

# 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

Sponsor

Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

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# Porter Prize 2016 Winners

Organizing Committee  
Graduate School of International Corporate Strategy, Hitotsubashi University  
2016 Sponsors  
PwC Japan  
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.

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## MAEDA KOSEN CO., LTD., Infrastructure Division

(Manufacturing and sales of civil engineering construction materials, disaster prevention materials)

MAEDA KOSEN (hereafter, Maeda Kosen), a leader in the civil engineering construction materials industry, introduced synthetic fibers to a market in which steel and concrete were the materials predominantly used. Leveraging its superior technology and its broad product line-up, Maeda Kosen responds to requests for consultations from project owners, contractors and construction consultants. In addition, the company proposes solutions to the various stakeholders of construction projects. Also, Maeda Kosen provides after-sales service through its nationwide sales network.

## Marui Group Co., Ltd., Card Division

(Credit card business)

Marui manages its Credit Card Services business under a unique business model, merging retailing and credit card operations. This approach, which encompasses both operations, has enabled the creation of a simple, stress-free card application and issuance process. Under its policy to “build creditability together with customers,” Marui Group has developed a strong base of young customers (predominantly in their 20s and 30s), who are more likely than older cardholders to use revolving credit and installment payments.

## Open House Co., Ltd., Single-Family Homes Division

(Manufacturing and sales of single-family homes)

“Let’s find a house in Tokyo” is the motto of Open House. The company focuses on the Tokyo area, and specializes in reasonably priced single-family homes for first-time homebuyers. Open House has created highly efficient operations, undertaking everything from land acquisition to the design and sale of new single-family homes.

## Pigeon Corporation, Baby and Mother Care Products

(Manufacturing and sales of baby and mother care products)

Pigeon focuses on products for infants from 0 to 18 months of age, who have the same needs across the globe. With the value proposition of promoting breastfeeding, Pigeon has built trust with mothers and has captured a dominant market share in nursing bottles and silicone nipples.

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

### **MAEDA KOSEN CO., LTD. Infrastructure Business**

MAEDA KOSEN (hereafter, Maeda Kosen), a leader in the civil engineering construction materials industry, introduced synthetic fibers to a market in which steel and concrete were the materials predominantly used. Leveraging its superior technology and its broad product line-up, Maeda Kosen responds to requests for consultations from project owners, contractors and construction consultants. In addition, the company proposes solutions to the various stakeholders of construction projects. Also, Maeda Kosen provides after-sales service through its nationwide sales network.

#### Executive Summary

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Maeda Kosen is a manufacturer and supplier of various materials for civil engineering construction. Such materials include weather-resistant large-size sandbags used to construct temporary roads in the rebuilding of roads that have collapsed during a natural disaster; net bags made of recycled fibers and used as footwear covers; light and strong fiber mesh sheets used in recovery work on collapsed embankments, to mitigate soil erosion and reinforcement; rockfall protection nets made of high-strength, high-elasticity fibers that are enmeshed in a three-dimensional way; and landscape improvement materials like fences and benches made of recycled plastics, for use in national parks.

#### General features of the civil engineering materials market

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The general value chain for civil engineering materials being sold in the market is described as follows: Taking into account the unique requirements of a specific civil engineering construction site project, a construction materials manufacturer will put together a technical proposal and submit this to the construction companies and construction consulting companies involved in the project. After a technical proposal has been accepted a purchase order for the construction materials will be placed. (However, technical proposals are rarely required for materials that are conventional commodities). In some cases, the value chain goes through intermediary agents, who are responsible for delivering the proposal to the construction companies and consulting companies. In addition to the construction companies and consulting companies, another important stakeholder is the owner of the construction site. Owners of civil engineering construction sites are usually: 1) the national government; 2) local governments; and 3) private companies. Installation work will be done by the contracted contractor, but a shortage of skilled manpower, caused by the aging workforce, is usually an issue.

In the case of most public works projects, some kind of certification verifying the quality of construction materials and methods and approval by the relevant authorities will be required. In addition to this certification, materials and methods have to be individually approved, and the consent of all parties (the project owner, construction consultant companies, and construction companies) must be acquired before the materials and methods in question can be selected for use as a construction material for a public works construction project at a specific construction site. This process involves much time, effort, complicated procedures, and manpower. For this reason, many manufacturers of civil engineering construction materials outsource the preparation of these technical proposals to intermediary agents.

The national budget for public works, which peaked at 9,745 billion yen in 1997, has been declining ever since. In 2016, the public works budget was 5,934 billion yen (6.2% of the entire national budget of 96,722 billion yen). Budget allocation priorities have shifted increasingly from the construction of new roads to maintenance projects (i.e. improving the earthquake resistance of road embankments and bridges) and reinforcement projects (soft ground and riverbank reinforcement).

Japanese companies have gained world-leading prowess in civil engineering technologies as a result of

having dealt with various types of disasters. These technologies have gained worldwide recognition for meeting the extremely high technical standards that are characteristic of public works projects. Thus, Japanese companies are expected to extend to developing countries both technical cooperation and business development support, to help these countries devise countermeasures for flooding and other natural disasters.

## Unique Value Proposition

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Maeda Kosen has developed civil engineering construction materials that are light and strong, with superior workability. The company has created such innovative materials by applying both its proprietary fiber and textile processing technology and its resin molding technology (i.e. combining resin with heat-resistant strong aramid fibers and carbon fibers). Maeda Kosen also has developed a variety of new methods for application in the civil engineering field. Such applications include: 1) infrastructure facility maintenance and repair; 2) the prevention and mitigation of disasters; and 3) environmental protection and environmental remediation work. Maeda Kosen proposes technical solutions, methods and materials to project owners (i.e. the national and local governments), construction companies, construction consulting companies, and intermediacy agents. Maeda Kosen is a specialist in materials and methods for drainage, ground reinforcement, riverbank protection, oil absorbent fences for oil spills, and landscape improvement materials. Maeda Kosen's sales engineers make the structural calculations and design proposals themselves. The company's sales engineers have been assigned to work sites all around the country. Equipped with extensive knowledge of materials, methods and construction sites, these sales engineers undertake the drafting of individual technology proposals for each particular project.

Maeda Kosen has a broad product line-up, and offers various options for the industry. The company's product line-up consists of both unique products that are manufactured in-house and general items sourced from outside manufacturers. By leveraging its broad product line-up, Maeda Kosen is able to develop proposals that are "a total package of solutions" for its customers.

For example, in the case of a new road construction project, when Maeda Kosen submits a design for soft soil reinforcement of land on which a new road will be built, the company will simultaneously offer a proposal on vegetation materials for the road's embankment slope. Multiple proposals are submitted together as a total package of solutions for a specific construction site. In the case of a project that requires a combination of highly technical solutions to address multiple issues, such a comprehensive approach would not be possible if the project owner were to tackle all the individual parts of a project. By leveraging the company's expertise and capabilities, Maeda Kosen is able to provide its customers with distinctive added value. This same kind of added value could not be provided if a sales approach that focused on a single product were used.

Maeda Kosen also provides installation instruction services at the construction site, assisting with technical details. This instruction is given to construction companies when they start the actual installation work. After the completion of construction, the Maeda Kosen sales engineer working in closest proximity to the construction site is given the responsibility of profiling the project, filing an installation record, and keeping the records for maintenance purposes. (Those records are kept for a ten- to twenty-year period.) Follow-up visits are made to the construction site because on-going after-sales services are provided whenever such services are necessary. Maeda Kosen's sales engineers are often aware of the details of all major civil works projects in the region, regardless of whether Maeda Kosen was involved or not. These sales engineers also function as a great "disaster recovery support force" that helps local governments in times of disaster by: 1) developing plans for reinforcement work; 2) diagnosing the damage done by natural disasters; and 3) developing and implementing recovery plans following natural disasters.

Maeda Kosen keeps inventories at its major logistics centers in many regions of Japan. Having a stockpile of inventory stored nearby enables the company to quickly implement disaster response and recovery measures in the case of an emergency.

Through these activities, Maeda Kosen differentiates itself from its competitors and delivers highly value-added services that other manufacturers are not easily able to provide.

## Unique Value Chain

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Maeda Kosen is also unique in its value chain, especially with regard to sales activities. Maeda Kosen's sales engineers are in charge of all the processes, and they deal with all the stakeholders. They are equipped with a deep and broad knowledge of engineering products and methods, and are capable of making structural calculations. Moreover, they are deeply entrenched in the region, and understand the history of every major public works construction project in the region.

### **R&D**

Maeda Kosen's core competencies are in geosynthetic technology applied to civil engineering applications, fiber processing technology, manufacturing technology of non-woven fabric, resin molding technology, new composite-materials development technology, civil engineering technology, and measurement and analysis technology. Maeda Kosen undertakes research in-house on these core technologies, but also actively conducts joint research with universities. In addition, the company frequently presents research papers at international academic conferences, which has led to collaboration on joint development projects with overseas companies and public organizations, particularly in the area of disaster prevention.

New product development is undertaken by six Marketing and Development Departments. Each of these six divisions is responsible for one of the following areas: 1) Ground reinforcement and drainage; 2) facility maintenance; 3) landscape improvement materials; 4) water environment maintenance; 5) slope disaster prevention; and 6) forest preservation. When combined, these six divisions can cover all materials for civil engineering applications in every area of specialization. The six divisions know what the other divisions are doing, which helps each division to develop new products and to apply products from one area to another. R&D staff members in charge of product development collect information at academic conferences. They also receive updates about customer needs at monthly sales meetings. R&D staff and sales offices attend product briefing sessions in these monthly sales meetings and exchange information. Sales engineers are informed about new products at product briefing sessions organized by a member of the Marketing and Development Departments every two weeks. Sales engineers become familiar with the new products, learn how these products can be used at construction sites, and deepen their understanding of the affinity between these new products and other existing materials.

Products that are being used for new applications or that offer new features often require certificates of authorization (i.e. manufacturing and sales licenses) issued by public organizations, such as the Public Works Research Center (PWRC), to demonstrate compliance with the strictest quality standards. Maeda Kosen undertakes product development, conducts numerous field trials, and proposes standards to encourage the adoption of new technologies. For example, when Maeda Kosen introduced weather-resistant large-size sandbags that offered radically improved weather resistance, this was considered to be a new product that had to be examined and certified by an official authority.

### **Manufacturing**

Maeda Kosen does not restrict production to in-house manufacturing. It selects the best resources and will hire outside contract manufacturers regardless of whether their factories are located in Japan or overseas. Maeda Kosen matches products to the most suitable manufacturing plant (or else sources those products from somewhere within the supply chain), and creates its own production map for each product category.

