

Porter Prize

Winners Selection Rationale

This report has been written based on: (1) the materials submitted by the winner for Porter Prize screening purposes; (2) interviews conducted by the Porter Prize Organizing Committee; and (3) publicly available information. It is being published with the winner's permission.

Selection Criteria

The essence of strategy is to do things differently from others. Based on this premise, the Porter Prize recognizes those companies and business units that have chosen to compete in a distinctive way in a particular industry by delivering a unique value proposition, based on innovations in products, processes, and ways of management.

First-stage Selection Criteria

1. Superior profitability
2. Unique value proposition
3. Consistency of Strategy over Time
4. Innovation that Enabled Strategy

Second-stage Selection Criteria

5. Utilization of capital analysis
6. Distinctive value chain
7. Trade-offs
8. Fit across activities

Note

In the analysis of capital utilization, the key focus will be placed on ROIC (Return on Invested Capital) and ROS (Return on Sales). The following report of the winners includes these numbers in comparison with the industry averages. A positive difference from the average indicates that the capital utilization of the company/business is better than the industry average. The five-year average is calculated by aggregating the numerators divided by the aggregated denominators. Thus, the derived five-year average is not equal to the simple average of the ratio for each year. The data used in calculating the industry average was obtained by carefully selecting truly comparable companies among those classified as being in the same industry.



Organizing Committee

Hitotsubashi University Business School
School of International Corporate Strategy

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Porter Prize 2019 Winners

Organizing Committee

Graduate School of International Corporate Strategy, Hitotsubashi University

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Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
P&E Directions INC.

ELECOM CO., LTD.

(Supplier of PC and mobile phone peripherals, I/O devices and accessories)

Elecom is one of the biggest suppliers of peripherals, I/O devices, and PC and smartphone accessories (such as mouse pads, mouse devices, keyboards, and earphones). The market for peripherals and accessories are directly affected by any changes made to the primary products, PCs and smartphones. This is an intensely competitive market because of the low barrier to entry and the large number of players. Many “new” products are usually upgraded versions of existing products, offering both enhanced features and lower prices. Elecom’s product line is easily the broadest in the industry. In addition, many Elecom products have secured the top share in their product category. The company introduces a much larger number of new products than its competitors in any given year. It should also be noted that Elecom’s salesforce far exceeds the competition in terms of numbers. These salespeople spur sales by making frequent visits to consumer electronics stores, the company’s main sales channel. At these retail outlets, members of Elecom’s sales staff improve displays and make product pitches to customers.

Elecom does not have factories. Merchandise is procured from numerous suppliers. The company focuses its internal product development efforts on carefully selected cutting-edge products. The company monitors the profitability of each product, sales person and sales office. For each product category, Elecom creates "tripod" teams, called "Category Owner Teams" (usually shortened to "COTs"). These teams consist of three employees, one each from R&D, procurement, and sales. COTs are responsible for product planning, product launches, and product termination. The effective utilization of COTs is what enables Elecom to efficiently manage such a broad product line.

en-japan inc., the Job Vacancy Advertisement Business Unit

(Online recruitment services)

en-japan operates an online advertisement service through its "en TENSHOKU" jobsite.

The company’s primary income source is the advertising revenue generated by its job posting service website. However, en-japan’s highest priority is not: (1) the selling of advertisements; (2) the number of applications; or (3) the number of new recruits. Rather, en-japan wants to help job seekers find satisfying jobs. Finding the right match increases the likelihood that the newly placed recruit will remain with the new employer for a long time.

en-japan focuses on finding full-time positions for young candidates (under age 35) who are already working full time. The company seeks to place candidates in new positions at small and medium-sized companies (SMEs).

The company’s goal is to arrange long-term employment for its job-seeking customers, mainly young, inexperienced workers. To achieve this goal, en-japan must avoid making any mismatches, which is not easy. en-japan conducts interviews with each hiring company, writes a report, and provides access to an online review site that carries both positive and negative comments. Even after the candidate has begun working at the new company, en-japan makes available to these customers a follow-up support program that is free for the first three years. Customers can choose from three optional follow-up services.

UT Group Co., Ltd., Manufacturing Division (UT Aim Co., Ltd.)

