

# Porter Prize

## Winners Selection Rationale

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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 2009 Winners

Organizing Committee  
Graduate School of International Corporate Strategy, Hitotsubashi University  
2009 Sponsors  
Daiwa Securities Group Inc.  
The Boston Consulting Group K.K.

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## ◆ Single Business Category Winners

Property Data Bank, Inc. (Software)

Specializes in software services that support property management; offers high-quality services at very low prices

POINT INC. (Apparel Retailer)

Provides “clothes that women want to wear now” to ordinary women in their 20s and 30s on a timely basis with a short lead time

## ◆ Multiple-Business Company Category

Aoyama Flower Market, Park Corporation (Flower Retailer)

Specializes in “private and daily” flowers for ordinary consumers

UNIQLO, Fast Retailing Co., Ltd. (Apparel Retailer)

UNIQLO offers high-quality, low-priced, easy-to-coordinate casual basics.

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

### Property Data Bank, Inc.

Specializes in software services that support property management; offers high-quality services at very low prices

#### Industry Background

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Managing real property, including land and buildings, efficiently, was not easy to carry out. This was because the objects were often located in various places, and each one required the participation of many parties, such as commissioned realtors at the sites and their branches and headquarters, so it was difficult to gather property information in real time. Under these circumstances, the industry had not started to introduce information technology yet.

Building maintenance firms used to help property management by providing information processing services, while construction companies delivered relevant equipment when they built new buildings. However, as J-REIT, Japanese Real Estate Investment Trust, was formed in 2001, the securitization of real estate became popular in Japan with the rise in corporate rehabilitations and the disposal of bad debt by financial institutions, led by foreign investment funds. Foreign real estate management funds brought major changes to the operations of real estate management, such as: 1) the evaluation of real estate holdings based on cash flow; 2) growth in property management undertaken on behalf of owners; and 3) increased information disclosure for investors. All of these changes required new IT tools.

With the introduction of asset-impairment accounting in 2006, property owner companies started to install a new information processing system in order to manage and examine their property's financial values and risks, and control their information in an integrated manner. Large companies were especially keen to boost their property values, so there was a huge demand for an information processing service that helps property management.

Property Data Bank (PDB) was established in October 2000 through an intra-corporate entrepreneur contest organized by Shimizu Corporation. Around that time, Salesforce.com in the United States had just started to offer a service based on cloud computing, but it took some time before large companies introduced it as their major property operating system.

PDB offers a cloud computing service known as @property, which is the industry standard and used by more than 800 businesses.

#### Unique Value Proposition

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PDB provides customers with products and services to support property management, all through @property. It is not a software product sold in the market, and PDB offers various services via cloud computing. The customers are given the right to use those services stored at the company's website and asked to make payment according to their use of the services.

Property Data Bank's service, "@Property," covers virtually everything about the real estate management business, which consists of the following four areas:

- 1) Basic information management —for the management of asset values and risks, as well as important information related to due diligence. Basic information includes 500 items, such as address, dimensions, type of land-use, building structure, prices, construction record and related documents, blueprints and photos.
- 2) Property management —for the management of leasing agreements, profits and construction investments.

This covers 1,000 items, such as stacking plans, tenant lists, budgets, income and expenses, taxation and insurance information.

- 3) Building maintenance —for the management of real estate and related facility equipment, and the support of maintenance work. This covers 500 items, such as routine daily maintenance, registration of facility equipment and components, complaints from tenants and customers, and energy expenditure.
- 4) Portfolio analytical function. Theas extracts and analyzes every aspect of real estate information from the above three categories, which are useful for the assessment, management and planning of asset strategies. These four functions are standardized, and selected according to the needs of each customer.

PDB customers aim to improve their operations easily and fast and cut down on their development and maintenance costs by introducing information technology services. PDB accepts orders from customers who ask for software applications which are not only fast and inexpensive but also completely fitted to their individually different operations.

PDB concentrates on doing business with large real-estate investment funds and major corporations that own big corporate assets (property custodianship section). To manage their assets effectively, these businesses usually rely on outside enterprises that can provide correct financial accounting and swift information disclosure services. In this industry, however, human resource mobility is relatively high, so businesses need to adopt a de facto standard software to control the cost of education for new employees. Manufacturers and other large corporations who own or lease their assets in various places (around the world) also ask their affiliated companies to manage those assets. These property owners want to centralize their property information, but asset management is not their core business, so they ask for a system that does not cost much nor has risks.

Its target customers are companies that are interested in the long-term value of real estate, not those seeking to make only short-term monetary gains. This is why @Property does not have an investment evaluation function.

Customers can enjoy the following benefits: labor-saving in real estate management, the unification of real estate information, swift asset information disclosure, reinforcement of property management, easy accessibility for stake holders (limited scope) and reduction of training cost thanks to the use of the most popular application in the industry. PDB provides other cloud computing services, including monitoring and maintenance of equipment and systems, fault program modification and user support. All in all, PDB's system can offer various kinds of benefit never seen by traditional programs. For instance, the clients are all allowed to use innovative functions and sophisticated expertise without additional investment because PDB introduces advanced customer knowledge into its own program. A minor update is implemented twice a month and a major one has been conducted six times ever since the company started to provide services in 2000. Also, a significantly lower total cost of ownership; lower installation costs, with installation completed in a shorter time, and there is no need to have a system administrator to maintain and monitor the system; it is accessible from anywhere through a web browser; and no additional payment is required for upgrades.

PDB's income comes from three streams. The first is software as a service (SaaS). Customers pay an initial contract fee and a monthly fee for usage and maintenance services of the software. The monthly fee ranges between 1,000 yen to 30,000 yen depending on the number of facilities a customer manages with @Property. The second income stream is its customization service. In response to requests by customers, PDB adds new functions, integrates data with customers' existing systems, and customizes the system. The third income stream is package software. The package software is integrated into customized, large systems by leading system integrators for government and public offices, local governments and large-scale companies. Although PDB specializes in licensing the basic software (SaaS) and providing technical support, by selling the package software, it effectively minimizes the risk of managing projects that may run on too long. The 10,000 buildings managed by 180 customers are managed under SaaS (as of March 2009), and 110,000 properties are managed by the systems that use PDB's package software as a component.

## Unique Value Chain

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### **Support service**

@property is a standardized service and the users need to review and restructure their operations before the introduction. As the service is established based on the expertise of leading businesses, the users can review and improve their own processes. PDB offers a pay service to customers who want to restructure their infrastructure at the time of the introduction. By doing this, the company can promote more business and increase their fee-based profit.

PDB standardizes @Property, and does not customize it significantly for each customer. For unmet needs, it develops new options, which can be added without affecting the standardized part (under the modular architecture).

### **Service providing using SaasS**

PDB operates data centers in Tokyo and Osaka, and backs up the customers' business data at these two sites in real time. Service is provided 24 hours a day, 365 days a year, and its service is up and running 99.99% of the time except for pre-planned halts in system operation due to maintenance work.

### **Marketing & sales**

PDB conducts sales activities targeting top executives and property owners, not the operators of property management companies and building maintenance companies. Also, it targets leading companies that require the detailed and strategic management of properties. @property is a sophisticated property management strategy tool and its excellent usability is recognized by decision-making sections at many companies. Customers who need strategic methods and detailed techniques to manage their property understand this tool in particular. By dealing with major enterprises, PDB can absorb their sophisticated property management knowledge and earn great trust in the industry. Also, by serving the needs of customers, new and old, constantly, the company has successfully provided the service for as many as 110,000 buildings.

### **After-sales services (user support)**

PDB accepts customers' inquiries by phone at the support center. Since PDB owns the software and can access the customers' database, it can correct most problems without visiting its customers. But when they own systems at their sites (development/sale-type), PDB needs to visit the users when they have problems in their systems.

### **Technology development**

PDB conducts unique development activities. For instance, it standardizes or optimizes functions. PDB standardizes @Property, and does not customize it significantly for each customer. For unmet needs, it develops new options, which can be added without affecting the standardized part (under the modular architecture). Also, PDB updates the program quite frequently. Through cloud computing activities and services for established clientele, ordinary users and prospective customers, the company adds new functions and modifies old ones as least twice a month. This frequent update is carried out by PDB's excellent development programming. To shorten development time, it does not employ a water-fall model (or a sequential model). It has come up with its own approach to software development, which is similar to agile software development, i.e., development of a module of the software by a team, frequent introductions to the market to obtain customer feedback, and continual improvement through frequent upgrading.