### **Sales**

Maeda Kosen's sales engineers are in charge of drafting technical proposals, offering on-site instruction for technical installation, and providing post-construction after-sales services. The technical proposals prepared by Maeda Kosen feature a high degree of completion, and include construction calculations. These

proposals are submitted to project owners (i.e. government administration offices) and construction consultants. After the proposals have been accepted by the construction consultants, Maeda Kosen's sales engineers approach the construction companies directly. The sales engineers make sales calls, deliver construction materials, and provide instruction on technical installation and give guidance whenever necessary. The sales engineers are also responsible for after-sales services, which include checking the work after the completion of construction. Sales engineers must record the details for each part of the project, and keep track of this information. Maeda Kosen's sales engineers cover all the prefectures, and are rarely transferred to different regions. This enables them to develop an extensive knowledge regarding the long history of civil works projects in their area.

### **Outward bound logistics**

In order to provide swift action for disaster recovery, Maeda Kosen has established logistics centers throughout Japan in collaboration with local logistics companies. At these centers, Maeda Kosen keeps inventories of particular products that will be necessary for disaster response and recovery, based on knowledge developed through many years of involvement in that field.

### **Post-construction services**

For ground reinforcement projects, Maeda Kosen creates and maintains records for each project, and monitors the situation according to its importance. In the case of sites that are not registered on a map, which is often the case when the site is deep in the mountains, Maeda Kosen keeps records using the latitude and longitude readings taken from a GPS system. This way, the company can keep track of the site even after the person in charge has left. Maeda Kosen embeds optical fibers into the ground to monitor the soundness of major sites by periodically collecting data on ground strain. This enables Maeda Kosen to notice any changes and take the necessary countermeasures. Preventive reinforcement efforts result in increased safety for people, as well as a reduction in the cost of public works projects.

### **Human Resources Management**

In order to cultivate a team of sales engineers with deep and broad expertise in the company's products and methods, professionals who can create meticulous proposals that have been customized for each individual construction site, Maeda Kosen assigns each new sales engineer to a variety of constructions sites that include roads, rivers, and ports, and continues dispatching them to a large number of sites over time. The company also organizes in-house competitions. Participants are required to submit proposals containing solutions developed for fictional cases, and conduct study groups to review successful proposals. The company encourages its sales engineers to write and publish research papers in academic journals in the field of civil engineering. The company also encourages its sales engineers to acquire additional professional qualifications as a consulting engineer, an architect, or a first-class civil engineering works execution managing engineer, for example.

### **General Management**

Maeda Kosen identifies its basic philosophy of management as follows: "Maintaining good relationships between people is the foundation for everything, and is our goal." Accordingly, this basic philosophy makes the company's approach a customer-centric one. The company raises awareness among its people about how Maeda Kosen's products "protect the homeland." The company puts a priority on investing in the post-construction monitoring of the work that has been done and providing follow-up services. The company's CEO, Yukitoshi Maeda, places great emphasis on the corporate message: "Maeda Kosen is a company that synthesizes." He realizes the importance of information-sharing among the different technological areas and product categories, as well as the crucial role of information sharing in the post-merger integration process.

### **Post-Merger Integration (PMI)**

Maeda Kosen has acquired seven companies and business units since 2000, in order to aggressively diversify into different technological areas. The Marketing and Development Division, and the Corporate Planning Office have staff members who are in charge of integrating technology and strategy. These individuals

understand all the technologies that Maeda Kosen possesses. They develop R&D plans, and identify which technologies and which companies should be acquired through M&As.

After the acquisition, executives of Maeda Kosen make frequent visits to the acquired company, and communicate directly with the employees there in order to calm them, reassure them, and convince them not to resign. The secondment of staff to the acquired company is done to foster a mutual understanding of the details of each company's business operations. This practice is consistent with the company's basic philosophy, "Maintaining good relationships between people is the foundation for everything, and this is our goal."

Soon after the acquisition of a company, a study group is organized to help Maeda Kosen's sales engineers understand the acquired company's technologies and products, which will quickly be added to Maeda Kosen's offerings. After the synergies with an acquired company have been achieved, from time to time Maeda Kosen will absorb that business unit and make it an internal division or department.

## Fit among Activities

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The activities of Maeda Kosen's Infrastructure Division center around two cores. The first core is comprised of: 1) broad technologies, and the synthesizing of these technologies; and 2) proposals that offer a total package of solutions. The technologies enable the provision of solutions as a total package, and the combination of these products and services creates high value-added. The second core entails on-going customer service, and includes the monitoring of sites after the completion of construction. Customers trust the company because of its long-term commitment to post-construction project monitoring. This, in turn, contributes to the competitiveness of Maeda Kosen's proposals. These core activities are delivered by various divisions and offices within the company. These include the Marketing and Development Division and the Corporate Planning Office, which coordinate the development of business plans that include technology strategy; six Marketing and Development Departments, which undertake research; and the Sales Division, which handles communications with clients and the development of proposals, and provides technical installation instruction and post-construction services. (Please refer to Maeda Kosen Co., Ltd., Infrastructure Division's activity system map, which appears at the end of this report.)

## Innovation that Enabled Strategy

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- Has applied fiber-and textile-related technology to civil engineering construction materials.
- Creates and maintains detailed records on major construction sites where the company's materials have been installed.
- Encourages sales engineer employees to become very firmly rooted in their own region of Japan.
- Uses ground reinforcement materials with embedded optical fibers, which enable the periodical monitoring of soil deformation.

## Trade-offs

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- Does not target a growth in sales volume as its first priority. Maeda Kosen emphasizes profitability over the amount of profit.
- Chooses customers who put greater value on high-value-added products and solutions.
- Does not compete on price.
- Does not limit itself to in-house developed technologies. Aggressively pursues mergers and acquisitions, as well as alliances with universities and other companies.

- Does not assign the preparation of proposals, sales activities and post-construction services to different personnel. One sales engineer is responsible for handling all of these activities. Involvement in all of these activities helps an individual sales engineer to develop a deeper understanding of the company's products, methods, and work sites. This also helps individuals to develop a sense of ownership for a project.
- Does not frequently rotate sales engineers.
- Does not avoid the costs involved in the provision of post-construction services. Maeda Kosen believes that the provision of post-construction services helps the company to develop customized proposals that will effectively resolve the construction site's specific issues.
- Does not avoid the risks involved in mergers and acquisitions. Maeda Kosen believes that if there is no risk, there is no innovation. The company focuses its efforts on solving the issues that underlie the risk.
- Does not rely on internally developed people. Maeda Kosen aggressively hires people from other companies if that person has good problem-solving abilities and is a good fit for the job.

## Consistency of Strategy over Time

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Maeda Kosen's core consistency of its competitive strategy is technology leadership based on unique technology and the quality of its technical proposals. The company's technology leadership has been further enhanced by the broadening of its product line-up through mergers and acquisitions (M&As) and the improvement of capabilities to enable the company to synthesize different technologies. Another core consistency is Maeda Kosen's commitment to providing on-going services that continue long after the completion of a construction project. This commitment to the long-term provision of on-going services is supported by the creation and maintenance of records for each construction site, and by the cultivation of a team of sales engineers who have developed strong roots in each region.

Maeda Weaving Factory, the predecessor of Maeda Kosen, was established in 1918, so Maeda Kosen will be celebrating its 100-year anniversary in 2018. Maeda Kosen's infrastructure business was started by the current CEO, Yukitoshi Maeda, in 1972, when he used synthetic fibers to develop subterranean drainage materials for road construction. During Japan's period of rapid economic growth in the 1970s, the Japanese government invested aggressively in public works projects and built roads, which created the demand for drainage materials. This is how Maeda Kosen was able to establish itself as a pioneer of geosynthetics (fibers applied in public works construction projects).

In the 1980s, Maeda Kosen introduced low-elasticity fiber materials with superior shock resistance for use in the reinforcement of embankments. These materials, manufactured in-house using extremely rigid aramid fibers, have been used to reinforce vertical walls and embankments with steep slopes during the construction of roads and dams. This developed into the second product area for Maeda Kosen.

In the 1990s, facilities made of concrete that had been built in the 1970s became old and weak. Maeda Kosen introduced carbon or aramid fiber sheets that are wrapped around the piers of bridges and the pillars of buildings to prevent the falling of masonry and provide the reinforcement of concrete against earthquakes. This new product enabled Maeda Kosen to enter the field of maintenance and repair for public works projects.

After the year 2000, frequent natural disasters evoked the enhancement of safety and extended the service life of facilities. Maeda Kosen introduced new products to satisfy new technological standards through new product development and the improvement of existing products. In the mid- 2000s, Maeda Kosen assigned a sales engineer to each prefecture , and started delivering more detailed customer service, which included the keeping of records for each major construction site. As fewer new roads were being built, demand for reinforcement materials for embankments began to decrease. Recognizing this contraction of its major product market, Maeda Kosen started to diversify into civil engineering areas other than road construction, and also pursued overseas business expansion. The company acquired seven companies and business units after 2000,

and entered into new areas like marine applications (fences for preventing the spread of pollution and oil-absorbent fences for oil spills), landscape improvement materials (synthetic wood slats and planks for use in fences), forest preservation materials (vegetation sheets, products made of timber from forest thinning, riverside reinforcement products), and agricultural materials.

After 2010, Maeda Kosen put more effort into overseas expansion. In 2011, the company commenced production in Vietnam of landscape improvement materials (like synthetic wood) and oil fences that prevent oil spills from spreading. At the same time, the company began to build a sales network for infrastructure-related markets in Southeast Asian countries, and started selling its products to public sector entities, especially for applications relating to natural disasters, and to the private sector.

## Profitability

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Both the five-year average of return on invested capital and return on sales exceed the industry average. (Profitability analysis was conducted by PwC Japan.)