(Dispatches workers with specialized skills to factories;
provides manufacturing outsourcing services)

UT Aim provides a manufacturing outsourcing service and dispatches workers to factories. Contrary to the industry's standard practice, UT Aim hires temp-staff workers as permanent employees. The company offers these workers job security, training, and opportunities for career development. In addition, UT Aim employs an ability-based wage system, and has created a ranking of jobs, which consists of 25 levels, with the specific skills required for each level clearly indicated. Moreover, UT Aim provides educational opportunities to its employees through e-learning and instruction at the company's own facilities. UT Aim's Career Development Department provides these workers with career counseling. The available career opportunities include the option of being dispatched to factories in various different industries requiring diverse and specialized skills. UT Aim's dispatch workers frequently have the option of becoming site managers, career consultants, or dispatch engineers. Many dispatch workers have been hired by the client companies as full-time employees.

The company selects as client large companies that operate factories and require skilled workers who have achieved a level of proficiency. UT Aim dispatches its employees in teams of 30 or more members. The company assigns a site manager, who responds to the clients' complaints and requests. UT Aim's attrition rate is low, which contributes to reliable and high-quality manufacturing operations. Clients also highly value UT Aim's excellent site management program, and its comprehensive compliance program.

Workman Co., Ltd.

(Operates a specialty retail franchise that sells workman's clothes, gear, etc.)

Workman's specialty retail franchise consists of both WORKMAN and WORKMAN Plus stores, which carry clothing and work-related items required by construction workers and other blue-collar workers.

Workman is clearly the leading retailer of workwear clothing and gear, with 837 shops nationwide (at the end of March 2019), operating in 45 out of Japan's 47 prefectures. The company sells more than 1,700 items, with 9,000 SKUs. The workwear items, which offer professional-level protection against water, wind and cold temperatures, sell at extremely low prices. Workman's merchandise has a long product life, and the company does not practice discounting for the purpose of selling out its inventory completely. The company has maximized operational efficiency by standardizing product merchandising and store layouts nationwide. The company responds to diverse customer needs, which vary by geographic region. Workman also meets the specific needs of individual stores by frequently replenishing the merchandise, with deliveries made to retailers 6 days a week. The company will even arrange for the delivery of one unit of a single product, if necessary. Franchisees also enjoy high profitability, because only two people are required to operate a WORKMAN store. In recent years, WORKMAN stores have been increasingly attracting more general consumers. The company has redesigned its product lines, incorporating the taste of outdoor wear and sports apparel. Since the debut of these new products, WORKMAN stores have seen steady growth in sales to general consumers, like bikers, individuals who enjoy outdoor activities and have a need for clothing that offers a professional level of protection against the elements, and people looking for athleisure wear.

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

ELECOM CO., LTD.

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Background Information about the peripherals and accessories market in Japan

The market for peripherals and accessories for PCs, tablet PCs and smartphones is made up of numerous products, including mouse devices, USB memories, headphones and earphones, covers and cases for tablet PCs and smartphones, phone screen protective film, USB adapters, keyboards and numeric keypads, switches, external card readers, and game controllers. The largest product category is mouse devices, and the market for mouse devices is valued at 10 billion yen (US\$91 million) in the BtoC segment.¹ The size of the PC peripherals market is estimated to be 100 billion yen (US\$909 million). When adding cases for smartphones and tablet PCs, protective plastic films, earphones, USB adapters, external keyboards, numeric keypads, external card readers, game controllers, and other accessories, the market is estimated to be about 250 billion yen (US\$2.3 billion).²

The size of the market for each product category is small. Once a product has become technologically mature, existing manufacturers are no longer able to enjoy economies of scale. Also, the barrier to entry is low for many product categories. As a result, numerous small and medium-sized manufacturers (mainly in Asian countries) have started selling products under their own brand while simultaneously providing OEM and ODM services.³

¹ According to Elecom.

² According to Elecom.

³ Suppliers of flash memories and hard disks are the exception, as these manufacturers have already been consolidated into a few remaining competitors.

The product life cycle for such products is short. Peripherals and accessories must ensure compatibility with new standards and accommodate changes to the primary products, such as PCs and smartphones. For example, the market for cases emerged because of the introduction of the tablet PC. The market for game controllers emerged after computer game software became popular. It is also possible for peripherals to independently undergo their own evolution. Examples include advances made in screen surface protective film to precisely match a variety of applications and environments, and the development of the noise cancelling and reduction features for earphones. Neither was the result of changes in phone screens or smartphones.