### **Human resource management**

PDB is trying not to increase number of employees but hires a few specially selected individuals with extensive experience in real estate, IT, and financial engineering.

In order to utilize a small number of employees, PDB does not discriminate employees based on gender, educational background, and age. Fifty five percent of the employees are females, and two out of six bucho positions are occupied by females. Employees are evaluated based on competencies and performance. PDB

defines the required competencies unique to itself, which enables it to appreciate those actions that do not result in performance in short term, yet strengthen the company in the long term.

Employees of the system development firms are often forced to work long hours. PDB believes this not only destroys their balance between work and life but also affects the quality of products, so it monitors overtime work and the time employees leave the office, which is reported to the executive managers every month.

## Fit among Activities

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By carrying out cloud computing activities, PDB provides excellent services for customers. They can reduce their system investment and relevant expenditures to the minimum level, and PDB contains the prices that no software models have ever seen before. The company relies on its competitiveness entirely on these services.

While providing introduction assistance, operation services and support activities, PDB gains business knowledge and cultivates needs, and due to this, it can occasionally and effectively renew @property, in order to deliver so-called evolving services. By responding to the demands from leading property management companies, PDB is allowed to standardize its software applications and renew them from time to time so that they can work even more effectively.

As customers use @property to maintain their systems and manage their data, it is necessary for PDB to make its services even more reliable. The company has acquired the internationally accredited ISO27001 and the Japanese government's ASP SaaS information security and reliability certification, started to publish its own service level agreement (SLA) with a report on the performance, and established a data backup system. (Refer to PDB's activity system map at the end of this report)

## Innovation that Enabled Strategy

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- Developed SaaS system for property management in 2000 when only the SaaS application available for business use was salesforce.com from the U.S., which had just started offering the service in Japan. Even large system integrators in Japan did not have much experience in SaaS development.
- @Property is the very first SaaS property management software in Japan, and became the platform for property management.
- Uniquely controlled access to property management data: Managing property requires the participation of various parties as stakeholders, including the owners, administration companies, cleaning firms, security contractors, and equipment management and maintenance companies. PDB has developed a system that defines which property data they are allowed to access to and what authorities and functions they are given to use.

## Consistency of Strategy over Time

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Since its foundation in 2000, PDB has been consistently offering systems to support existing property management, not the ones which are traditionally introduced as part of new buildings and maintenance-oriented. (The company has been improving the systems by featuring a profit-boosting method, a multi-language ability and an accounting function linked to property owners' main financial systems) Also, PDB has consistently delivered cloud computing services ever since its commencement.

## Trade-offs

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- Does not sell software as an IT asset. Focuses on SaaS (lease) business model. (PDB pursues the cloud computing business and asks the customers to pay based on their use of services. The company develops programs swiftly and updates them in a timely manner, so their maintenance cost is kept low.)
- Does not visit customers for maintenance services.
- Does not develop software other than for property management. (PDB customizes programs based on its software package, so that the users can establish service areas and peripheral functions. The business flourishes despite a small number of staff and a little amount of capital.
- Concentrates on the field of property. (Having pursued property management, PDB is now known as “the expert” in this field.)
- Does not develop services other than @Property. (PDB uses all its business resources to improve @property)
- Does not upgrade parts of software that are mature and proven.

## Profitability

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Both return on invested capital and return on sales exceed industry average.

### Return on invested capital (ROIC)

(Unit=percentage point)

Difference from industry average over 5 year period 21.6%P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	9.3%P	14.8%P	25.1%P	33.7%P	16.1%P

Inter quartile range (IQR)=7.4 %P

Return on invested capital= operating profit divided by (shareholder capital + long term debt + short term debt – cash)

### Return on sales (ROS)

(Unit=percentage point)

Difference from industry average over 5 year period 4.6%P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	5.3 %P	6.8%P	6.0%P	9.6%P	1.5%P

IQR=3.6%

Return on sales= profit on sales divided by sales

Activity System Map of Property Data Bank, Inc.



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

### POINT, Inc.

Provides “clothes that women want to wear now” to ordinary women in their 20s and 30s on a timely basis with a short lead time

#### Industry Background

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The Japanese apparel retail industry viewed from the perspective of the value chain can be divided into the following three categories. The first category is department stores, general merchandising stores, and apparel specialty stores that specialize in retailing; the second category designs apparel products but outsources the manufacturing; and the third category is manufacturers/retailers that vertically integrate functions ranging from planning and design to manufacturing.

The third category is SPAs (specialty store retailers of private label apparel) who design their own products but outsource manufacturing. Forever 21 belongs the first category, Point is part of the second category, and WORLD, GAP, ZARA, and H&M belong to the third category.

With regard to delivery speed, there are two categories. The first targets fashion-conscious customers, and operates a shorter production-to-delivery cycle. The second targets customers who want basic clothes, and operates a longer cycle. Point, ZARA, H&M, Forever 21, etc., are fast fashion, while Uniqlo is slow fashion.

#### Executive Summary

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Point’s strategic positioning is specialization in the “fashion casual” market segment that early majority and late majority customers want. Point quickly introduces “clothes that women want to wear now,” as desired by ordinary women, and as the representative of “Yasukawa (reasonably-priced, cute design)” and “petite price (not expensive, but wonderful fashion products),” Points has gained high recognition and trust.

In addition, Point deploys a “multi-brand strategy” (owning 12 brands) that segments each brand depending on customer taste and store location. By opening stores with selected brands that match high growth locations, e.g., fashion buildings in urban areas, station buildings, and suburban shopping centers, Points is able to keep pace with changes in the distribution industry.

Points introduces “clothes that women want to wear now” with a short product development time and short product cycle. All clothes are sold at the proper price through product design with a high hit ratio, excellent inventory control, revision after product introduction, and so on. Point is the fifth-largest in sales volume in the Japanese apparel retailing industry, yet ranked top in terms of the average five-year ROIC and ROS.

#### Unique Value Proposition

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Point’s target customers are women in their twenties and thirties who belong to the early majority and late majority categories, and whose priorities are expressed as follows: “I want to enjoy reasonably-priced fashion items, and I also want to follow the trends.” They can be described as “ordinary women” and “women with ordinary sensitivity,” and they belong to the early majority and late majority categories as explained by the diffusion of innovation theory. Their needs include “they want to enjoy fashion every day,” “they want to wear clothes different from last year’s,” “they want to enjoy this year’s trends,” and “they want to enjoy shopping as many times as possible each month,” and Point meets these needs. They want to buy new clothes every season.

Point's products are reasonably priced and set at prices that allow women to enjoy frequent shopping without worrying about their wallet. Its prices are far lower and more reasonable than global brands such as Ralph Lauren and Calvin Klein. Point's prices are 50% to 70% lower than the prices at department store. Its prices lie in the "middle price zone," which is slightly higher than the price of basic, less fashionable products. For example, a dress that sells at a department store for 12,000 yen would be sold by Point at 4,900 to 6,900 yen.

Point's products include casual, fashionable clothes and fashionable products that are moderately trendy. In short, their products are "not overly fashionable, but neither are they commonplace," meaning they are "easy-to-wear clothes" that women can wear casually every day. (Point expresses this as "fashion casual.") In order to encourage even "ordinary women" to adopt the latest trends, Point subtly arranges its clothes with speedy introduction to catch the peak of current trends.

Point's brands place a strategic focus on a different target segment and different store location. Point operates 12 brands. "LOWRYS FARM," offering refreshing coordinates to women who lead an ordinary lifestyle, and "JEANASiS," focusing on materials and details with the appeal of "stylish fashion from the perspective of women," operate stores at station buildings and fashion buildings in downtown areas. In contrast, stores intensively operating at suburban shopping centers for brands such as "GLOBAL WORK," which incorporates basic, casual fashion that also follows seasonal trends, and "LEPSIM LOWRYS FARM," which proposes "casual, unassuming styling" with simple naturalness, target women in their 30s, who are the main customers of suburban shopping centers.