Return on invested capital (ROIC) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
16.4 %P	9.5 %P	16.9 %P	17.7 %P	22.6 %P	14.2 %P

Inter quartile range (IQR) = 4.9%P

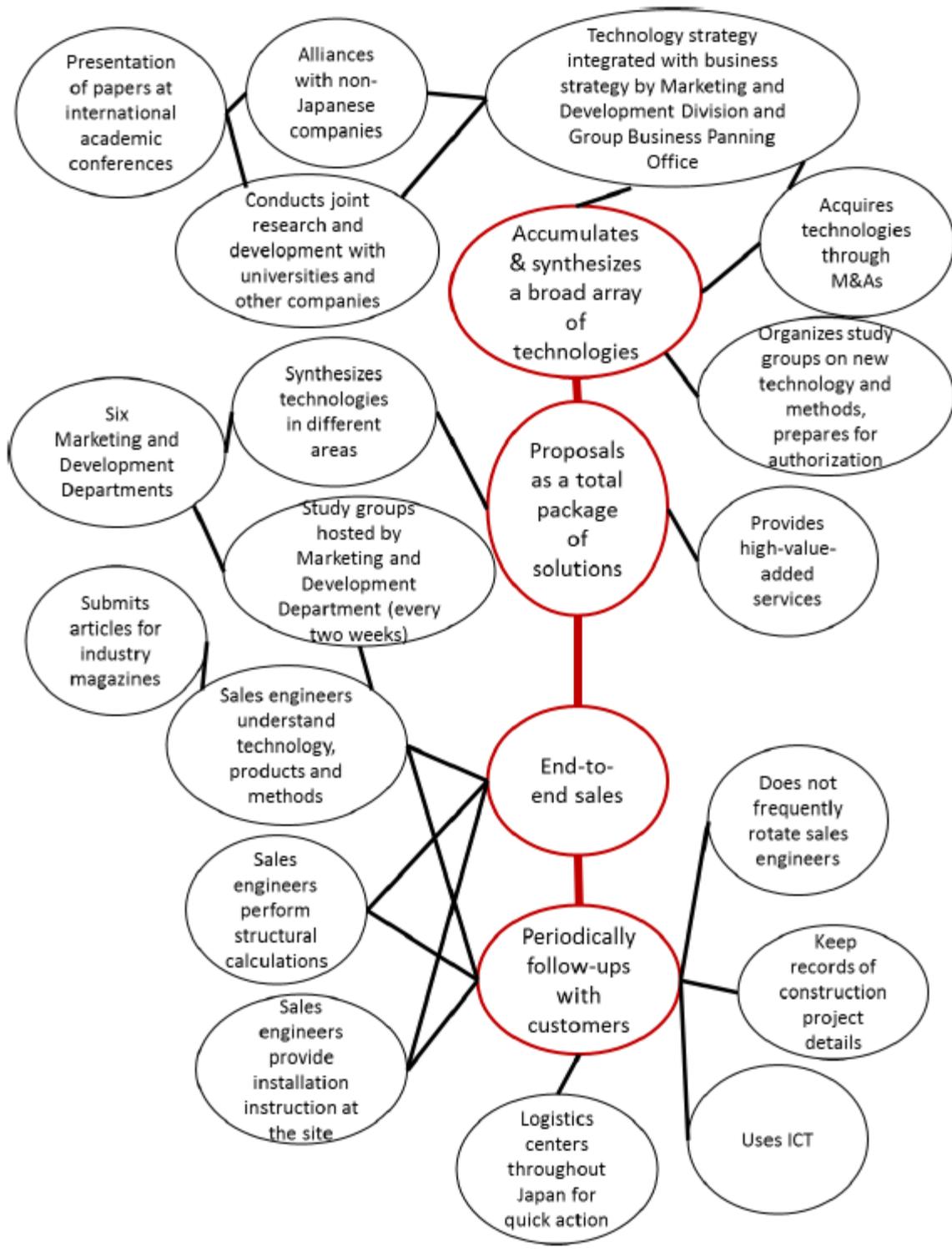
Return on invested capital = Operating income / Average invested capital

Return on sales (ROS) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
11.0 %P	8.4 %P	9.4 %P	12.0 %P	13.0 %P	10.1 %P

IQR = 4.7%P

Return on sales = Operating income / Net sales



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

### Marui Group Co., Ltd. Card Business

Marui manages its Credit Card Services business under a unique business model, merging retailing and credit card operations. This approach, which encompasses both operations, has enabled the creation of a simple, stress-free card application and issuance process. Under its policy to “build creditability together with customers,” Marui Group has developed a strong base of young customers (predominantly in their 20s and 30s), who are more likely than older cardholders to use revolving credit and installment payments.

#### Executive Summary

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Marui Group offers credit card services under the EPOS Card brand name. The EPOS Card, a multipurpose card that can be used both inside and outside Marui stores, has 6.13 million cardholders, with a transaction volume of 1.465 trillion yen. The Credit Card business is a core business, with operating profit accounting for 75% of Marui Group's total operating profit in fiscal year 2015.

In terms of the number of cardholders, the EPOS Card is ranked 11th in the industry, far behind the leader, Aeon Financial Service, with 25.88 million cardholders. Next is Credit Saison, with 25.61 million cardholders, followed by Sumitomo Mitsui Card, Mitsubishi UFJ Nicos (Mitsubishi UFJ Financial Group), Cedyna Financial Corp. (Sumitomo Mitsui Financial Group), NTT Docomo, Toyota Finance, Orient Corporation, JACCS (Mitsubishi UFJ Financial Group), and Life Card.<sup>1</sup>

Marui Group was able to realize large-scale enrollment and widespread use of the EPOS Card while simultaneously lowering customer acquisition costs by having the sales staff of retail stores recommend the card to customers while they are shopping in the store. Customers are able to complete the application process when paying for their purchases. A credit card equipped with an IC chip (not a temporary card) is issued on-the-spot in stores in as little as 20 minutes. Marui Group does not issue separate cards for its collaborators. Thus, the holders of this one credit card can enjoy the cardholder benefits offered by any of the collaboration partners.

#### Unique Value Proposition

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Marui Group has positioned its credit card as "the customer's first card, to be used for many years." Accordingly, Marui Group's target customers are young people with a strong appetite for spending, who will be cardholders for a long time. Individuals who turn 18 will begin earning a living, or, as students, will start working at part-time jobs. Along with access to disposable income comes the desire to do some shopping.

The first value that the EPOS Card provides is "building creditability together with customers." This is the credit philosophy of Marui Group. The company sets a much lower credit limit for new cardholders. This enables Marui Group to issue credit cards to any customer over the age of 18. After taking into account each cardholder's usage history (specifically, the account transaction volume and late payments), Marui Group may gradually raise the credit limit. A higher credit limit that is based on usage history will simultaneously improve customer convenience and help Marui Group to control credit risk. Marui Group operates Gold Cards in the same manner, and this is the practice that sets it apart from other companies, which set a higher standard based on level of annual income. Marui Group will invite cardholders to switch to Gold Cards after reviewing their transaction and payment histories. The company is willing to approve Gold Cards for young cardholders who would not normally qualify for the Gold Cards of other companies because the determining factor is usually annual income. For many cardholders, the EPOS Card is their first credit card, and the EPOS Gold Card is their very first Gold Card. Although holders of Platinum and Gold Cards make up 21% of all EPOS cardholders,

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<sup>1</sup> Yano Research Institute, Credit Card Market 2016 (16 Nenban Credit Card Shijou no Jittai to Tenbou)

their transaction volume accounts for 60% of total transactions. Furthermore, the transaction volume per cardholder of the EPOS Gold Card was triple the transaction volume of holders of ordinary credit cards in fiscal year 2015.

The second value Marui Group creates for its customers is the ease of card issuance and usage. From the beginning customers find out about additional perks associated with the EPOS Card (i.e. shopping points and sales promotions) because members of the store's staff explain such details when encouraging customers to become cardholders. All application documentation is completed on-the-spot, using a tablet device, and customers receive credit cards equipped with IC chips (in as little as 20 minutes<sup>2</sup>), eliminating the need to wait at home for the delivery of registered mail on a later date. Customers can easily register a bank account from which credit card payments will be made, simply by swiping their bank ATM card at the time of application. The issuance of a proper credit card rather than a temporary card contributes to the higher usage rate. (Marui Group has experienced a 10% increase in card usage just by issuing the card on-the-spot in its retail stores, instead of having the card delivered a few days later by the postal service.) More than 70% of new cardholders in 2015 signed up for the card in one of the Marui Group's retail stores. (Marui Group operates 28 retail stores, including Marui department stores and MODI shopping centers). About 10% of new cardholders apply for the card at the shopping centers of collaboration partners, where Marui Group maintains an EPOS Card Counter. The sales staff of tenant shops encourage customers to apply for the card, and at the EPOS Card Counter, members of Marui Group apply using tablet devices. Customers receive the credit card right away, and register the card on the EPOS Card website.

The application process for switching over to a Gold Card can also be completed on-the-spot, with the customer receiving an EPOS Gold Card in about 5 minutes. This change has resulted in a 100% increase in the total number of Gold Cards issued. In 2015, 50% of all newly issued EPOS Gold Cards were issued on-the-spot.

Registering the new card on the EPOS Card website is also a quick and easy process. Registration can be done on the same tablet device used for making the initial credit card application.

This has resulted in the higher usage of the revolving credit payment option. Cardholders tend to favor a one-time, lump-sum settlement of the bill when paying for their purchase inside a retail store. It is often the case that customers will switch to a revolving credit payment format later on (an option available on the website). At the EPOS Card website, cardholders can confirm the amount of their credit card purchases, and they can also receive notifications about any sales promotions. (Such sales promotions also contribute to the active use of the credit card.) Seventy-five percent of EPOS cardholders register on the website. This figure is much higher than the industry average of 25% (according to Marui Group). Holders of Gold Cards tend to use the revolving credit payment option as often as ordinary cardholders.

Prepayment of a revolving credit payment before the end of the specified period is easy by visiting an EPOS Card center, or using the Marui Group's ATM machines, bank ATMs, and convenience store ATMs.

The third value that Marui Group creates through its credit card business is the provision of additional services. Marui Group offers shopping-point services, special sales events exclusively for cardholders at Marui Group's retail stores four times a year, and promotional sales campaigns offered for a limited time only (such promotional campaigns are also provided by other credit card operators). What is unique with Marui Group is that existing cardholders can take advantage of benefits offered by Marui Group's new collaboration partners (such as shopping malls and other companies), without having to apply for a different card. This is because Marui Group does not offer a new card for a specific collaboration. (There is a common practice among many industry players to issue a credit card limited to a specific collaboration, and the benefits are available only to holders of that credit card.) As of the end of March 2016, the EPOS Card had 7 collaborating shopping centers and 13 companies. All communications to cardholders are channeled through the EPOS Card.

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<sup>2</sup> Marui Group has a patent on the on-site issuance of credit cards with IC chips.

The practice of sharing the same card, as described above, provides value to collaborators too. By becoming a collaborator, the new participating partner can reach 6.13 million EPOS cardholders.

The EPOS Gold Card offers expanded additional services. Through the "Specified (Shopping) Point Up Service," the holder of the Gold Card selects three collaborators and registers with these collaborators on the website. Whenever a customer makes a payment to any of these collaborators using an EPOS Card, that customer can receive three times the usual amount of shopping points. Collaborators include service providers, such as Tokyo Gas and JR East (East Japan Railway Company). Not only does this help position the EPOS Card as a main card for customers, the higher switching costs make customers less inclined to abandon the card.

The fourth value created is the provision of a credit card for which customers will develop an attachment. A credit card with the standard design is available to customers free of charge. Marui Group also offers cards in 74 different designs for an additional charge of 500 yen, and customers can choose their favorite design. Some designs have been created in collaboration with game content developing companies, with whom Marui Group hosted 41 events in 2015. These events attracted 4,100 new cardholders. About 80% percent of the holders of specially designed cards are younger than 40. The transaction volume of these cards at affiliated stores is 2.7 times, and the usage rate of revolving credit payments is 3.3 times the usage rate of ordinary cardholders. As mentioned above, holders of the specially designed cards can enjoy the same additional services provided by collaboration partners, just like ordinary cardholders.

The annual card membership fee is free for the lifetime of ordinary cardholders and the holders of Gold Cards when the cardholder is invited. The fee for a Platinum Card is 20,000 yen per year.

## Unique Value Chain

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Marui Group Credit Card Division's value chain has its uniqueness in its aggressive new cardholder acquisition program, credit policy, IT system development, and human resource (HR) management.