The short product life cycle makes it imperative for companies to carefully manage new product introductions, product upgrades, and product terminations. Also, management priorities change as the product life cycle enters each new phase. In the introduction and growth phases, there are many new entrants. However, the size of the market is also rapidly expanding. As a result, competition is not so intense. In contrast, during the maturity and decline phases, many players exit because of harsh price competition. Consequently, only 3 to 5 players now remain. Even these remaining players cannot easily enjoy the benefits. Firstly, consumer electronics retailers have strong negotiating power over suppliers. Secondly, the remaining players will continue having to compete with each other.

The sales channel for the peripherals and accessory retail segment has been expanding from consumer electronics retailers to e-commerce and mass-market retailers. Although electronics retailers have consolidated to some extent, there are numerous small and medium-sized retailers remaining, which adds to the suppliers' selling expenses. In any sales channel, retailers do not allocate staff to oversee sales of peripherals and accessories. Suppliers have to make the products and packaging easy to understand, so that explanations by sales staff are unnecessary.

Intense competition throughout the product life cycle has resulted in the continuous introduction of a broad variety of new products. The market for peripherals and accessories in Japan has developed into a very crowded one, offering a large variety of products. Indeed, Japan's market is quite unique, especially when compared with the same market in other countries.

Unique Value Proposition

Elecom designs and sells peripherals and accessories for PCs, tablet PCs, and smartphones in the BtoC segment.⁴

The company's product line covers the broadest product categories. Elecom far outpaces all its competitors, reporting the largest number of new product launches every year. Furthermore, the company holds the top market share in numerous product categories. Elecom has 15,000 SKUs, and the company introduced 3,739 SKUs in 2018. (The two closest competitors introduced about 300.)⁵ The company has gained the top market share in 13 product categories. (The two closest competitors hold the top market share in 5 to 6 product categories.)⁶

Elecom has two kinds of target customers. The first target is customers who, aware of their needs, are looking for solutions. The second target is customers who have not yet identified their needs, and who are unaware of how Elecom's product might help them.

⁴ Elecom's affiliated companies conduct business in the BtoB segment with various electronic products and services.

⁵ According to Elecom.

⁶ According to the BCN Award 2019, which is based on sales at major retailers from January to December 2018. The award is organized by BCN Inc. (Formerly known as Business Computer News.)

https://www.bcnaward.jp/award/gallery/detail/contents_type=187

https://www.bcnaward.jp/award/gallery/detail/contents_type=245

https://www.bcnaward.jp/award/gallery/detail/contents_type=221

https://www.bcnaward.jp/award/gallery/detail/contents_type=215

https://www.bcnaward.jp/award/gallery/detail/contents_type=181 Accessed on November 25, 2019.

The main value propositions for solution-seeking customers are firstly, superior products that offer a higher level of performance; greater ease of use; and enhanced aesthetic value attributable to better design.⁷ Secondly, a less stressful shopping experience. Thirdly, product packaging design that is not only eye-catching but also helps customers to understand the product contained inside and how it works. The fourth value proposition, which targets customers who are unaware of their needs, is to communicate possible solutions to customers who do not know how to make full use of the product in question, or are unaware of the product's benefits. For these individuals, the company invests in call centers. Easy-to-understand packaging draws their attention to the product, makes them aware of the product's existence, and hopefully prompts them to purchase the product. These value propositions are expressed in the central concept of Elecom's corporate branding: "Lifestyle Innovation." With this brand message, the company defines its mission as "Facilitating the evolution of technological innovation by helping people to navigate unfamiliar territory and use the new technology easily and comfortably for their own benefit."⁸

Elecom sells its products through consumer electronics retail outlets and e-commerce. Consumer electronics retailers account for more than half of the company's sales.⁹ The value proposition to retailers is to create a shop floor that can generate sales without requiring the attention of sales staff. The provision of easy-to-understand, attractive product packaging makes this possible. Another contributing factor is the company's practice of selecting the most appropriate merchandise for each store. Sales of peripherals and accessories are not affected by economic conditions or seasonal changes, and bring stable daily sales revenue to retailers.

Unique Value Chain

The unique features of the value chain for Elecom, a fabless supplier of peripherals and accessories, are: (1) product development; (2) procurement; and (3) sales.