Point realizes stores where new products are displayed at short intervals, stores that encourage customers to visit repeatedly, stores where customers can enjoy selecting clothes, and stores that maintain constant freshness.

## Unique Value Chain

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Point's value proposition is supported by its ability to develop the right products that can be sold without discounting, introduce new products at short intervals to keep the stores fresh and fun to visit often, and maintain an appropriate amount of inventory.

### Product development

Point's product planning policy is "life-size merchandising," which means producing clothes that Point's employees want to wear and not selling products that they do not understand. As Point targets ordinary women who belong to the early majority and late majority categories, customer needs are relatively easy to understand. The accuracy of Point's product planning is supported by its multi-brand strategy that clarifies the target customers, by unique qualification eligibility and selection method of buyers, by methods to understand customer needs and reflect these needs in product planning, and by the transfer of authority to buyers.

Point operates 12 brands, and it subdivides its target customers based on store location and favorite tastes in order to clarify the concept of each brand. For example, its major brand "LOWRYS FARM" emphasizes refreshing coordinates that are moderately trendy, "refreshing impression making parents comfortable with their daughters' choice of clothes," and "cuteness from the perspective of women." On the other hand, Point's semi-major brand "JEANASiS" emphasizes trends that focus on materials and details, and promotes "stylish fashion from the viewpoint of women." Point's buyers are not clothing professionals with specialized skills in design or pattern making. Instead, Point seeks buyers in the same age bracket as its target customers, buyers who are supporters of the brand and are "in-house customers," buyers who have experience as retail clerks, and buyers who possess the ability to grasp and express customer needs. All buyers are headquarters employees, but they often visit stores and attend customers, and listen to the voice of customers and the opinions of store employees. This aspect is unique to the type of work called buyers who tend to have

specialized skills<sup>1</sup>. Customer needs are fed back quickly from store employees to the headquarters. In addition to the monthly store manager meeting, MD meeting, and area meeting, IT infrastructure such as the TV conference system has been developed, and store managers propose product ideas and evaluate samples. The last is the transfer of authority, and buyers assigned to each brand have the authority to make decisions on overall products within the range of the overall plan, such as product structure and total purchase volume based on category, e.g., inner and outer wear. In terms of the selection of seasonal themes, product planning, and order volume of each product, application and detailed reports to superiors are unnecessary.

Point is able to achieve a very short lead time for delivering products to its stores. Products are displayed in stores within 1.5 to 2 months of their conception. This is due in part to the coordination process between Point and the trading companies, developed over many years. At Point, roughly 50 buyers and trading house staffers allocated to each brand share information as if employees of the same company, and produce products in close collaboration. Surveying and grasping information on products that sell well and formulating new ideas are the responsibilities of Point's buyers, and the trading houses are mainly responsible for design sketch drawings and material selection. Point decides on the colors, designs, and order volumes, and the trading houses draft the specifications, and sample production begins very quickly. It takes only 1 to 2 weeks from product planning to sample completion. The trading houses select the best fabrics and manage the operations from production to delivery. After delivering the products to Point, with a seven-time weekly delivery system, products are then quickly delivered to stores. With a short lead time, product planning can improve the ratio to reflect customer needs. In addition, the concept of "sales completion date" that sets the expiry date for each product is introduced. Even though sales may be good, the sales period is restricted to three months at the longest and products are successively replaced.

Last is revision after product introduction. Based on a two-month merchandising period, roughly 30% of the product plan is initially introduced, with additional products introduced in 2- to 3-week intervals in order to optimize product distribution to stores. During this period, materials, colors, etc., can be flexibly revised to ensure product fit with the target customers' desire of "clothes that they want to wear now."

### **Out-bound logistics**

Point operates its three warehouses through its subsidiary, while outsourcing transport services. Thanks to an automatic replenishment system, automatic selection system, and daily delivery services to all its stores, any item sold at a store will be replaced by the delivery of an identical item to the store next day.

Point's inventory turnover ratio was 9.6 times for the term ending in February 2009. This ratio is one of the highest in the industry. By adopting layouts that minimize inventory, 594 stores across the nation are unable to hold excessive inventory. However, by delivering products, even if only one shirt, by the following day, Point can prevent the loss of opportunity resulting from the shortage of products. Products that do not sell well are shifted to Point's outlet stores at an early stage, and this prevents slow selling products from remaining at stores. Restricting seasonal leftover inventory to less than the designated ratio of sales is set as the in-house assessment index for each brand and as the key sales target.

### **Store Operation**

In order to realize attractive retail areas, the headquarters regularly compiles a visual merchandising instruction booklet that simply explains retail area layouts and product displays through photographs and sends (e-mail) the booklet to each store. Area managers visit and instruct stores under their management control, and

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<sup>1</sup> With regard to establishing in-house design functions, three patterns are seen in the fast fashion (short product lifecycle) strategic category. The first pattern is ZARA and H&M, each with a level of 100 in-house designers. The second pattern is Forever 21, which does not plan its own products but purchases from trading houses and manufacturers. The third pattern is Point, and buyers (not designers) plan the products. Point concentrates its management resources to "absorb customer needs, plan needs as products, and introduce products quickly to stores."

store operation is maintained at a high level.

### **Marketing and sales**

Point spends less on advertising. Instead, Point promotes its products through grassroots marketing, especially by gaining exposure in magazines, catalogues, and websites, and on shopping bags, as well as by hosting music events. In addition, employees can purchase products at lower prices, and store employees who attend customers and sell products wear company products. In this way, store employees play the role of “walking advertisements.” Point keeps the stores fresh by putting new products in the stores often, to encourage customers to visit their stores regularly and buy products when available. To do so, it launches products at short intervals. Most of its products are replaced with new designs within a month. Point also sets a sell-by date – the date by which sales of a product will be ended, so that the same products are at the store no longer than three months. This applies not only to unsuccessful products but also to successful products.

Dealing with customers and sales at stores is based on “careful distance,” and customers are not handled with excessive service or a pushy attitude. Employees always think from the customer’s perspective and place emphasis on not missing the smallest of signals, for example, “I want to know about this product.” The corporate message “enjoy?” has penetrated among store employees who handle customers cheerfully with a smile. Natural communication with customers not only contributes to building store patronage, but also leads to the discovery of new customer needs. In addition, work at stores is minimized to allow staff to take sufficient time to attend each customer. For example, inventory control and placing orders are infrequent tasks, and product inspection at stores is unnecessary.

### **Purchase/procurement activities**

The “order sheet” used when buyers place orders with suppliers is standardized and systematized for all brands. In addition to improving work efficiency, this also prevents human error such as mistaken orders, and the brand head understands and inspects the order value and order quantity by each buyer in real time.

Point constructs a stable, long-term relationship with its trading houses, but it also understands and inspects the monthly purchase volume, rate of return, and product shortage ratio of its suppliers by each brand in order to manage suppliers by not placing too much emphasis on any specific supplier and preventing abnormal fluctuations. In addition, based on each supplier, Point manages the ratio of products that cannot be introduced to stores due to defects or customer returns due to quality problems, and these concerns are passed on to the suppliers. Based on designated standards, measures that include instructing suppliers or halting business are taken. New trading houses are periodically allowed to participate in order to maintain a degree of tension with suppliers.

### **Human resource management**

Point employs an in-house staff recruitment system. Most of the employees start off as retail assistants. After rising through the ranks, they become store managers. As store managers, they then have the option to become: 1) area managers, who manage several stores and train store managers and staff; 2) buyers, who plan and order new products; 3) visual merchandisers, who are in charge of store layout and display; or 4) press officers, who work to establish the brand image externally.

When hiring and evaluating personnel, Point emphasizes the abilities “to act independently without the fear of failure and to revise quickly.”

Point assigns capable employees to important positions regardless of age. A 33-year-old woman was appointed executive managing director in 2006. The person in charge of the JEANASiS brand (with annual sales of 10.5 billion yen) is 31 years old, and the person in charge of the Heather brand (4.6 billion yen) is also 31 years old. Compared with other companies, its employees are young, but significant authority over overall brand operation is given nonetheless. Eight years ago, Point started hiring qualified part-timers as employees without asking their educational backgrounds.