### Cardholder acquisition

At the 28 retail stores owned by the Marui Group (including Marui Department Stores and MODI shopping centers), the sales staff at these retail stores encourage shopping customers to become credit card members. Sales staff explain to shoppers the benefits of the credit card. Through this face-to-face interaction, customers gain a better understanding of the card's benefits, and they become cardholders. Credit card application and registration of the card on the EPOS website can be done using a tablet device. A credit card with an IC chip for enhanced security can be issued to the customer in as little as 20 minutes. Promoting the credit card to shopping customers is one of the top responsibilities of the store's sales staff. Each sales staff member in Marui Group retail stores is responsible for improving the cardholder acquisition process. The sales staff members are encouraged to apply ingenuity, going beyond the dictates of the standards manual. The sales staff of tenant shops are not Marui Group's employees. Therefore, members of the Marui Group Credit Card Division explain to the sales staff of tenant shops the importance of participating in the card membership subscription program. Marui Group's sales staff also work to develop a strong relationship with the sales staff of tenant shops by offering advice on ways to improve the store's operation, drawing on their own shop management experience. At Marui Group's retail stores, performance goals are set for the issuance of new credit cards (goals for both individuals and the entire sales floor). In order to achieve the performance goal set for the sales floor, cooperation from tenant shops is indispensable. The total number of customers who visited Marui Group's stores was 200 million in 2015.

Marui Group develops shopping centers outside of the group. Inside these shopping centers, Marui Group installs card centers; service and manufacturing companies that collaborate in sales promotion activities; and animation and game developing companies, which collaborate in the design of specialty cards and organize events.

At the shopping centers not owned by Marui Group, Marui employees are assigned to work at the credit card centers. These individuals have experience providing support to the sales staff of the tenant shops inside Marui Group's retail stores. They explain how the card will benefit tenant shops, and provide tenant shop sales staff with an effective sales pitch for the EPOS Card. In shopping centers that house the credit card centers of several competitors, the aggressive promotion of the EPOS Card by the tenant store staff is crucial for the successful acquisition of new cardholders.

### **Marketing**

In order to understand customer needs, Marui Group puts an emphasis on direct communication with customers, in addition to utilizing web-based surveys. In the case of the Hakata Marui Department Store, which opened in April 2016, Marui collected feedback from 800 customers when it invited the submission of original designs for a credit card to be made available only at Hakata Marui. A design was selected based on the results of customer surveys, and the new card was issued. In the first two months after the Hakata Marui opened, about 20,000 cards had been issued. This is a record for Marui Group, and 64% of new cardholders selected the credit card featuring the Hakata original design. When Marui developed an official smart phone application for the EPOS Card, it collected feedback from customers regarding a selection of functions and screen designs. Marui Group values marketing activities that involve its customers. Such activities, known as "co-creation activities," embody Marui Group's credit philosophy, which emphasizes its commitment to "building creditability together with customers." The company's history attests to the effectiveness of its credit policy.

### **Credit philosophy**

The credit limit for the EPOS Card is determined following a review of each customer's card usage history, which takes into account transaction amounts and late payments, in addition to annual income.

### **Group-wide Human Resources Management**

Marui Group has only one group-wide human resource (HR) management system, which makes it easy to transfer an employee between specific functions, assignments, or even Group companies. As a result, the majority of Marui Group's 6,000 employees have experience working in retailing operations. Many staff members of the credit card business had been transferred in from retailing operations. This has contributed to the development of retail-friendly card-issuance operations. In the four years from April 2012 to April 2016, 1,500 employees, (or 25% of total employees) had been transferred to positions outside of their business units.

### **IT System Development**

Since issuing its first credit card in 1960, Marui Group has been undertaking the in-house development and management of its own IT system, and in the process Marui has accumulated much know-how. On top of this, most of the employees involved in the system development and management functions have experience in both retailing operations and the issuing of credit cards in retail stores. They understand the situation, can identify a problem, and develop a list of requirements for solving that problem in a shorter time. They complete more than 100 projects a year, and have made possible: 1) the on-site issuance of credit cards with IC chips; 2) on-site membership registration at the EPOS Card website; and 3) the on-site switch to a Gold Card. When a customer who qualifies for a Gold Card checks out with a cashier, a message appears on the cash register. After reading this message, the cashier recommends that the customer switch to a Gold Card. The IT system for the issuance of Gold Cards has been developed based on the IT system for the on-site issuance of ordinary credit cards.

In-house development and management of Marui Group's IT system reduces the risk of divulgence and misappropriation of data because the management of information is undertaken internally. For its in-house efforts to prevent the unauthorized use of credit cards, Marui Group was awarded the VISA Champion Security Award in the credit card issuers' category at the VISA Security Summit 2015, held in May 2015.

## Fit among Activities

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The activities of the Marui Group Credit Card Division have been selected in line with the company's basic policy to pursue the merger of retailing and credit card operations. Activities focus on young customers (the company's target customer), and credit risk management is based on the customer's credit card usage history. Employees with knowledge of both retailing and credit card operations conduct the on-site issuance of credit cards and help register customers for membership on the EPOS Card's website. This entire process is supported by an in-house developed IT system. Regarding its policy on "collaboration cards," the company has decided against adopting the common practice of issuing a limited-edition credit card for a specific collaboration partner. A cardholder can enjoy benefits provided by any of the collaboration partners using the one credit card. Collaborators, meanwhile, gain access to all of Marui Group's cardholders. Finally, Marui Group involves customers in the development of activities to which they will give their support under a policy entitled "Co-creation with Customers." (Please refer to Marui Group Co., Ltd., Credit Card Division's activity system map, which appears at the end of this report.)

## Innovation that Enabled Strategy

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- Credit card business developed by employees with a retailing background, enabled by a unique group-wide human resource (HR) management system.
- Promotion of card membership by sales staff members who work in the shops at department stores and shopping malls.
- IT system that enables a customer-friendly (and retail-friendly) registration process.
- The world's first on-site issuance system for credit cards equipped with IC chips.
- A single card serves as the platform for all collaboration partners.

## Trade-offs

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- Does not rely on annual membership fees as a source of income for its Gold Card. Instead, Marui Group makes its top priorities: 1) raising the number of Gold Card holders, and 2) increasing the credit card transaction volume. Growth in revenue is a result of charges on revolving credit payments and service fees from affiliated stores.
- Does not use the Gold Card to attract wealthy customers. Marui Group has selected young customers as the target customer for its Gold Card.
- Does not outsource systems related to operations.
- Does not issue multiple cards to one cardholder. With one EPOS Card, a cardholder can enjoy the benefits offered by any of the collaboration partners. Collaborators have the opportunity to attract another partner's customers.

## Consistency of Strategy over Time

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Marui Group's Credit Card Services business has its root in monthly installment sales, a practice that was started at the time of the company's establishment in 1931, as a furniture retailing shop. This practice was also aimed at serving young customers who had difficulty making a lump-sum payment for furniture, because individual items were relatively expensive. In 1960, Marui Group created the Marui Credit Center as a credit agency, and issued Japan's first credit card. Eventually, this sales practice of allowing customers to make payment for their purchases in monthly installments was renamed "a credit card service." The practice of on-

site credit card issuance to improve convenience for cardholders dates back to 1975.

Consistencies of strategy throughout the Marui Group's history include: 1) a philosophy toward credit in which credit is not something retailers give their customers, but rather, an opportunity to help customers build their creditability; 2) a focus on young customers; and 3) a focus on customer convenience, such as the on-site issuance of credit cards.

While maintaining these consistencies, Marui Group made a big change in 2006. The company's house card, which previously could only be used at Marui's stores, was changed into a general credit card that could be used at all VISA-affiliated stores around the world. This change opened up new opportunities to customers by offering them greater benefits and bringing Marui Group an additional route for customer acquisition, i.e. through collaborations with other shopping centers and service companies.

Marui Group successfully survived the revision of the Money Lending Business Act (enacted in 2010), which lowered interest rates for cashing services. Following this revision, many non-banks and credit card service operators suffered from lower profitability. Marui Group, however, was able to change its revenue source from a cashing service to an installment and a revolving credit payment format, supported by the consistencies listed above.

## Profitability

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Both the five-year average return on invested capital and return on sales exceed the industry average by a wide margin. (Profitability analysis was conducted by PwC Japan.)

Return on invested capital (ROIC) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
3.6 %P	2.4 %P	2.8 %P	3.6 %P	3.9 %P	2.8 %P

Inter quartile range (IQR) = 1.0 %P

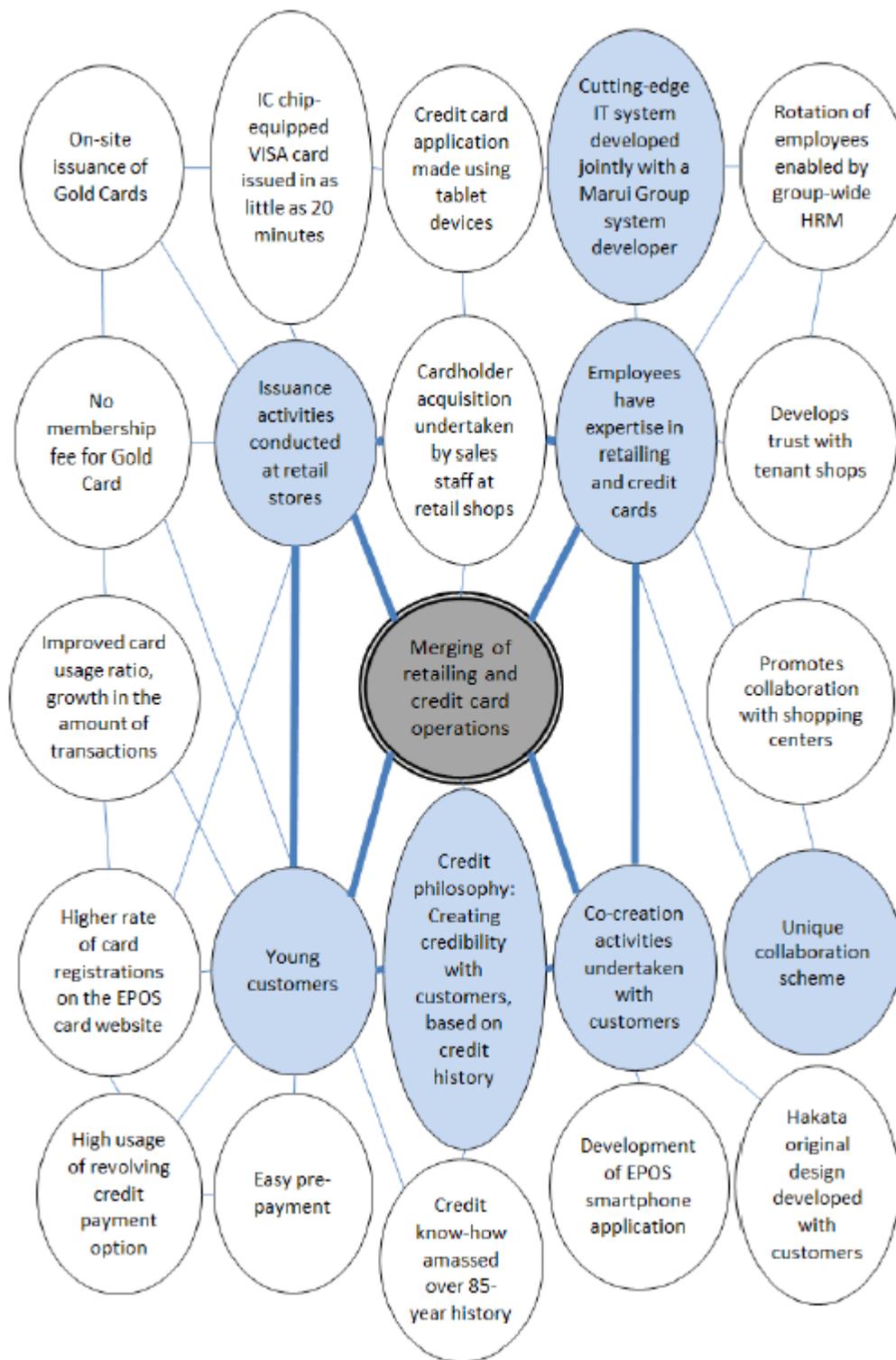
Return on invested capital = Operating income / Average invested capital

