pharmaceuticals industry.
- Timing of the strategic change. Maruho changed its strategy when it had the best-selling drugs in orthopedics.

Innovation that Enabled Strategy

- Created a new market for the medical treatment of sensitive skin.

Trade-offs

- Getting out of orthopedics.
- Does not conduct upstream R&D.
- Does not conduct R&D in dosage forms other than ointments.
- Does not manufacture drugs other than ointments (there are a few exceptions in the case of oral medication, which can be manufactured using equipment the company possesses)

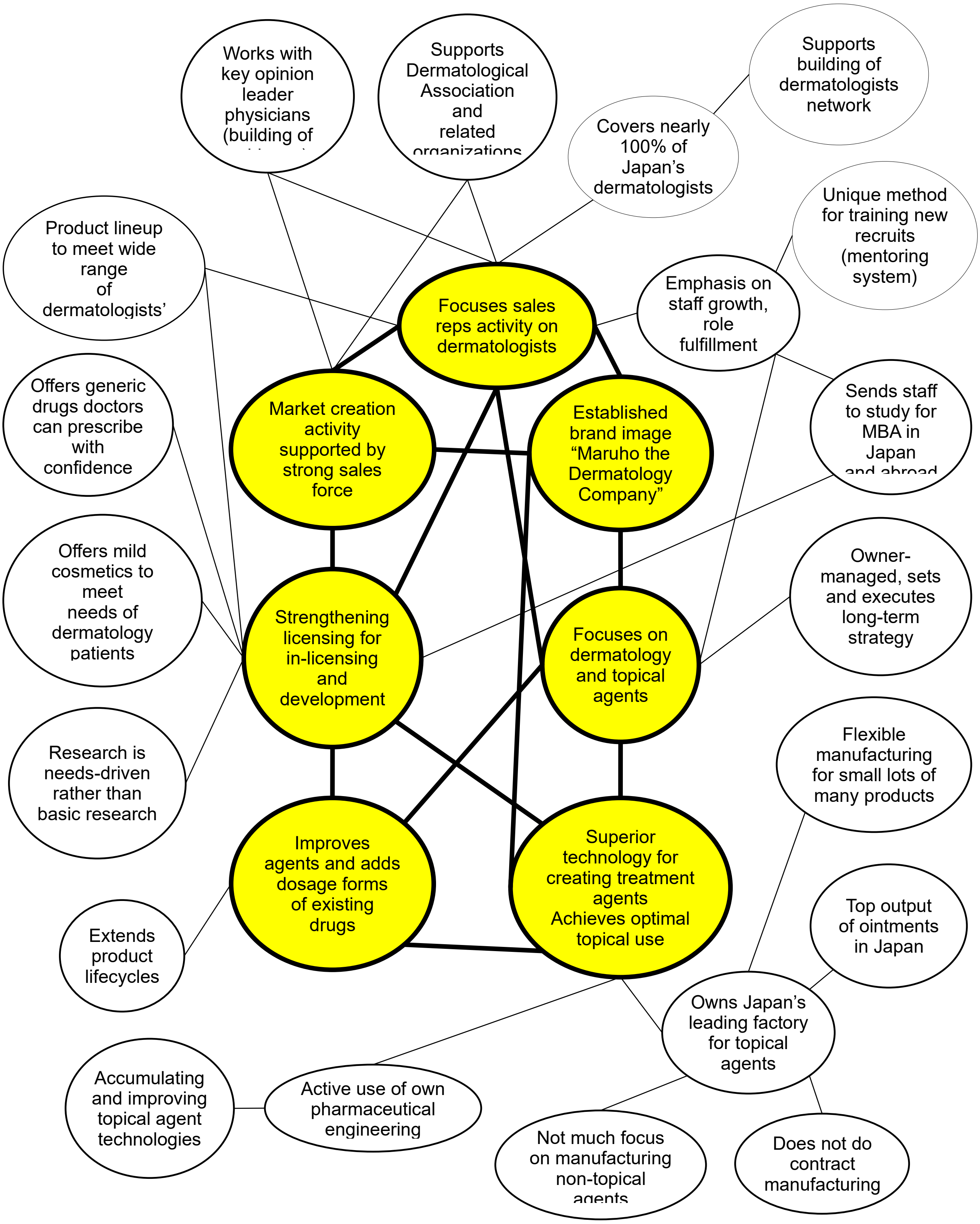
Return on Invested Capital (ROIC)
(Unit: Percentage points)