Store employees represent the majority of the personnel cost in the chain store industry, and Point operates a special system to manage its personnel cost. Point not only manages the personnel cost of stores based on value, but also allocates budget for “operation hours,” which is the total of monthly shift work (working hours of employees and part-time workers) by store each month. Stores set daily shifts within the range of the budget set aside for operation hours. This enables optimal staff allocation for the daily sales budget and increases the accuracy of controlling personnel costs at the same time.

### **Firm infrastructure**

As the brand manager makes quick decisions and revisions centered on sales, purchases, and inventory data, an information system has been developed to facilitate the understanding of the status of operation of each store by brand on same day.

The corporate culture of Point is to “Enjoy fashion, work and life. Enjoy through fashion.” In order to provide enjoyment to customers through fashion, employees must also enjoy their work, and “it is essential for Point to be a company where its employees can boast to family and friends that they work at Point.” At the “managers’ meeting,” where managers across the country gather, the overall policy is conveyed by Point’s top executives and information is shared. This is also an opportunity to commend and praise those employees with excellent performance who have greatly contributed to the company. The reception held on the first day of the meeting is organization by store employees, much to the excitement of all participants, including top management. In-house newsletters, employee handbooks, and other materials incorporate a degree of playfulness.

Another characteristic of Point’s corporate culture is the closeness that exists between the top management and the frontline. Instructions to subordinates are given quickly and directly. The functions of the headquarters are concentrated, and many meeting spaces are made available to allow quick reporting, closer contact and consultation. The top executives frequently visit stores and hold dialogue with staff employees, and they provide on-the-spot instruction if any problems are discovered. The top executives also actively participate in socialization gatherings, as well as frequently participate in major group training, and they passionately speak on their expectations of employees and on the targeted direction. As a result of these activities, the culture of “act first and revise quickly” and the cycle of sharing information, judging and acting quickly have taken root.

### **Fit among Activities**

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Point’s reasonable price setting is a key factor in its appeal to target customers, and the reasonable price setting is attained by increasing the product turnover ratio without discounting. In order to sell all products without discounting, product planning with a high hit ratio and outstanding inventory control are essential. Product planning with a high hit ratio is supported by buyer activities to absorb customer needs, feedback from stores on customer needs, operation method and personnel system that can select excellent buyers, and so on. In dealing with customers, buyers and store staff absorbing customer needs also contribute to building store patronage. In addition, the short product cycle and small lot production contribute to inventory control as well as contribute to maintaining store freshness. (Refer to “Point’s Activity System Map” at the end of this section.)

### **Innovation that Enabled Strategy**

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- Instead of staff with special skills, such as designers or pattern makers, allocate employees as buyers who are the same generation as the target customers.
- Stores without any inventory space.
- Merchandise delivered daily to stores.
- Introduction of a “sales expiration date.” (Even for products selling well, the maximum sales period is

three months, and products are replaced without question.)

- Monitoring of the number of hours worked at stores instead of personnel expenses.

## Consistency of Strategy over Time

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- Point began as a men's apparel retailer called Fukudaya Yofukuten in 1953; it changed its business line to a men's casual wear retailer (1973) and later created a chain in the same business line (1984). In this way Fukudaya Yofukuten developed, but not without its share of problems. For example, it did not have the price-decision right when purchasing and selling national brands; they were unable to secure sufficient purchases depending on the area; their profit margin was low; and Fukudaya Yofukuten constantly faced inventory problems. In order to break through this situation, Fukudaya Yofukuten began brand development through its own planning, and one of the current strategic cores was formed.
- The strategic cores developed after this included "fashion casual," "store brand," fresh retail area, and multi-brands.
- "Fashion casual" meant adopting trends to its basic line. It belonged to the reasonable "middle price zone," and targeted the market that was neither department store nor mega store. The second "store brand" referred to product development based on the "stores" closest to customers. It was the development of its own brand based on the ideas of "producing clothes that we want to wear," "not selling products that we do not understand," and "life-size merchandising." These two cores have been maintained consistently since March 1992 when Fukudaya entered the ladies' casual retail industry with the current major brand "LOWRYS FARM" and began store brand operation.
- The third core of "fresh retail areas" became essential as store brand operation through its own planning began. For store brand operation through its own planning, inaccurate product planning and order volumes can lead to the holding of large inventories. Because of this, the "Fourth Computer System" to enable timely analysis and verification of sales, inventory, and purchasing was introduced in February 1994, initiating improved accuracy of merchandising management. This effort resulted in the 30~45-day product development period and the everyday delivery system.
- In September 1994, the new store brand called "The Works (currently Global Work)" integrating men's and ladies' fashion began. This was the beginning of the multi-brand strategy. As of the end of May 2009, 12 brands are being operated.

## Trade-offs

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- Does not deal with extremely low-priced products without fashion sense and quality or products with high absolute prices.
- Does not have designers and pattern makers in-house.
- Does not have its own factories. (In addition to maintaining low fixed costs, also allows flexible purchasing based on the volume of demand, production in optimal production areas depending on the circumstances at the time, and quick response to the market.)
- Does not carry inventory at stores. There is no space to keep inventory.
- Does not employ mass-market advertising (i.e., does not use television commercials).
- Does not push sales at stores. Does not aim at self-service operation. (To minimize the number of store employees by arranging the store layout and adopting creative product displays.) (Attending customers and conversation with customers offer clues to planning the next products. In addition, natural communication contributes to building patronage at each store.)

- Keep activities other than attendance on customers at minimum in stores. (To secure sufficient time for customer service, e.g., attending customers, optimally allocate store staff, and operate stores efficiently.)
- Does not open a store smaller than a specified minimum store size. (To use different brands for stores depending on the location.)
- Does not introduce products that do not match each brand’s positioning. (To prevent sameness.)
- Does not operate franchise stores. (To be able to implement flexible measures, e.g., feed-back information obtained from communication with customers to product planning, scrap and build stores, change operating brands, and operate multiple brands in the same store.)
- Minimizes paper-based communications such as written requests for management decisions or reports. (To emphasize direct communication to link actual feelings and experiences at stores with product planning and operation improvement.)
- Does not conduct activities that do not fit the corporate slogan, “enjoy?”

## Profitability

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Both the return on investment capital and the return on sales substantially exceed the industrial average on a consistent basis, and the difference shows a tendency to widen.

### Return on invested capital (ROIC)

(Unit=percentage point)

Difference from industry average over 5 years period 52.6%P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	45.0%P	49.2%P	51.0%P	52.5%P	59.0%P

Inter quartile range (IQR)= 18.3%P

Return on invested capital= operating profit divided by (shareholder capital + long term debt + short term debt – cash)