Return on sales (ROS) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
14.8 %P	11.6 %P	13.9 %P	12.0 %P	14.4 %P	16.0 %P

IQR = 2.7 %P

Return on sales = Operating income / Net sales



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

### Open House Co., Ltd. Single-Family Homes Division

“Let’s find a house in Tokyo” is the motto of Open House. The company focuses on the Tokyo area, and specializes in reasonably priced single-family homes for first-time homebuyers. Open House has created highly efficient operations, undertaking everything from land acquisition to the design and sale of new single-family homes.

#### Executive Summary

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Open House's value proposition is to provide single-family homes for middle-income families in the Greater Tokyo Metropolitan area. Open House aggressively procures pieces of land that are located within a 10-minute walk of a train or subway station. The company intentionally hunts for: 1) irregularly shaped properties instead of the usual rectangle or square properties; or 2) properties that lack direct road access (with only a narrow path leading out to the street). Open House's architects will design a house to fit the shape of a specific piece of land, to ensure the most efficient utilization of the land. Sales activities, which focus on stimulating latent demand, target potential customers among apartment dwellers and others living in the vicinity of a particular land site. The assumption is that a person who has chosen to live in a certain neighborhood has made that specific location one of their highest priorities. Open House's high asset turnover rate (for real estate and housing stock) is the result of vertical integration. (Open House handles every stage of the process, from land acquisition to the sale of new homes.)

Open House was established in 1997, and the company began selling newly built single-family homes in February 2001. The company was listed on the First Section of the Tokyo Stock Exchange in September 2013.

#### Unique Value Proposition

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Open House's product is new single-family homes, offered at a reasonable price in extremely convenient, prime urban locations. Most of the houses are three-story wooden structures that maximize the efficiency of land utilization. Furthermore, the company avoids using top-of-the-line materials (like marble for the floor in the entrance hall). Open House considers "very convenient, prime urban locations" to be sites located within a 10-minute walk from the nearest subway or train station. Compared with the average market price for homes within a 10-minute walk from the station, the price of Open House's homes (per square meter) are lower by 5% in the Sakura-Shinmachi Station area (Tokyu Den-en-toshi Line), 10% in the Togoshi-Ginza Station area (Tokyu Ikegami Line), and 14% in the Jiyugaoka Station area (Tokyu Oimachi and Toyoko Lines). (This data covers the last five years, according to Open House.)

Open House's target customers are people who want the convenience of an easy commute to downtown Tokyo, but who consider a single-family home to be beyond what they can afford. The majority of Open House's customers have an annual income of between 5 million yen and 10 million yen.

Open House can sell new single-family homes for less than the average market price due to the following reasons.

The first reason is that Open House only buys land priced below the average market price for land in that area. This is a key point, because the price of land is very high in prime urban locations, and the price of land is the primary component that drives up the cost of a new home. Open House focuses on irregular properties, including irregularly shaped pieces of land (i.e. land in shapes other than a square or a rectangle). It is not easy to build a house on an irregular piece of land. Limitations that contribute to a property's lower price include restructured road access (i.e. the land might be facing a slightly narrower road, or it might be

connected to the road by a narrow path). Size limitations also have an impact on the price, when the piece of land is too small for a garage, for example. Another possibility is that strict building regulations might limit the height of buildings <sup>3</sup> or the setback line <sup>4</sup>. Otherwise, the property might be leasehold land.

The second reason why Open House can make new single-family homes for less than the average market price is due to its strategy to offer homes built on a smaller-sized plots of land. The types of irregular properties described above are not only less expensive, these properties are more difficult to develop. Such properties do not easily accommodate standard house plans. A customized design is required in most cases, and customization frequently results in higher costs for design, materials, and construction. Open House, however, absorbs such incremental costs by utilizing the land much more efficiently. For example, Open House can find a way to build five three-story homes on a piece of land when other companies would build only four homes on that same property. This is possible for Open House because of its accumulated know-how and experience in the design of three-story homes on smaller-sized plots. (Three-story homes have to meet more building regulations than two-story homes, such as setback requirements, and design know-how makes a significant difference.)

The third reason is that Open House avoids unnecessary extravagances. (Open House will eliminate the space for a garden and use imitation marble for the entrance hall floor instead of real marble, for example).

The fourth reason is the company's quick turnover for properties with houses. All activities-everything from land procurement and home design to the management of construction and the sale of new homes-are conducted internally, thereby minimizing handover loss (i.e. the loss that might result when parts of a project are outsourced).

## Unique Value Chain

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Open House's value chain flows in a smooth and continuous process: 1) Acquire a piece of property; 2) prepare the land; 3) design the house; 4) manage house construction; 5) sell the house. This smooth process results in a higher turnover of assets, improved cost competitiveness, and reduced risk resulting from price fluctuations in the real estate market. This value chain has been built in accordance with the company's clear strategy of providing target customers (householders with annual incomes of 5 million to 10 million yen) reasonably priced new single-family homes that are located in prime urban locations, with convenient access to central Tokyo. Finally, it should be mentioned that Open House's unique human resource (HR) management system supports its value chain.

### Land procurement

Open House purchases pieces of land from real estate agents. Open House assigns a member of its procurement team to a regional territory, but does not assign individuals to a specific real estate agent. Each member of the procurement staff visits 25 real estate agents a day, with several procurement staff members visiting the same agent in a single day. When visiting an agent, each procurement staff member tries to find the most effective approach for developing a relationship with the agent. Frequent visits improve the possibility of finding land soon after it becomes available on the market. If Open House wants to take advantage of a good deal, a purchase decision must be made quickly. Open House has streamlined the approval process so that the entire process can be completed half a day. This process starts with obtaining information on new properties that are up for sale, and ends with Open House submitting an offer to purchase a particular property. Sometimes, Open House can sign the contract for the property (on what is known as "the contract issue date") on the same day that it first hears about a property. Open House is willing to purchase leasehold land and irregularly shaped

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<sup>3</sup> City Planning Act sets height limit on buildings in some areas.

<sup>4</sup> Building Standards Law Article 56 limits the building's height by drawing a line from a neighboring object, such as a road, a river, and a park. The slope of the oblique line that determines the height of a building is governed by the zoning regulations set by the City Planning Act.

properties, the kind of land that other developers are reluctant to purchase. As a result, real estate agents have come to trust in Open House's ability to deal with such problematic properties. This confidence in Open House makes real estate agents more willing to let Open House know about such properties when they come on the market.

With regard to the procurement of construction materials and the placement of construction orders, Open House has a designated section that works directly with the construction companies. The staff of this section has reduced procurement costs by centralizing and streamlining the procurement process. Open House has been rapidly growing its business in recent years. As a result, the volume of orders are also increasing rapidly. In order to take advantage of improved economies of scale, the purchase price is revised every three months.

### **Design of Single-Family Homes**

The company's in-house architects spare no effort in converting problematic properties into residential real estate. Open House avoids outsourcing the design function as much as possible in order to accumulate know-how in the design of homes. These architects are assigned to the procurement division. Their ability to handle more challenging cases contributes to the division's performance.

### **Construction management**

To improve land utilization, Open House often designs three-story homes with partial basements, although this results in a more complicated design and increases the variety of designs. This, in turn, leads to variations in the type and amount of construction materials used. Unavoidably, construction becomes more difficult, and longer construction periods are required. Longer construction periods result not only in higher costs and inventories, but also increased exposure to price fluctuations.

Open House divides a long construction period into smaller processes, and sets a fixed period for the completion of each process in a very precise manner. (Each process is to be completed in a day or two.) However, each construction project is different. For example, the schedule for the preparation period is significantly impacted by the structure of the existing building already on the property and the building regulations for that area. Preparations include the demolition of old buildings, clearing of land, building of boundary fences, and ground improvement (through the addition of sand and drains). Open House comes up with a tentative construction schedule (including a target date for completion), taking into account an extensive check list of 10 to 20 items. Open House then makes the achievement rate of this target a major performance measure for the team in charge of managing the project's first stage, which includes land preparation. Since making the achievement rate a performance measure, the time needed to complete the first stage has been shortened by 65% (from about 90 days to 30 days).

### **Sales**

Open House's homes sell themselves because of their price competitiveness. Therefore, a strong sales force is not required. Instead, the top priority of the sales force is to sell "more rapidly."

In Japan, most people working in metropolitan areas who chose an apartment closer to the city over a single-family home in the suburbs put priority on a shorter and easier commute to work. From their experience of apartment hunting, many people assume that a single-family home in the area where they live is beyond what they can afford. Ideally, they would like to stay in the same area, because they have already settled in there; they have established a network of friends and acquaintances, and their children attend schools in the area. The sales staff of Open House must find a way to approach potential customers (targeting latent demand), and arouse an awareness of their need for a single-family home. The sales staff's mission is to raise awareness of the existence of reasonably priced single-family homes in the area, and get potential customers to consider making such a purchase. This is done by touting for potential customers within the vicinity of the property up for sale, and by canvassing for prospective customers at shopping malls and shopping streets in the area. Open House calls this sales approach "selling at the source." This on-the-ground, hitting-the-pavement type of sales pitch made directly to people out shopping accounts for 30% of the company's total sales.

Sales staff are not assigned to specific geographical territories. For example, a sales person working at the company's Akabane Center can sell a house listed in the Shibuya area. (Akabane is on the northern outskirts of the Greater Tokyo Metropolitan area, while Shibuya, which lies between Tokyo and Yokohama, is a much more central location, situated in the southwestern corner of Tokyo.) This arrangement encourages sales staff to pay keen attention to new property listings, and generates competition among the company's sales staff beyond the scope of individual sales centers.