Product category management

In order to manage a broad product line, as well as coordinate the R&D, procurement, and sales functions, Elecom creates virtual teams, called "Category Owner Teams" or "COTs," which consist of three members, hailing from R&D, procurement, and sales. The COT members are responsible for making swift decisions regarding product development, procurement and sales. Employees who are not in managerial positions may be appointed as COT members. Joining a COT enables employees to strengthen their decision-making capabilities.

Elecom's product strategy is to "keep products fresh and competitive." The company aims to harness the benefits of disrupting itself by changing or terminating successful products and suppliers. Consistent with this product strategy, the company continuously introduces new items to its product line of PC peripherals. Although there has been a declining trend in the sales of desktop and portable computers, the market for computer accessories and peripherals has been growing.

Product development

Elecom must respond to a rapidly changing market, characterized by the swift introduction of many new products and the quick termination of many others. Moreover, demand must be constantly stimulated by the successive introduction of new products. Only 30% of Elecom's new products are developed in-house, while the remaining 70% is undertaken by suppliers on an original design manufacturing (ODM) basis. The company

⁷ Elecom won 28 Good Design Awards from 2014 to 2018, while its competitors won less than half that number. Japan Institute of Design Promotion, <https://www.g-mark.org/?locale=en>, accessed on November 25, 2019. For the same five years, Elecom was awarded 14 iF Design Awards, while its award-winning competitors received less than one fourth of Elecom's total. iF Design Foundation, <https://www.g-mark.org/?locale=en>, accessed on November 25, 2019.

⁸ Elecom Co., Ltd. <https://www.elecom.co.jp/brand/>, accessed on November 25, 2019.

⁹ Fiscal year ended March 2019.

limits its internal product development activities to those products for which suppliers' models cannot provide a satisfactory level of performance, such as network-related products and earphones.

Procurement

Elecom reaches out to over 1,000 potential suppliers a year, and eventually concludes agreements with ten or more suppliers. This process begins with staff members in Hong Kong, Shenzhen and Japan submitting lists of potential suppliers. The company then carefully undertakes a thorough assessment of numerous candidates, conducting both negotiations and factory audits, before making its final selection.

Most suppliers of peripherals and accessories are small in size. The factory audits conducted by Elecom are not limited to manufacturing quality and logistics management capabilities. These audits also assess the supplier's general management capabilities. Elecom will sometimes also provide suppliers with instructions or guidance, as required. To minimize risk, Elecom cultivates relationships with multiple suppliers, and engages in parallel sourcing from several suppliers.

Supply chain management

Elecom's logistics management has to deal with many suppliers and numerous products. The company is willing to make a delivery to its retailers for even one unit of a product. In order to improve supply chain management and lower inventory in the supply chain, Elecom has invested in management information systems and the automation of its distribution centers. The average inventory level has been about 1.5 months in recent years. The company leases its distribution center buildings, but owns the equipment and hires people to work at its distribution centers.

Sales and sales promotion

Elecom makes it a priority to keep store inventory low. The company selects the appropriate merchandise for each store, and conducts sales promotions in collaboration with retailers. Its sales staff, called "Rounders," set up product displays on the shelves, and arrange the displays in a way that Elecom products can catch the customers' attention. The company's salesforce is easily several times larger than the salesforce maintained by its competitors.

After sales service

Elecom has its employees respond to inquiries from consumers. The company also creates frequently asked questions (FAQ) contents to post on its website. (This is accessed by 25 million users a year.) The company's policy regarding customer inquiries is to "provide comprehensive support until the customer is able to use the product." The product development department is notified weekly of any claims and questions that have been received, and this feedback is used to make further improvements to new products.

Human resource management

At Elecom, employees who are not at the management level may be appointed to a COT, and are responsible for swiftly making business decisions. Management data on sales revenue, inventories and profits is shared with all employees. In addition, the company divides up its products and sales outlets into small groups, and assigns these groups to teams of individuals who have been given the authority to make speedy decisions. Meanwhile, knowledge sharing is broadly practiced at this company. Elecom conducts analyses and keeps a record in the database of successful and unsuccessful attempts to achieve profit targets, which in this case refers to marginal profit.

General management

Elecom has been investing in management information systems since 1996. Management information systems are used primarily for sales and procurement management. Every employee can find out the details concerning each product's sales performance, inventory status, and profitability on a real-time basis.