### Return on sales (ROS)

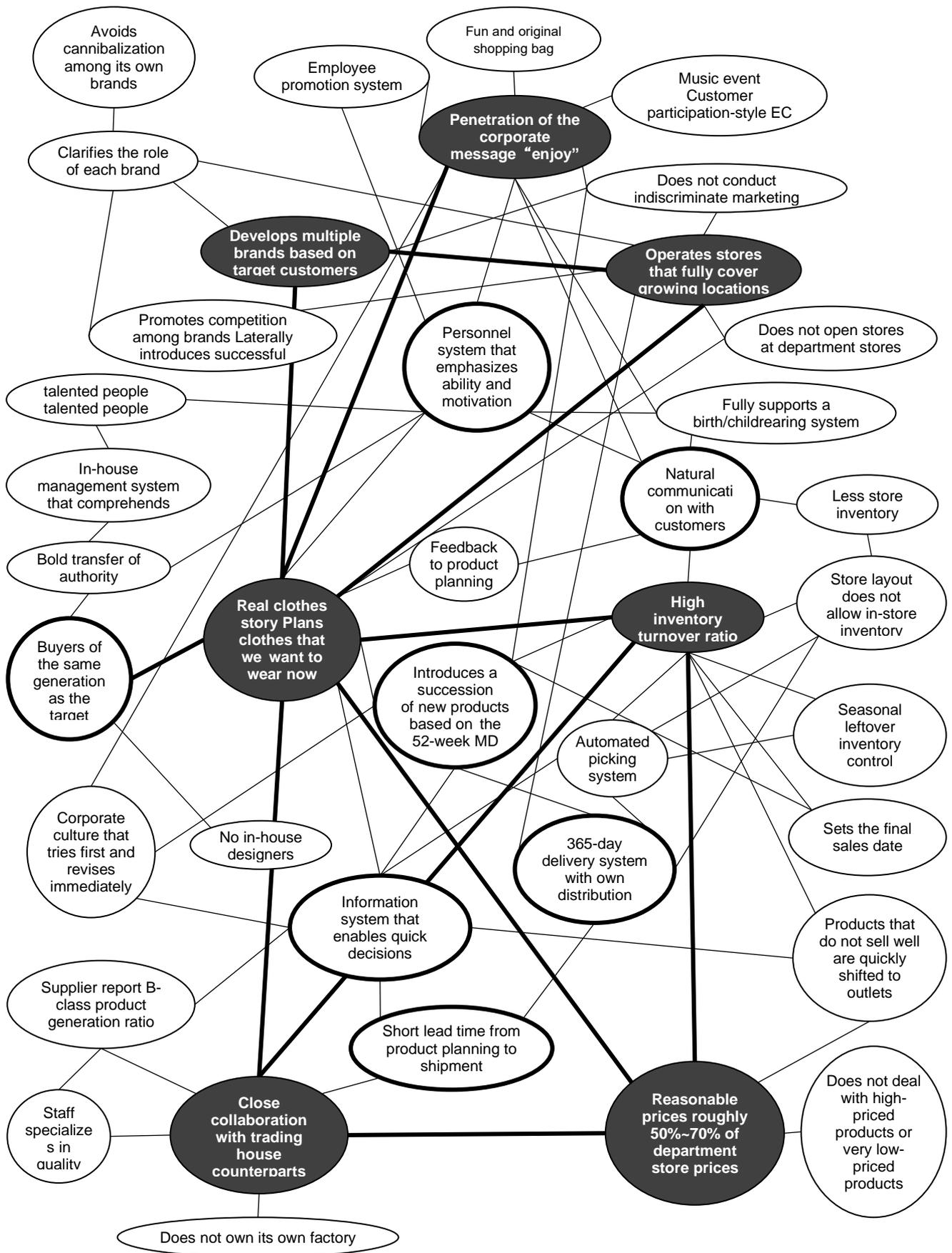
(Unit=percentage point)

Difference from industry average over 5 years period 13.6 %P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	12.7%P	12.5%P	13.3%P	12.2%P	16.1%P

IQR=4.6%

Return on sales= profit on sales divided by sales

# Activity System Map of POINT, Inc.



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

### Aoyama Flower Market, Park Corporation

Specializes in “private and daily” flowers for ordinary consumers

#### Industry Background

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The flowers sold most in Japan include chrysanthemums, lilies, roses, carnations, Kocho orchids and prairie gentians, accounting for more than 60 percent of the wholesale market in value terms. It shows that the flower market in Japan centers on corporate demand for gifts of Kocho orchids and other flowers, and for funerals. As for individual demand, carnations for Mother’s Day stand out.

Flower distributors operating with many stores—though there are not many—target corporations as their major customers. Therefore, they always keep expensive Kocho orchids and large-flowered roses and lilies in stock to respond to the demand for gifts. And they usually set up shops inside hotels to prepare for the demand for weddings.

Small flower shops tend to have only one shop, or three at most. These shops are located in residential areas, making it convenient for individual customers to bring flowers home. Individuals buy flowers for special occasions, such as Mother’s Day and birthdays, and for the family Buddhist altar found in most Japanese homes. Although demand for altar flowers is stable, it is not large enough to support a flower shop. Consequently, flower shops must find restaurants and offices in their neighborhood that will place orders for flower deliveries. Also, these shops usually offer flower arrangement lessons inside the shop to ensure a steady demand for flowers.

#### Executive Summary

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Aoyama Flower Market has deployed 65 outlets in Tokyo and other metropolitan areas. It specializes in “Private & Daily” flowers and defines itself as a service provider that offers the concept “Living with Flowers Everyday” instead of just selling flowers. AFM succeeded in providing a variety of fresh flowers at low prices, while maintaining its sophisticated corporate image. It also created a new product category of reasonable prearranged bouquets that the customers can take home immediately. As a result, the company expanded the “Private & Daily” market dramatically. As the flower market shrinks because of the economic downturn, it still maintains high profitability and continues to show a steady growth.

#### Unique Value Proposition

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Aoyama Flower Market’s value proposition is to make flowers a “private and daily” item. It aims to realize its corporate slogan of “living with flowers everyday” as a lifestyle choice. Hence, its target customer is individuals, not corporate clients. This is a unique approach because none of the other flower retailers with many flower shops would ever consider ignoring corporate customers.

AFM’s value proposition is “Living with Flowers Every Day,” not selling flowers themselves. Aoyama Flower Market has created new strategic positioning for flower retailing, by making flowers a “private and daily” item. AFM has positioned the flower retailing business not as the selling of “flowers” but as the selling of an experience, in other words, “time and space with flowers,” making it a service business.

“Living with Flowers Everyday” starts at a shop where the customers buy flowers and includes a trip back home and time and space they enjoy at home. In order to make the occasion of buying flowers a pleasant experience for the customers, AFM dedicates itself to having new varieties in stock, taking care of the display layout and fostering employees with a great deal of knowledge of the products.

In order to lengthen the lifespan of the flowers, AFM has developed a special jelly to prevent flowers from drying out on the way home. It also offers a complimentary packet of a freshness-preserving formula that will keep the flowers fresh longer, making it possible for customers to enjoy their flowers for a longer time.

What is unique about AFM's product lineup is that it specializes in flowers suitable for individuals to choose for daily use. It also will not carry expensive, long-stemmed roses, which are required for making large arrangements for restaurants, hotels, and offices. Instead, AFM carries various kinds of short-stem roses, as well as other flowers. AFM's does not carry potted Kocho orchids, which are the most popular arrangement given as gifts, nor does it carry chrysanthemums, which are traditionally placed on Buddhist altars.

Another strategy that distinguishes AFM from other distributors is that it provides prearranged bouquets for the customers to take home quickly. AFM offers pre-arranged (ready-to-go) bouquets ranging from 350 yen to 1,500 yen, which have been developed under different concepts, such as "for the kitchen," "for the living room," and "for the dining room."

When AFM started its business in 1989, its prices were about 50% lower than those charged by competitors. Now, the price gap has been narrowed, yet its prices are still 30% less expensive than its competitors'. At AFM, sales revenue per purchase is about 1,500 yen, which is one-third of the industry average.

To spread the concept "Living with Flowers Every Day" to customers who haven't bought flowers for themselves, AFM has opened shops mainly in busy areas such as in station precincts and at department store entrances. In stark contrast to this strategy, most flower distributors targeting individual customers have set up shops in residential areas, considering the convenience of taking products home and the lower cost of store-opening.

## Unique Value Chain

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### **Support service**

#### **Procurement**

In order to respond to customer preferences and requirements which vary from store to store, each shop creator at AFM places an order for flowers to be bought at the Tokyo central flower market, the Ohta Market, selecting items from a long list developed by the headquarters in order to ensure the quality level and brand image. Unlike its competitors, which have centralized procurement at headquarters, AFM does not have a buyer at the headquarters. Each store develops its own weekly flower campaign. The team of shop creators and the product development personnel at headquarters introduce various flowers as the flower of the month, working in collaboration with farmers. Each shop, however, decides its own order volume. Regarding flowers for which demand is steady, like roses, AFM consigns production to its partner farmers.

#### **Inbound logistics**

AFM hires a transportation company specialized in the delivery of fine china to transport its flowers. This company treats the flowers very carefully, as they would fine china. This is how AFM ensures that the flowers it sells will not be damaged during the transportation process. AFM considers that the petals of these flowers for "every-day" use should not be damaged, because customers will be looking at them from a very close distance.