Open House divides sales operation into three steps: 1) Attract customers; 2) give tours of the property; and 3) get the contract signed. Sales people specialize in one of these three steps. Specialization is a quick way to help the sales staff develop their expertise. Half of Open House's sales staff have worked at the company for less than one year. Members of the sales staff make up for their lack of experience by giving detailed reports to their managers (including details about their conversations with the customer), and getting their advice. Each manager studies the available properties and makes a recommendation regarding listed properties that might be appropriate for a specific customer. Managers also handle the actual closing of the contract.

It usually takes one or two months from the time that a property is put on the market until the closing contract for that property is signed. Open House's timeline for this process is much shorter. The company tells customers who have seen some of Open House's properties to make a quick decision about the one they like, because if they don't it might be sold to someone else.

Half of the real estate properties that Open House sells come with new built-for-sale homes. The other half consist of a piece of land without a house on it. The sale of land-only properties are better in terms of asset turnover because payment for land is made sooner than payment for a home. Unfortunately, the kind of properties Open House that offers are not quick to sell. Actually, a property like that is hard to sell without a house on it. Customers have difficulty envisioning how a house would look on a piece of land that has only a path connecting to the road. They need to see how a house can be built on a piece of land like that. Open House must train its sales staff on how to communicate to customers the merits of such properties (i.e. less noise, more privacy). The company must also prepare a proposal for the planned house and a conceptual drawing to help customers make a decision. In the case of built-for-sale houses, Open House builds a house at cost and earns a profit on the land only. In order not to put those customers at disadvantage who buy only land, and who would like to wait for some time before placing an order for construction of a house, Open House can build the house at cost.

### **After Sales Services**

Members from the company's Customer Satisfaction Comprehensive Promotion Office visit customers within three months after completion of a sale, and ask for customer feedback. Customers are asked to rate the house, the sales staff, the architect, etc., using a five-point scale. Open House does not provide any kind of maintenance services.

### **General Management**

Open House has developed an IT system for the in-house management of all processes, including land procurement, the demolition of old houses, new home construction, and sales. Control over every process helps to reduce loss resulting from poor communication and inefficiencies during the hand-over of a project (between the different processes). Such control shortens the time between land procurement and the sale of that property, and improves the asset turnover rate.

### **Human Resources Management**

Open House's procurement and sales processes require highly motivated employees because numerous tasks are involved that on the surface look deceptively simple. At Open House, employee evaluations are based on performance, and high-performing employees are often given recognition. There are opportunities for promotion every three months. High performers are promoted quickly. For example, it is possible for an employee to be promoted to manager within 5 years after starting work for Open House. The manager leads one organizational unit, made up of 3 to 4 members. It is possible to be promoted to deputy general manager

within 10 years. The deputy general manager leads a small business unit with 7 to 10 members, or else provides support to the general manager, who leads a larger business unit with 70 to 80 members. At Open House, the average salary level is among the highest in the industry. (Sales people who have been hired by the company straight out of college are an average age of 26.7 years old, with an annual income of 7.65 million yen, on average. People at this salary level account for the top 1% of all members of this same age-group in Japan.) Employees report on their performance directly to the CEO, (this practice helps to keep them very motivated). Managers oversee three or four members of the sales staff. Because the managers' own evaluations depend on the team's performance, they put much effort into helping the members of their team perform well. Every new employee who entered Open House in April 2016 has successfully closed at least one contract for land procurement or the sale of property within their first three months. (In the industry, if new employees can close on one contract sometime during their first year they would receive a favorable performance evaluation). The experience of successfully closing a contract helps to motivate new employees.

Property sales staff work 5.5 days a week, and their busiest workdays are weekends and holidays. They can take 10 consecutive days of summer vacation, and 15 days of vacation for the New Year's holidays. (These vacation options were officially introduced in the fiscal year ending September 2016). Except for employees with extenuating circumstances, nearly 100% of Open House employees took these days off as their vacation. For the past two years, Open House has been making greater efforts to reduce overtime work. All employees are now required to go home by 9 p.m. at the latest.

When interviewing potential candidates, the company looks for people who resonate with its corporate mission and possess the unique capabilities that would enable them to excel at Open House. In order to hire 200 employees, the CEO conducts 1000 interviews, screening all the final candidates himself to confirm each individual's suitability for a specific position, and to determine whether that person will fit in well at the company. New graduates and mid-career hires account for 50% each.

The turnover rate, which is currently declining, was a bit over 10% in the fiscal year ended September 30, 2016.

## Fit among Activities

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The activities of Open House's Single-Family Homes Division are chosen to realize the key concept that guides the company's strategy: "Let's Find a House in Tokyo." This phrase is a simple expression of the company's value proposition, which is to provide new single-family homes in very convenient urban locations, and offer these homes at a reasonable price, targeting householders with an annual income of between 5 million and 10 million yen. Core activities are: 1) the procurement of irregular pieces of land (although such properties are less expensive to acquire, extra effort is required to prepare these properties for residential use); 2) the adoption of sales practices that aim to realize a quick sale (i.e. appealing to potential customers "at the source," in other words touting single-family homes to pedestrians who are out shopping); 3) the achievement of high asset turnover; 4) the cultivation of highly motivated employees, and the active development of employees' skills and abilities; and 5) the selection of "rapid growth" as one of its primary management targets. (Please refer to Open House Co., Ltd., Single-Family Homes Division's activity system map, which appears at the end of this report.)

## Innovation that Enabled Strategy

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- A seemingly contradictory value proposition of selling single-family homes in very convenient, prime urban locations at a reasonable price, to householders with an annual income of between 5 million yen and 10 million yen.
- Aiming to grow rapidly by specializing in properties that require extra effort with regard to design and construction, and aggressively acquiring such properties.

- Land acquisition is achieved through frequent visits to real estate agents. Several members of the procurement staff must visit the same real estate agent.
- Property sales are conducted "at the source" (i.e. sales calls are made regarding specific properties, or in another case, sales pitches are made to shoppers who frequent neighborhood shopping arcades and other commercial facilities). The aim is to arouse in potential customers a recognition of their need for a single-family home.

## Trade-offs

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- Does not choose the following customers as its target customer: individuals who want a customized design; customers who want to live in a larger house and don't mind having a longer commute; people who work in suburban or rural areas, where they can easily find a single-family house nearby their workplace.
- Does not pursue the following when designing a new home: extravagance beyond the necessities, a sophisticated design sense, and a house that is fully designed and made to order.
- Does not try to procure land with the following features: square plots that are easy to design and build on; large pieces of land; areas that have been rezoned for two-story houses; properties that are located more than a 15-minute walk from a train or subway station; a property that would not require Open House's distinctive know-how and competencies, or a property that would result in the same kind of plan for any home builder (such as properties with size limitations that would make it impossible even for Open House to build two houses on a single piece of land).
- Does not rely on relationship-based marketing activities for land procurement. The same agent may be visited by several members of Open House's procurement staff.
- Does not assign land procurement staff to specific geographic territories or real estate agents.
- Property sales staffs are not assigned to specific geographic territories. They can sell a property that is located outside of the scope of their own sales center.
- Does not conduct property sales by relying on advertisements. Puts a priority on conducting sales "at the source" (i.e. directly approaching pedestrians at shopping centers or on neighborhood shopping streets to tout single-family homes).
- Does not allocate tasks in the style of a case manager. Open House assigns the less experienced members of its property sales staff to undertake sales at the source (on the street), as this involves more contact with a larger number of potential customers. Managers with much more experience, who follow the cases handled by the newer sales staff members from beginning to end, are responsible for closing the contract.

## Consistency of Strategy over Time

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Since the foundation of the Single-Family Homes Division in 2001, Open House's value proposition has been consistent-to provide new single-family homes built in very convenient locations in metropolitan areas, at a reasonable price. Open House has developed its value chain and activity system to implement this value proposition. Even now, Open House maintains its original definition of a very convenient location as being a site that is within a 10-minute walk from a train or subway station. Since the beginning, its geographic coverage has been limited to Tokyo's 23 wards, the western part of the Greater Metropolitan Tokyo area, and the cities of Yokohama and Kawasaki. Open House has worked to increase its market share within these areas rather than expand into suburban areas.

## Profitability

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Both the five-year average return on invested capital and the return on sales exceed the industry average by a wide margin. (Profitability analysis was conducted by PwC Japan.)

Return on invested capital (ROIC) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
13.3 %P	25.4 %P	7.7 %P	11.3 %P	10.3 %P	12.9 %P

Inter quartile range (IQR) = 7.2 %P

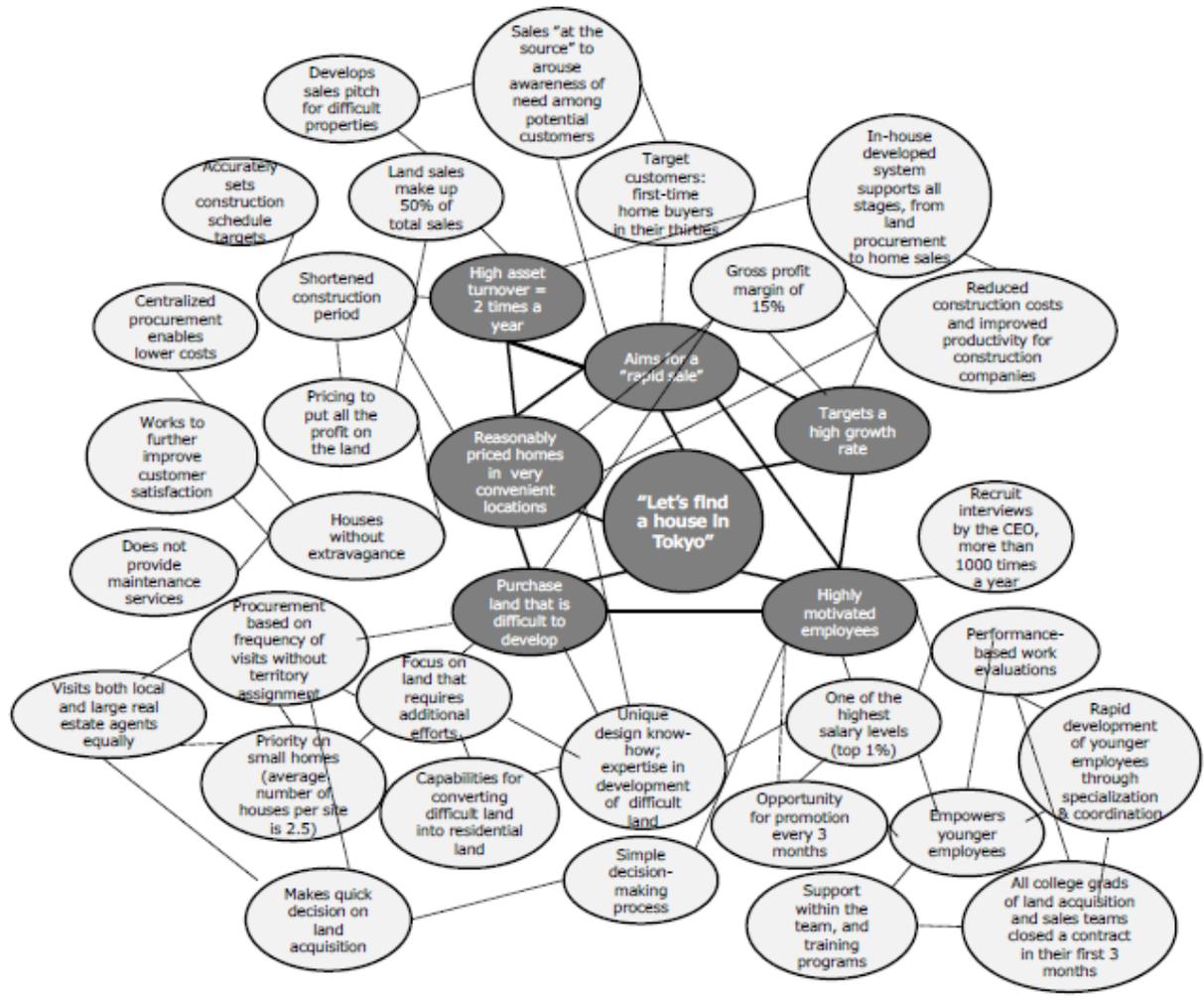
Return on invested capital = Operating income / Average invested capital