5-Yr. Avg. Margin Above Industry	Annual Margin Above Industry				
	2002	2003	2004	2005	2006
47.9%	44.1%	45.1%	35.0%	50.2%	60.8%

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

5-Yr. Avg. Margin Above Industry	Annual Margin Above Industry				
	2002	2003	2004	2005	2006
14.6%	11.8%	11.3%	5.5%	12.6%	26.4%

Activity System Map of Maruho Co., Ltd.



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

Ryohin Keikaku Co., Ltd.

Achieves full potential of Muji Ryohin value proposition of "high quality, no waste, low price with a reason" by complete control of value chain through company brand-only product planning and distribution (so-called SPA model)
Ryohin Keikaku established a unique presence in the world as a lifestyle store.

Unique Value Proposition

Ryohin Keikaku proposes a lifestyle with its MUJI brand products. The lifestyle Ryohin Keikaku proposes centers on the value it places on "substance." Ryohin Keikaku carefully chooses materials, and reviews the manufacturing and delivery processes to eliminate all unnecessary features and excessive packaging from MUJI products. It makes efforts to utilize parts of food items that are overlooked by other producers. It's canned salmon, for example, includes meat taken off the fish skeleton just below the head and above the tail, parts which are usually discarded. This is just one example of care given to the selection of ingredients and materials. It also avoids the use of bright colors. Clothes featuring cotton's natural colors are the result of eliminating the dyeing and bleaching processes. As a result, MUJI products are simple in design, lower priced, but good quality. In many cases, MUJI products are priced 30% lower than the national brands. This product positioning was well expressed by its popular tagline, "low priced for a reason." In a sense, Ryohin Keikaku creates value by eliminating unnecessary extra features, rather than by adding something. A literal translation of the company name Ryohin Keikaku is "planning good products." MUJI is shorthand for Mujirushi Ryohin, which means "no brand, good quality."

Ryohin Keikaku changes only 15% of its existing product lineup per year. It believes this provides customers with a sense of reassurance (customers can rest assured that they will always be able to find their favorite products).

Its product lineup is broad, encompassing 7,000 items, ranging from household goods (linens and interior goods, furniture, electronic appliances, houseware items, stationary, health and beauty goods, and outdoor products), and apparel (men's, ladies, and kid's wear, underwear, accessories, bags and shoes), to food items (sweets, processed foods, beverages and chilled foods). All items are intended for use by apartment dwellers living in two- or three-bedroom apartments. The sales breakdown by product line in 2006 was household goods, 55.2%; apparel, 34.8%; and food, 8.6%. Gross profit by product line in 2006 was household goods, 41.6%; apparel, 45.8%; and food, 32.8%.

Unique Value Chain

Technology development

Ryohin Keikaku has an advisory board that consists of outside independent designers. At a once-a-year product planning meeting, members of the advisory board review the product lineup to make sure that all MUJI products meet MUJI's value proposition.

Ryohin Keikaku formed an alliance with Yoji Yamamoto Inc., a design firm led by a famous designer. The aim was to design apparel products that are basic but not unattractive.

Ryohin Keikaku launched its World MUJI and Found MUJI projects in 2003. For the World MUJI project, non-Japanese outside designers to design products that answer the question: "What would MUJI look like if it was in your country?" Several well-known designers from Italy, Germany, and the U.K. provided designs without putting their names on the products. The Found MUJI project consists of finding local products in other countries that fit MUJI's value proposition. These two projects contributed 700 items to the product lineup, and accounted for 20% of total sales in 2006.

Ryohin Keikaku actively seeks feedback from its customers. The staff makes it a practice of regularly communicating to the headquarters any feedback received in stores. It has also developed a community of customers using the Internet, whereby two-way communication is possible. It has 1.8 million members. The company's most successful product resulting from suggestions provided by customers is the "Fit Sofa," which is a soft sofa that in places is hard like a stool. This effect is achieved using two different kinds of cloth, with dissimilar elasticity on the various surfaces of the cubic-shaped sofa. Sales of the Fit Sofa reached 130,000 units, totaling ￥1.5 billion in 2006.