#### **Store operation**

AFM makes shops a place where customers can go to enjoy flowers. In order to make shopping a more pleasant experience, AFM prominently displays flowers instead of placing them in glass cases, enabling the customers to get close to the flowers and actually smell them. It displays the prices of all the flowers sold in the shop. It also makes available information about the flowers and the farmers by providing written explanations on the blackboards and by handing out free flyers at the shops. AFM has relocated the work stations normally found inside the shops of other retailers and put them at separate locations a short distance

from the shop, completely out of sight.

### **Outbound logistics**

AFM provides original paper bags so that the customers can enjoy the flowers while they take them home. At the shops in the station precincts, they pack a bouquet in a box so that it can be easily carried on the train.

### **Marketing and sales**

AFM does not advertise itself through the mass media. Its high-profile shops in areas with a high level of pedestrian traffic are its main form of advertising.

### **Technology development**

AFM is not involved in plant breeding or flower production, yet it aggressively searches for good flower farmers who care about product quality and try new varieties in response to customer requests. It also invites farmers to meetings for “shop creators” twice a month.

Regarding bouquet design development, AFM conducts this process using a team comprising five shop creators, a brand creator, and a person in charge of product development at the headquarter. AFM has in-house shop designers, who design store façades, shelving, buckets, and vases. AFM spends 10% of its budget for new store openings on the development of shelving and displays. AFM also develops its own scissors, knives, knife cleaners.

### **Human resource management**

AFM has created two separate career paths. One is for creators, and the other is for managers. Each shop has one shop creator and one shop manager. Shop creators decide on display design and product assortments, set prices, develop communication strategies, and take responsibility for customer services. Shop managers set annual sales targets, decide who to hire, develop work shifts, handle customer-relations management, and take responsibility for shop profitability. At the headquarters, there is a brand creator and a brand manager.

AFM provides plenty of opportunities to improve flower arrangement skills. It also provides various educational programs, such as training at other shops temporarily, monthly visits to flower farms, opportunity to stay at an apartment in Paris, where employees can stay for a minimal cost to learn from the flower shops there. Exams are conducted four times a year to determine an employee’s knowledge about the product and store management. There is another system for evaluating managers. Part-timers with sufficient drive can sit the exam for becoming full-time employees. The exam assesses their capabilities in financial management, and business planning, as well as their presentation skills. Those part-timers who pass the exam will be given a “full-time employee pass,” which gives them an advantage when full-time positions become available.

### **Firm infrastructure**

AFM delegates full authority to each shop. Shop managers have the authority to set sales targets, procure flowers, decide who to hire, decide on the shop uniform.

With each shop having considerable discretion, shop managers can see the result of their decisions and action to maintain motivation and properly manage profits. They can see each shop’s daily and weekly sales, cost ratio, and ratio of personnel expenses.

Employee commissions are pegged to the operational profit of each shop, which encourages them to minimize opportunity loss and the rate of wastage. Average waste rate of AFM is about 3%, which is much lower than that of its competitors. Shops that intensively manage loss ratio still have a loss ratio of around 10%.

## Fit among Activities

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Under the slogan “Living with Flowers Every Day,” AFM focuses on providing customers with “Private & Daily” time and space. Therefore, it does not need to keep regular gift flowers, such as red roses, in stock. Instead, it procures flowers in season, which makes it possible to provide them at reasonable prices. Also, “Private & Daily” flowers are in steady demand, resulting in a low rate of disposal and enabling reasonably-priced products.

For “Private & Daily” flowers to establish themselves as basic items, it is necessary to open many shops in bustling areas where a high turnover of merchandise can be expected. As a result, it contributes to a low rate of disposal and lower prices. On top of that, deploying many shops helps to cut the costs of store-opening—yet another reason for moderately-priced products.

Since the demand for “Private & Daily” flowers depends on the customer stratum, each shop is given the authority to place orders. In addition, delegating power to decide such matters as employment and profit management enables the optimum ordering and floor structure, ending up with less wastage. It also gives an opportunity for personnel training, which continuously helps to improve business efficiency at each store (See the “Activity map of Aoyama Flower Market” at the end of this section for reference.)

## Innovation that Enabled Strategy

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- Positioned the flower retailing business as a service business that sells “time and space” with flowers, and supports a lifestyle of “Living with Flowers Every Day.”
- Offers “life-style” bouquets.
- Transferred decision-making authority to staff in the shops.
- Opens shops in locations with a high level of pedestrian traffic.
- Separates the shop managers’ job from the artist by creating two positions: shop creator and shop manager.

## Consistency of Strategy over Time

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Since AFM started in 1989, it has stuck to the core strategy of specializing in daily-use flowers for individual customers, even though its practice method has changed from reservation-based non-store sales to store retailing, eventually with many stores.

## Trade-offs

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- Does not put air-conditioned glass cases in the shops. Lets customers have a closer look at the flowers and actually smell them.
- Does not have work stations in the shops.
- Does not give flower arrangement lessons at the shops.
- Does not respond to the needs of corporate clients (large flower arrangements and potted Kocho orchids).
- Does not sell traditional flowers for funerals (chrysanthemums).
- Does not conduct wholesale business for hotels (bridal flowers and large flower arrangements for parties).
- Does not sell dried flowers or preserved flowers.
- Does not open stores in areas with low pedestrian traffic.

- Does not open stores in areas where potential market size will not support a large enough number of shops (The new stores must offset the fixed cost of starting up operations in a new area, developing access to the local flower market, getting to know the local farmers, and developing a distribution system.)
- The headquarters does not order flowers for the shops.
- The headquarters does not hire shop personnel.
- Does not aim to grow faster than it can cultivate personnel. (→If an experienced worker transfers to a new shop, the staff level of the old shop declines temporarily. Rushing too much in opening new shops before the existing stores get back on track leads to overall business deterioration and might put brand value at risk.)
- Does not operate on a franchise basis. (→ Flower distributors keep different products from different producers throughout the year, so it takes at least one year to train new employees to learn about them. A rash and irresponsible decision to move on to FC operation could tarnish brand value.)
- Does not pursue discounts in procurement. (→ Flower shops cannot operate without suppliers. AFM considers its supplier an outside partner with whom it can develop a long-time relationship and grow together.)
- Does not sell dried flowers (→Selling dried flowers could lead to a low level of awareness of product management and thus to a high rate of disposal, because it gives the employees an idea that the flowers that have lost freshness can easily be turned into dried flowers.)
- Does not sell preserved flowers

## Profitability

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Both return on invested capital and return on sales exceed industry average.

### Return on invested capital (ROIC)

(Unit=percentage point)

Difference from industry average over 5 years period 41.2%P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	25.0%P	58.3%P	51.6%P	35.6%P	23.2%P

Inter quartile range (IQR)=16.3%P

Return on invested capital= operating profit divided by (shareholder capital + long term debt + short term debt – cash)