Return on sales (ROS) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
5.0 %P	7.6 %P	1.9 %P	4.6 %P	7.0 %P	6.9 %P

IQR = 4.0 %P

Return on sales = Operating income / Net sales



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

### **Pigeon Corporation    Baby and Mother Care Products Business**

Pigeon focuses on products for infants from 0 to 18 months of age, who have the same needs across the globe. With the value proposition of promoting breastfeeding, Pigeon has built trust with mothers and has captured a dominant market share in nursing bottles and silicone nipples.

#### Industry Background

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#### Executive Summary

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Pigeon is a market leader in Japan for baby care products centered on breastfeeding. The company holds the No. 1 share in the domestic market for nursing bottles and nipples (75.8% in fiscal year 2015; the same applies hereinafter), nursing bottle detergents (83.4%), training cups with nipples used for the transition from bottle to cup (73.6%), breast pads (67.0%), skincare products for babies (36.2%), and baby wipes (30.1%). As a result of the company's strong commitment to research and product innovation, Pigeon products have become known for their quality, safety and performance. Meanwhile, Pigeon works to strengthen its relationship with the mothers of newborns by organizing support activities for new mothers in hospital maternity wards. Overseas, Pigeon enjoys a high market share in China, the U.S. (under the Lansinoh brand name) and Germany (under the Lansinoh brand name).

While nursing bottles are Pigeon's main product line (with a priority on R&D and sales promotion activities), the market for bottles is small. Moreover, the unit price for a nursing bottle ranges from several hundred yen (or several dollars) to two thousand yen (or 20 dollars). According to Pigeon, domestic monthly expenditures for the entire category of breastfeeding, weaning, and baby food crockery (which includes nursing bottles) came to 343 yen<sup>5</sup>, only 2.4% of total monthly expenditures per baby of 18,196 yen in 2014. The size of the market for nursing bottles is estimated to be 3 billion yen in Japan, 20 billion yen in the U.S., and 80 billion yen in China. In addition to the small market size, the barrier to entry into the nursing bottle market is relatively low, due largely to the fact that the materials used in production are commodities--plastic for nursing bottles and silicon rubber for nipples. With regard to other baby products, there are large markets overseas for breast pumps. A broader definition of baby care products includes strollers and infant car seats, which have more expensive price tags.

The number of births in Japan peaked at two million in 1973, and then fell to one million in 2014 (down 29,000 from the previous year). Against the backdrop of a declining birthrate, Pigeon has been aggressively expanding into overseas markets since 2000. A notable achievement is that Pigeon has succeeded in growing its business without losing its high profitability.

#### Unique Value Proposition

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Pigeon's target customers are babies from 0 to 18 months of age and their mothers. At this age, babies everywhere experience the same process of development. They share the same intraoral structure, and make the same peristaltic tongue movements when drinking from the breast. For these reasons, nursing bottles can be sold to mothers in any country in the world regardless of the race or ethnicity without requiring localization.

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<sup>5</sup> The categories with larger monthly expenditures per infant were: clothes and diapers (32.2%); baby formula and other foods (22.7%); outing products, furniture, beds, etc. (15.4%); breastfeeding, baby food crockery, bathing and hygiene (10.7%); toys and picture books (9.6%); and medical treatment (9.4%). (Figures compiled by Pigeon)

However, babies develop rapidly between 0 to 18 months. So, some products will have to be upgraded as the baby grows, providing more opportunities for replacement demand.

Pigeon's value proposition is to identify areas of concern in child-rearing in order to resolve them. The company's broad product line consists of nursing bottles, nipples, pacifiers and training cups--all flagship products, as well as skincare products for babies, breastfeeding-related products, baby wipes, healthcare products for babies (including nail scissors), and skincare products for mothers. Nursing bottles (bottles and nipples), account for 30% of the company's sales.

One of the biggest problems babies and mothers face is nipple confusion. Some babies do not want to drink from nursing bottles because they are used to being breastfed; they know that something is different. In other cases, some babies will not drink from the breast after getting used to drinking from nursing bottles. This happens to about 20% of all babies. Pigeon's nursing bottles have gained a favorable reputation among mothers because the nursing bottle, and especially the nipple, function in a way that is so similar to the mother's nipple that babies tend to experience less nipple confusion. The secret behind this is "the three key factors of the sucking process," which have been identified by Pigeon through its own research on infants' peristaltic tongue movements and other sucking behaviors during breastfeeding. The baby's sucking process can be broken down into the following key factors: 1) Attachment (the baby latching on to the nipple); 2) Peristaltic tongue movement (the baby's tongue moving in a wave-like motion over the nipple to suck breast milk); and 3) Swallowing (the baby swallowing the breast milk down into the esophagus, breathing at the same time as the tongue moves). Based on this finding, the company developed and launched in 2010 a new nursing bottle that features a soft peristaltic nipple with the brand name of Bonyu Jikkan (or SofTouch™ Peristaltic PLUS in overseas markets). This innovative nipple, which has an "accordion-like" section that enables it to stretch in response to the baby's peristaltic tongue movements, provides infants with a more natural feeding experience. Many mothers who are busy with breastfeeding and child-rearing choose Pigeon's high-end nursing bottles despite their higher price. The point is that mothers are willing to pay more for high-quality products that can minimize their post-purchase consumer regret (i.e. "buyers' remorse").

Pigeon's nursing bottles are often more expensive, selling at a retail price 20% to 50% higher than others on the market.

## Unique Value Chain

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The uniqueness of the value chain for Pigeon's Baby & Mother Care Products Business can be found in: 1) extensive research on baby-related topics; 2) marketing to raise awareness of products and build trust with new mothers in hospital maternity wards and maternity hospitals; and 3) a management control system that puts EVA (economic value added) at its center.

### **R&D**

Pigeon differentiates its products by ensuring the superior performance of those products. Such differentiation is achieved through aggressive research and development efforts, as evidenced by the company's findings regarding babies' sucking behaviors (i.e. "The three key factors of the sucking process"). Since 2007, Pigeon has published 18 research papers on sucking and another 34 in other baby-related topics (including skincare for babies, their sleep habits, calmness, heart rate, body temperature, and the way they learn to use chop sticks). Pigeon's competitors rarely publish papers on the topic of the sucking process during breastfeeding.

An important focus of research at Pigeon has been on the development of artificial nipples suitable for use by babies born underweight or newborns a few months old who have a very weak sucking power. Based on its research, Pigeon, in cooperation with a rubber manufacturer, developed a nipple made of silicon rubber that is soft but does not collapse.

## **Marketing**

Pigeon raises awareness of its products and builds trust with mothers by giving them the chance to experience the nursing bottles during their stay in the maternity ward. In fact, more than 80% of hospital maternity wards and maternity hospitals use Pigeon's nursing bottles.

At retail shops, Pigeon has created a "Pigeon Corner," an area that displays all of the company's products including nursing bottles and related products (such as detergents and bottle brushes), skincare products, breastfeeding-related products and pacifiers.

Pigeon organizes lectures and holds classes to reach potential customers. By holding classes 27 times a year for women approaching childbirth and hosting gatherings for working women preparing for pregnancy, Pigeon was able to communicate directly with 1,600 potential customers in 2015. The company also hosted seminars for healthcare professionals 11 times. These seminars attracted 1,200 participants.

## **Human resources management**

In March 2014, Pigeon created "The Pigeon Way," which states its corporate philosophy, credo, mission statement, values, action principles and vision. Pigeon's corporate philosophy is "Love," which is defined as "the ability to treasure other people." Behind its philosophy is the belief, or credo, embodying its commitment to "developing products and services full of love, because only love can beget love." Yoichi Nakata, the second President of Pigeon and the person who adopted "Love" as the company's corporate philosophy in 1980, further elaborated on this credo, saying, "The Pigeon Group is a corporate entity that provides products and services for babies, children and those who need assistance. We won't be able to generate products and services full of love if we lack the spirit ourselves" (quoted from a statement he made on June 23, 1980). Through its mission statement, Pigeon pledges to "bring joy, happiness and inspiration to babies and families around the world by providing them with products and services that embody love." Through its vision, Pigeon aims "to be the baby product manufacturer most trusted by the world's babies and families, i.e. 'Global Number One.'" To achieve this ambitious goal, the company is aggressively pursuing R&D, overseas business development and M&As. Further, its action principles consist of "agility," "keeping sight of consumers," "global collaboration among competent individuals," "leadership and logical working style," and "willingness to change."

The Pigeon Way reminds employees that the spirit of love is the foundation for all the company's activities. Every six months, employees submit a report on how they are embodying the Pigeon Way. This report is used in employee performance evaluations. Some of the best reports are selected as a "Pigeon Way Story," and shared at gatherings attended by employees. These stories are also posted on the company's website.

With regard to employee training, the company realizes the need to help male employees gain a deeper understanding of the types of problems that mothers face in caring for their babies. It is now required for all male employees to take a one-month parenting leave when a baby is born. Afterward, men who have taken parenting leave need to submit a report on their parenting experiences. Their reports will be reviewed as part of their performance evaluations.

Although overseas sales account for about a half of Pigeon's total sales, overseas business operations have been very localized. As a result, Pigeon does not have many Japanese expatriates working abroad.

## **Management control**

Pigeon selects ROE (return on equity), ROIC (return on invested capital), CCC (cash conversion cycle) and PVA (Pigeon Value Added, or Pigeon's version of Economic Value Added) as its key performance indicators (KPIs). Through the provision of employee training, Pigeon helps its employees gain a better understanding of these KPIs, which are used by the business unit for operational performance evaluations and business planning. Since 2014, the performance of all the business divisions has been evaluated using PVA as the key performance indicator. The company strongly encourages all its employees to think of how to generate a return (or profit) that exceeds the cost of capital.