Manufacturing

Ryohin Keikaku does not have its own factories.

Store operation

Ryohin Keikaku cut back on its in-store activities, which are limited to serving customers. The product variety and store layout are standardized. Inventory is replaced automatically. Busy stores receive products that have already been sorted at the distribution center.

Marketing and sales

Ryohin Keikaku explains how it achieved lower prices on its price tags and packaging.

Ryohin Keikaku has several sales channels for MUJI products: MUJI road–side stores (240 stores — 172 directly managed stores, and 68 licensed stores), MUJI shops in Seiyu supermarkets (78 stores), MUJI corners in FamilyMart convenience stores, MUJI shops inside train and subway stations, and its own internet store. It also conducts sales through Askul, an office products catalog retailer (Porter Prize winner in 2002). The licensed stores, the shops in Seiyu, the shops at stations, the MUJI corners in FamilyMart use the same store fixtures, and Ryohin Keikaku decides which products each store should carry.

HR management

Ryohin Keikaku specifies work procedures for shop employees and managers in a manual called the "MUJIGRAM." Newly hired shop staff will be trained within 7 days, using the "MUJIGRAM for Newcomers." All employees are required to carry a copy of the "Basic Rules of Sales," in which employees find the basic rules concerning sales and customer service.

Sustainability

Improvement in the product development activity has been one of the company's priorities during the last five years. Continual improvements have been seen in the number of transactions, the amount spent per customer, the total units sold, and the average unit price.

Competitors have been unsuccessful in their attempts to copy MUJI products. Some competitors once offered imitations of MUJI products, but customers refused to buy them, showing a high degree of loyalty for MUJI goods. Now, competitors take a look at MUJI items, and then add something to the basic design, such as color.

Approximately 85% of existing items constitute standard items in the MUJI product lineup. Do these items lose their appeal? To continuously improve relative value against price of the standard items, Ryohin Keikaku lowers the price of products at a steady pace, so as to not sacrifice quality. This is done by using the same fabric for several different products, and concentrating production to one factory, for example.

Special Note

Ryohin Keikaku started out in 1980 with 40 items — 9 items of household goods, and 31 food items. Despite its early success, it experienced its first decline in operating profit in 2000, and this downward trend accelerated in 2001. The decline in operating profit was attributable in part to the emergence of ¥100 shops, which weakened the appeal of MUJI's low prices. At the same time, the company had tried to grow too fast, and had introduced products that did not meet its value proposition. The current CEO, Tadamitsu Matsui, who assumed the post in 2002, declared that Ryohin Keikaku would grow at a steady speed.

Distinctiveness

- MUJI is well known and accepted in overseas markets, and is a rare example of Japanese company in the service industry with strong brand value.

Innovation that Enabled Strategy

- Lifestyle store.
- Open innovation system --- World MUJI, Found MUJI, Net Community.

Trade-offs

- Does not sell anything that would not be used in daily life by people living in two- or three–bedroom apartments.
- Does not sell products that are not originally designed for MUJI.
- Does not put any brand name on the products, not even the MUJI brand name.
- Does not use bright colors for its products, and eliminates any excess packaging.
- Does not put products in extra packages.
- Does not equip products with additional features or functions beyond the primary feature or function.
- Does not use public figures in advertising. Its products are given the center stage.
- Does not publicize the name of the established designers who participated in product development.
- Sells MUJI products only in an environment in which Ryohin Keikaku can control the store fixtures, the layouts, and product selection.
- Does not use discounting as a tool to attract customers to its stores. For example, a campaign offering items at "half-price to the first five customers" would not be acceptable. Nor does Ryohin Keikaku give huge discount on its products.

Profitability

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

5-Yr. Avg. Margin Above Industry	Annual Margin Above Industry				
	2002	2003	2004	2005	2006
20.1%	7.1%	17.4%	25.9%	31%	28.2%

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

5-Yr. Avg. Margin Above Industry	Annual Margin Above Industry				
	2002	2003	2004	2005	2006
3.9%	2.9%	3.5%	3.0%	6.7%	4.4%

Activity System Map of Ryohin Keikaku Co., Ltd.