### Return on sales (ROS)

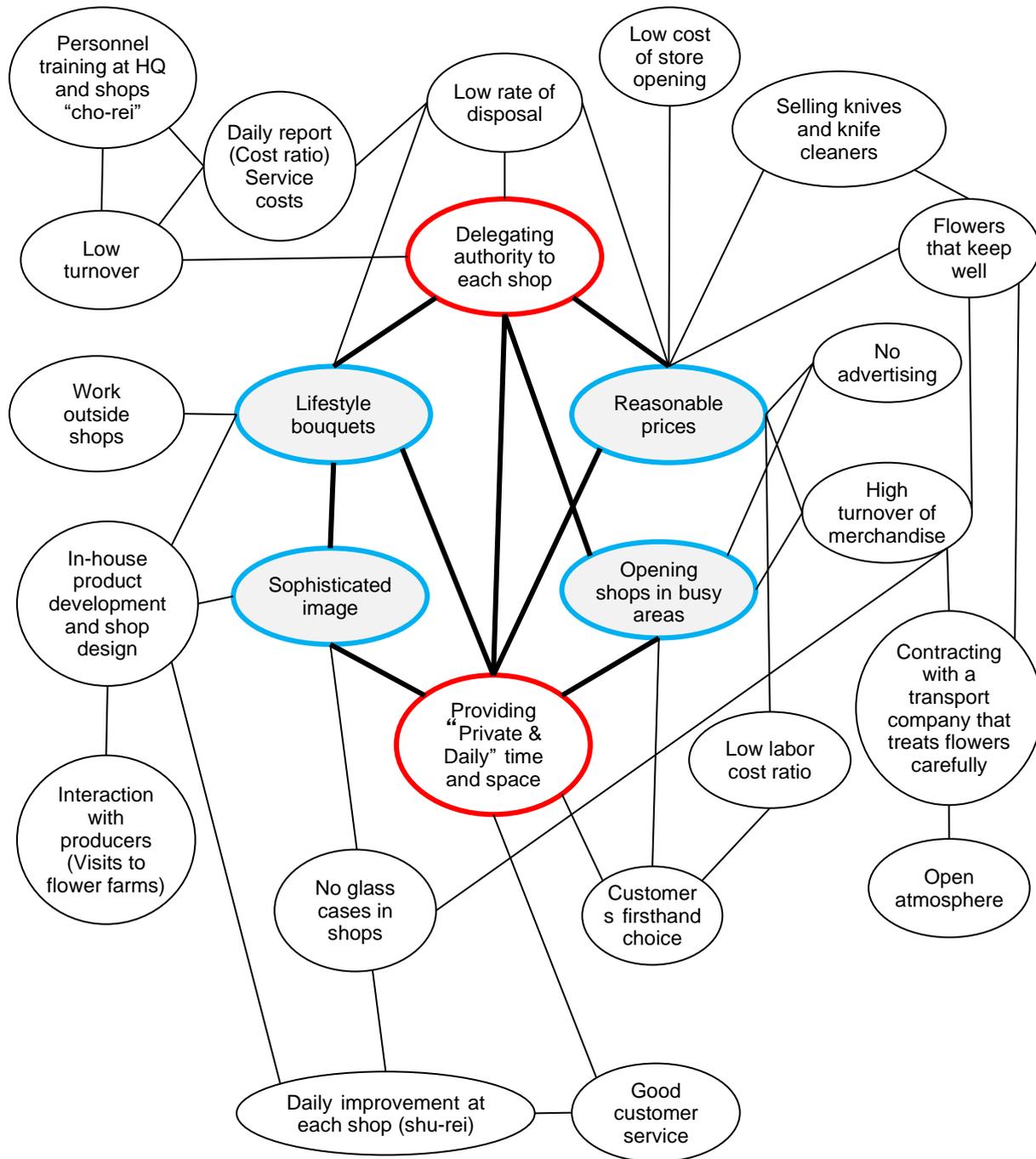
(Unit=percentage point)

Difference from industry average over 5 years period 4.3%P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	4.5%P	7.0%P	6.8%P	4.6%P	4.1%P

IQR=2.8%

Return on sales= profit on sales divided by sales

# Activity System Map of Aoyama Flower Market



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

### UNIQLO, Fast Retailing Co., Ltd.

UNIQLO offers high-quality, low-priced, easy-to-coordinate casual basics.

#### Industry Background

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In light of the value chain, clothing retailers in Japan are divided into three groups: those specializing in the retail business, such as department stores, general merchandizing stores and boutiques; those who do planning but outsource production; and those using a vertical integration system to control all the processes from planning and manufacture to sales. Forever 21 belongs to the first group, Point the second, and World, Gap, Zara and H&M the third. Giant retailer UNIQLO procures materials on its own and initiates joint fabric developments, so it pursues the system more intensively than those belonging to group 3. However, the company asks affiliated factories, not its own ones, to produce products, so it pursues the system in a rather unique way while taking advantage of strong ties with the production facilities.

Based on the lead-time of product development and the lifecycle of merchandize, clothing retailers are classified into fast fashion and slow fashion. Point, Zara, H&M and Forever 21 are the former type, and UNIQLO the latter.

#### Executive Summary

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UNIQLO has successfully established a unique strategic positioning in the apparel industry. It provides basic items as “components” to be arranged with other components by the customers, yet offers high-quality items at an extremely low price. For example, it has popularized existing materials that were previously used in specialized market segments or in high-end market segments, such as fleece pullovers (sold for 1,900 yen in 1998) and cashmere sweaters (launched in 2003), and offering these products at significantly lower prices. UNIQLO sold 2 million fleece pullovers and jackets in 1998, 8.5 million in 1999, and 20 million in 2000. UNIQLO’s 100% cashmere sweaters were priced between 4,900 yen to 7,900 yen in 2003, which was 20 to 30% lower than low-priced competition, while cashmere sweaters sold at department stores costs 30,000 yen to 40,000 yen. It also popularized new, high-performance materials, such as the heat-retailing fabric, HEATECH, in the fall and winter of 2007, by working with Toray, Japan’s leading fabric manufacturer. HEATECH had only a limited introduction in 2003, yet after continuous improvement, it sold 20 million units in 2007 and 28 million in 2008. One HEATECH item sells for 1,000 yen to 1,500 yen.

UNIQLO is a division of Fast Retailing, which manages other apparel brands, such as Theory and COMPTOIR DES COTONNIERS. UNIQLO has 810 outlets with annual sales of \$4.9 billion (as of August 2009), far bigger than \$3.9 billion, which was recorded by Shimamura, the second largest [apparel retailer] in Japan (March 2009), but the company needs to expand its business further to beat global competition (Gap sold \$15.7 billion, Inditex (Zara) \$14 billion, and H&M \$12.3 billion. UNIQLO had 6.0% market share in the world in 2008 and 6.5% in 2009).

#### Unique Value Proposition

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UNIQLO does not define its target customers in terms of gender, age, or ethnicity. It targets all people. Apparel makers often focus on specific designs to satisfy their target customers, but UNIQLO serves a wide range of customers by offering high-quality, casual basics.

UNIQLO’s product offering is broad, which covers men’s, women’s, and children’s items. Products in the casual category range from T-shirts, sweaters, and pants, to jackets, and even include underpants,

undershirts, and shoes. The products are basic in design, and come in many colors.

The products are priced lower than those sold at department stores, but higher than similar items sold at general merchandising stores.<sup>2</sup> However, when the quality of materials is considered, UNIQLO is a better bargain than those sold at general merchandising stores. Quality, style and fashion are usually sacrificed to keep the price low, but UNIQLO sacrifices none of these to produce attractive, inexpensive products.

UNIQLO's value propositions are: 1) apparel items treated as components (to be worn with other items on offer, all featuring a basic design); 2) high quality with a significantly lower price; and 3) apparel proposing new performance features, such as

With a high heat-retaining function, HEATTECH clothes can keep the wearers warm enough to not have to put on extra clothes in winter.

UNIQLO's value proposition of targeting a wide range of customers with low-priced, high-quality products resulted in the hit product HEATECH, with record-breaking sales of 28 million units in 2008. This roughly translates as one out of four Japanese buying a HEATECH product.

## Unique Value Chain

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As stated above, UNIQLO makes high-quality, low-priced, easy to-combine casual basics and offers added value to customers. To do this, the company has introduced the vertical integration system in which all operations, including planning, material development, manufacturing, marketing and sales are integrated (to become a manufacturing retailer) thanks to cooperation with excellent Japanese textile suppliers, foreign manufacturing facilities and other partners.

### Technology development

UNIQLO makes use of not only popular fashion trends but also potential customer needs, to make it a rule to provide valuable, inexpensive, quality products while developing fresh designs, new colors and functional materials.

Compared with other apparel enterprises, UNIQLO takes time to develop products. R&D at UNIQLO centers on: 1) raw material development, and 2) product development. Regarding raw material development, UNIQLO works closely with fabric manufacturers to develop high-performance materials that are heat-retaining, help to retain the skin's moisture, quick-drying, and antimicrobial, with elasticity and superior thinness. It commits to a large purchase volume, which is sold at the 810 stores. It continues to improve the new materials for several years, and when it considers these products ready for launch, the products are prominently featured in promotional campaigns. HEATECH, for example, was introduced in 2003, but was not sold in large volumes until 2005. The product required continuous improvements. This was also the case with brightly colored skinny jeans. Skinny jeans were first introduced in 2005. Meanwhile, UNIQLO worked to develop better stretch fabric and colors to ensure a significant volume of sales.