## Fit among Activities

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In Pigeon, activities are selected and coordinated in order to realize the company's value proposition, which is to find solutions for the concerns of babies aged 0 to 18 months and their mothers. Pigeon's commitment to R&D and the support it provides to hospital maternity wards and maternity hospitals is unmatched by any other company. These activities help Pigeon to raise awareness regarding its products and gain the trust of mothers, while continuing to develop its broad product line, which is carried in retail shops. These activities have a good fit, and as a whole make for a consistent system. (Please refer to the "Activity System Map of Baby & Mother Care Products Business of Pigeon Corporation," which appears at the end of this report.)

## Innovation that Enabled Strategy

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- Focuses on babies aged 0 to 18 months. Their needs and their mothers' needs are universally the same, regardless of race and ethnicity, which makes for a truly global market.
- Has identified "the three key factors of the sucking process."

## Trade-offs

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- Does not target babies older than 18 months. After 18 months, babies start developing a sense of self. They start talking, and begin developing personal preferences. They become sensitive to cultural influences, customs and society. Their previously universal needs begin to change, gradually differing across countries and cultures. They are no longer satisfied with globally standardized products.
- Does not expand its business domain into powdered milk. Although powdered milk is a product that is highly compatible with nursing bottles, and the size of the market for powdered milk is much bigger than that for nursing bottles, powdered milk does not fit with Pigeon's stance on supporting breastfeeding.
- Does not expand its business domain into baby clothes. Although the size of the market for baby clothes is large, Pigeon would not be able to achieve differentiation through R&D. Also, customer needs differ from country to country.

## Consistency of Strategy over Time

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Pigeon was established 60 years ago, in 1956, in line with the founder's belief that "baby products brighten a country's future". The company has always been centered on baby care products. Pigeon has been consistently and earnestly addressing the needs of mothers and infants since its establishment, always providing high-quality products based on research.

Pigeon's products enjoy a competitive advantage in the retail channel. The company has helped consumers develop an affinity for Pigeon's products while simultaneously gaining the trust of mothers by getting hospital maternity wards and maternity hospitals to use Pigeon nursing bottles and other products. This strategy dates back to 1959, when Pigeon's nursing bottles received a commendation from the Japan Red Cross. Recognition by the Japan Red Cross spurred the widespread use of Pigeon nursing bottles in hospital maternity wards and maternity hospitals. Now, more than 80% of hospital maternity wards and maternity hospitals in Japan use Pigeon's nursing bottles. This has helped Pigeon products get better placement on shelves in retail stores and has led to other sales promotion opportunities, which have enabled Pigeon to establish its leadership in the B-to-C segment.

Pigeon started selling nursing bottles in China in 2002. Following the adoption of the World Health Organization's International Code of Marketing Breast-milk Substitutes in China, companies were prohibited

from conducting sales promotion activities for nursing bottles in hospital maternity wards and maternity hospitals. (Such promotional activities were still permitted in Japan.) Pigeon shifted its strategic focus from selling nursing bottles to providing support for breastfeeding. Pigeon received permission from Chinese authorities to work in hospital maternity wards and maternity hospitals as a special advisor on breastfeeding, and this project was carried out in collaboration with the Chinese government officials in charge of health and welfare. In the largest hospitals in each province, Pigeon opened consultation rooms for advising mothers on childcare and breastfeeding. Pigeon's employees were assigned to these consultation rooms, where they acted as consultants. In the second- and third-largest hospitals, Pigeon dispatched childcare and breastfeeding advisors to these hospitals. They conducted seminars for nurses, training them so that they could advise mothers about breastfeeding. These advisors also assisted in the classes held at hospitals for new mothers. At these hospitals, Pigeon has been able to raise brand awareness by displaying its products and distributing posters that explain about the benefits of breastfeeding (and prominently feature the Pigeon logo). At retail stores in China, Pigeon conducts the same kind of sales promotion activities that it implements in Japan. For example, Pigeon encourages retail stores in China to create special corners for Pigeon products, and now, 3,500 retail stores in the country have set up corners for Pigeon products.

Pigeon's corporate strategy-to develop a broad product line centered on nursing bottles, while simultaneously raising product awareness and gaining the trust of mothers who have just given birth during their hospital stay-is the same in Japan and China. Pigeon is considering applying this same approach in other overseas markets that are expected to grow in the future (specifically, Singapore, Indonesia, Russia and India, among others).

In 2004, Pigeon acquired Lansinoh Laboratories, headquartered in the U.S., and made it a wholly owned subsidiary. Lansinoh's nipple care cream has established a strong reputation for being "a life saver." Leveraging the high level of trust among customers regarding the performance and quality of Lansinoh products, Pigeon has since introduced its breast pads, breast milk bags, and breast pumps under the Lansinoh brand. Since 2014, Pigeon has launched a full-scale marketing campaign for nursing bottles by sticking to its policy of supporting breastfeeding.

Since 2010, Pigeon has completed two M&A deals to expand its business beyond Lansinoh in the U.S. and European markets. Specifically, in 2010, Lansinoh acquired the mOmma business, which sells a variety of baby care products in Europe. This business was acquired from Baby Solutions SA of Switzerland and Baby Solutions Italia Srl. of Italy. The mOmma business has a competitive advantage in nursing bottles and drinking cups that feature a distinctive sense of design. To mOmma's strength in design Pigeon adds functional performance. In 2011, Pigeon acquired HealthQuest of the UK, which operates its business mainly in Europe with a line-up of "Earth Friendly Baby" brand organic products and natural skincare products. The Earth Friendly Baby brand products have a reputation among mothers for being gentle on a baby's skin.

The strategy of product differentiation through aggressive R&D has been applied with consistency to the company's line of baby strollers. A baby stroller is an expensive purchase for any user; consequently, its product life tends to be longer. Pigeon provides baby strollers for infants ranging from 1 month to 36 months (beyond the usual cut-off age of 18 months employed by its other business lines). The company focuses on a type of stroller ("A-type strollers") that has a flat bed for carrying newborns older than 1 month. For strollers, Pigeon achieves differentiation by keeping the focus on the babies themselves, whereas other companies make the ease-of-use for mothers the main selling point. This baby-centric attitude is consistent with the company's approach to nursing bottles. Through a joint research project with Tokyo Institute of Technology, Pigeon has discovered that when a stroller fails to make it over a step and suddenly halts, the baby in the stroller receives a strong jolt that is five times stronger than the shock a driver receives when suddenly jamming on the car brakes. Based on this finding, in 2015 Pigeon developed its high-end "Runfee" baby stroller with big single tires, which make it easier to get over steps and reduce the risk of bumping on the steps. With this product, Pigeon has been able to increase its share in the stroller market from 2% to 12%, thereby gaining the third-largest share in the market.

## Profitability

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Both the return on invested capital and the return on sales have exceeded the industry average by a wide margin. (Profitability analysis was conducted with the support of PwC Japan.)

Return on invested capital (ROIC) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
18.0 %P	6.4 %P	13.0 %P	19.4 %P	19.7 %P	16.0 %P

Inter quartile range (IQR) = 3.1 %P

Return on invested capital = Operating income / Average invested capital

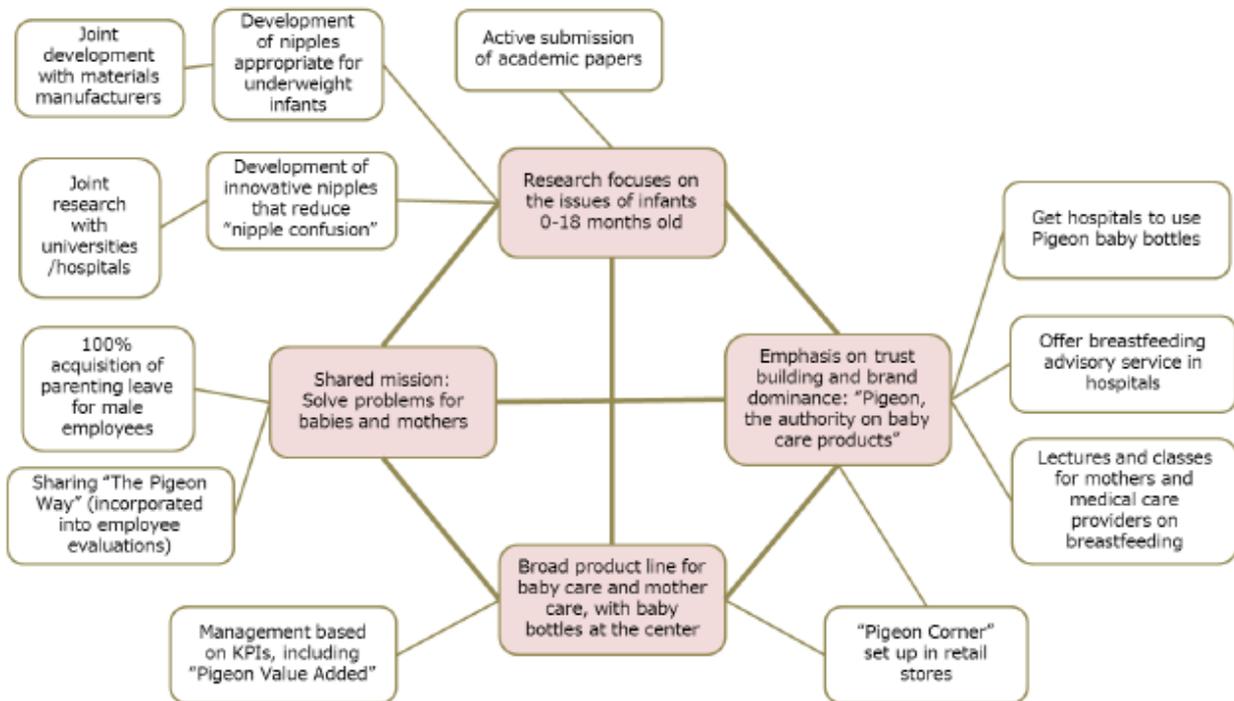
Return on sales (ROS) (Unit=percentage point)

Difference from industry					
5Yrs Avg.	2011	2012	2013	2014	2015
7.1 %P	3.4 %P	5.9 %P	7.1 %P	8.7 %P	4.9 %P

IQR = 6.4 %P

Return on sales = Operating income / Net sales

## Activity System Map of Pigeon Corporation Baby and Mother Care Products Business



**The Pigeon Way:** The Pigeon Way is the cornerstone of all our activities, which include the corporate philosophy, credo, mission, vision, values, and action principles.

**Corporate philosophy:** Love

**Credo:** Only love can beget love

**Mission:** We will bring joy, happiness and inspiration to babies and families around the world by providing them with products and services that embody love.

**Values:** Integrity; Communication, Consent, Trust; Passion

**Action principles:** Agility; Keep sight of consumers; Global collaboration among competent individuals; Leadership and logical working style; Willingness to change

**Vision:** To be the baby product manufacturer most trusted by the world's babies and families, i.e. "Global Number One"

(Source: <http://www.pigeon.com/pigeonway/about/>)