The product planners carefully study the previous year's sales performance, information from the stores and trend data gathered from around the world. F. And, not only the product development staff responsible for R&D and merchandising, but also those in charge of management, shop operation, marketing and production participate in planning sessions from the beginning. Thus, the company creates products with novel designs and colors in order to attract even more customers.

### Manufacturing

UNIQLO does not have its own factories. Worldwide sales now exceed 500 billion yen, but the maker ties with only 70 long-term-partner companies that comply with UNIQLO's quantity, delivery and cost standards to produce products at their factories. With most of them in China, UNIQLO sends 170 of its own

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<sup>2</sup> First Retailing (FR) has a brand called g.u. which offers products in that price range.

people to monitor and provide guidance to these factories with regard to manufacturing quality, safety, trueness to the design, and manufacturing volume. UNIQLO personnel spend three to four days a week at the partner factories. In addition, it formed teams of craftsmen, (called “Takumis” in Japanese), who are the retirees from leading Japanese sewing companies with over thirty years’ experience, to transfer know-how to the partner factories. The Takumis are involved in every process conducted at the partner factories, from thread inspection to shipment of finished products. Manufacturing quality is important for UNIQLO because its average production lot is about a million.

### **In-bound logistics**

Products are sent to UNIQLO’s warehouses in Japan from the partner factories overseas. UNIQLO uses a third-party transportation service provider to ship merchandise from the warehouses to the stores.

### **Shop development**

At first, UNIQLO opened stores along the highways to attract suburban family customers, but then started to build outlets with various floor sizes – from 50 tsubo (165 square meters) to 1,000 tsubo (3,300 square meters) – in urban areas, to explore new customers there. F F Sixty percent of UNIQLO stores in Japan are road-side shops, and the overall ratio of rent to sales is low. By increasing the size of small branches to standard or larger sizes, and the standard size branches to larger sizes, the company expanded overall floor space. In 2008, it closed 45 stores, while opening another 55 new stores.

### **Store operation**

Due to its “help-yourself” business model, UNIQLO can get by with fewer sales people at its stores, and a high degree of standardization of work tasks in all stores.

Help-yourself stores are needed to arrange their sales floors in a way that customers find their necessary items easily by themselves. The product shelves are organized to provide enough information such as added values, functionality and fashion. Also, it limits the variety of products on display per square meter to make it easier for customers to find products. Products being featured in sales campaigns occupy even larger areas, so that customers can find them easily.

### **Marketing and sales**

The marketing staff join product planning and apply the best way to promote products through various means, including TV, the Internet and newspapers. It also uses flyers on weekends to introduce seasonal products and to invite customers to discount campaigns run for a limited period only.

Also, television commercials are very effective for introducing UNIQLO’s strategic new products, such as fleece in 1998, cashmere in 2003, HEATECH in 2007, and BRATOP in 2009.

The company also invests its money on not only promoting products but also generating values and communicating its pioneering features to the public. Also, its television commercials seek a clear differentiation, expressing the company’s philosophy that it should be the people wearing the clothes that have character, not the clothes themselves. The company works closely with creators around the world to develop “Uniclock” and other novel techniques and attract customers through the Internet, which helps boost the innovative corporate image.

### **Human resources management**

Noting the importance of experienced store managers, UNIQLO has created positions for them, such as supervisor, block leader, Super-Store-Manager, Super-Star-Store-Manager, and franchise owner. Chosen from store managers, superstar store managers are asked to handle a large amount of stock and budget, and their pay varies depending on their performance. By conducting this personnel policy, the company makes sure that each shop should be the solo profit center with its manager as a hard-working merchant, not an ordinary company employee who is supposed to do his job ordinarily. Young talented employees are always promoted rapidly.

### **General management**

Placing the stores and their managers in the heart of its organization, the company makes decisions based on information from them. And the headquarters becomes the store support center that provides the branches with maximum service and sales assistance.

The company conducts competitive, streamlined operations by cutting unnecessary costs and spending on wasteful investment projects.

The company uses the world's most effective management measure called "global one" as its standard to manage worldwide operations. The measure includes various actions, such as global merchandizing (unite the product line-ups in the world without difference in countries) and global marketing (promote products in an internationally organized way as demonstrated by the HEATTECH promotion).

The employees are asked to understand the entire operations in the company as if they are managers and work hard to help the company grow and flourish (specific examples).

## Fit among Activities

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UNIQLO focuses on the limited number of designs to produce casual basics which are easily coordinated with other items as "clothing components." This allows the company to produce fewer, targeted items in large quantity, improve quality and reduce costs. Because of this, the products are little affected by fashion trends while customers of all ages like to wear basic designs, so the company that serves no specific customers can even do fairly well. While satisfying a wide range of customers, UNIQLO strengthens its ability to develop and procure materials and produce products. So far, the company has implemented many successful joint developments with textile suppliers and quality improvement projects which usually take a few years to complete (Refer to UNIQLO's activity system map).

## Innovation that Enabled Strategy

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- Became the very first apparel company to develop partnerships with factories in China, thereby enabling large-volume production of affordable, high-quality items. Thanks to the training provided by UNIQLO's experienced Takumi fabric and sewing professionals, workers at local factories were able to improve their manufacturing technologies. They were asked to produce the same products in large volumes constantly, so their quality went up.
- Created exclusive alliances with fabric manufacturers to develop high-performance materials. No other Japanese apparel retailers are large enough to do this
- Established a vertical integration system thanks to cooperation from the partners. The processes of development, planning, production and sales were all combined.
- Product innovations, such as HEATECH and BRA TOP.
- The company, which makes HEATTECH items based on Japanese technologies and the UT (T-shirt) series inspired by Japanese pop culture, is now called a unique Japanese corporation in the world and draws attention worldwide.

## Consistency of Strategy over Time

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In 1984, UNIQLO entered the basic/casual clothing business by offering unisex clothes of high quality at low prices to customers of all ages. The company, however, needed to improve the products and satisfy customer needs, and, in 1987, it installed a system in which all the business processes from planning to sales were completely combined. Then, the firm began to expand its operation from road-side branches with a floor area of about 150 tsubo (500 m<sup>2</sup>) to open new outlets in various sizes from 10 to 1,000 tsubo (30-3,300 m<sup>2</sup>)

in city buildings, shopping malls in the suburbs and foreign countries. Throughout these changes, the corporate strategies have, however, remained unchanged: 1. Sell high-quality, low-priced basic/casual clothes in large volume, and 2. Focus on the shops, control product planning, production, sales and marketing in a total way, and build a structure to explore potential customers and satisfy their needs.

## Trade-offs

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- Does not own factories (To succeed in selling each of the products in large volume, the company needs to have facilities with huge production capacity. In light of investment and management, the company cannot produce a broad range of clothes, such as bottom, outer, inner and cut&sew, on its own. So, it asks big factories to meet that demand.).
- Does not sacrifice quality, performance, or design for a low price. (It continuously offers high-quality, value-added products at the lowest prices in the market. By developing products people really want, the company helps create huge market demands not ever seen before, and cuts costs through mass production, which helps lower the prices continuously.)
- Offers popular products to a wide range of customers (unlike other apparel makers). Mass marketing does not work in a targeted business (The company aims to produce clothes that people want to wear anywhere at any time).
- Does not undertake small-lot production of a wide variety of products.
- Does not operate stores in a franchise or license business format. (Franchises are limited only to proven Super-Star-Store-Managers, and this opportunity is very limited.)

## Profitability

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Both return on invested capital and return on sales exceed industry average.

### Return on invested capital (ROIC)

(Unit=percentage point)

Difference from industry average over 5 year period 39.1%P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	25.8%P	16.4%P	32.7%P	57.2%P	85.7%P

Inter quartile range (IQR)=17.2%P

Return on invested capital= operating profit divided by (shareholder capital + long term debt + short term debt – cash)

### Return on sales (ROS)

(Unit=percentage point)

Difference from industry average over 5 year period 11.6 %P	Difference from industry average, by year				
	2004	2005	2006	2007	2008
	12.9%P	8.1%P	10.8%P	10.6%P	15.8%P

IQR=4.4%

Return on sales= profit on sales divided by sales

Activity System Map of UNIQLO, Fast Retailing Co., Ltd.