The company puts a priority on marginal profit. Elecom monitors and evaluates each product, each member of the sales staff, and each sales office in terms of "marginal profit." The monthly meeting focuses on

the reporting of profits. Even if sales targets are not met, the sales staff will be praised if the profit targets are met.

Elecom's commitment to marginal profit as the key criteria for decision making helps individual employees make quick decisions. Given the intense competition in this business segment, decisions must be made and executed swiftly. The decision to terminate a product, for example, is usually made within the first three months after the product's launch.

The company's management is kept informed, with frequent updates. Executives receive reports daily and weekly regarding sales performance, new product development, and procurement activities. If an executive receives information that signals an opportunity or a threat, that individual can give instructions immediately, and employees will be able to act on those instructions.

Elecom communicates to employees its corporate culture through an 18-month project that each person must complete. Action Guidelines have been established. These Action Guidelines contain five items, namely: "Honesty, a common mission, a results-oriented mindset, consideration for others, and humility."¹⁰ To elaborate further, this involves "facing head-on any claims or problems, instead of hiding them or making excuses, and promptly identifying the best way to proceed; collaborating across departments and companies to meet challenging targets or solve difficult problems; considering what should be the highest priority, and determining the most efficient course of action; showing consideration to customers and business partners; and always demonstrating humility." According to Elecom, these guidelines help the company to improve collaboration among the companies that have joined its group.

Fit among Activities

Elecom's activities are optimized to respond to the ever-changing peripherals market. In addition, the company works to proactively create change. The sales promotion activities undertaken at consumer electronics stores are another core element of the company's activity system. Product design and packaging that does not require an explanation by sales staff is effective for e-commerce sales channels too. (Please refer to Elecom's activity system map, which appears at the end of this report.)

Innovation that Enabled Strategy

- Expanded the computer peripherals market by continuing to undertake product development even after core products became technologically mature and sales started to decline. This created a rich and deep computer peripherals market in Japan, one that is unparalleled in the world.

Trade-offs

- Elecom does not have any factories. Does not build fixed relationships with contracted manufacturing companies, such as through capital investment.¹¹ The reason why the company has selected a fables approach is "to keep its products fresh and competitive." For this reason, the company is continuously looking for new suppliers, and will not hesitate to terminate existing suppliers and establish relationships with new suppliers.
- Does not enter the core product business, such as PCs, smartphones or televisions. Instead, the company focuses on computer peripherals and accessories, although vertical integration would bring some

¹⁰ Elecom Co., Ltd. <https://www.elecom.co.jp/ir/enterprise/index.html>, accessed on November 25, 2019.

¹¹ Its affiliate company, Logitech INA Solutions, has a factory. That company only makes products that require small-batch production and quick delivery, like industrial-use PCs, etc.

advantages. Apple, for example, has successfully pursued this strategy and enjoyed such benefits.

- Does not avoid the consumer electronics retailer channel. Although this channel has undergone consolidation to some extent, there are still many small retailers across the nation. To reach them would be costly. Also, retailers, including small retailers, tend to be demanding (a long-standing business practice in Japan). To raise efficiency, Elecom could conduct business with retailers indirectly by working with wholesalers or agents. The company could choose to avoid retailers altogether and instead focus on the e-commerce channel. However, Elecom chooses to sell directly to consumer electronics retailers.
- Does not introduce products that feature popular characters, neither does it sponsor events. The company maintains an unwavering focus on the development of small products, working tirelessly to reduce costs and minimize opportunity loss.

Consistency of Strategy over Time

Elecom was founded as a manufacturer of furniture for business machines. Its first product was computer desks. The following year, the company entered the accessories market with a floppy disk case. The introduction of computer mouse devices, the numeric keypad, and the floppy disk drive followed.

The company has consistently pursued the same growth strategy over time, entering neighboring areas. This applies to both product segments and sales channels.

Elecom has been avoiding a product-out approach. Rather, the company has adopted a customer-centric approach. Indeed, Elecom's foremost priority is to help solve customers' problems. This approach is reflected in: (1) its products, which are less dependent on in-house product development capabilities; (2) a product line that is centered primarily on procurement; and (3) merchandising and sales promotion initiatives that are customized for each specific store and region.

The company has created a system that allows all members of the organization to put priority on swift decision making. This is what enables an efficient response to an ever-changing market and the effective handling of a broad product line.

Profitability

Elecom's five-year averages for the return on invested capital (ROIC) and the return on sales (ROS) exceeded the industry average by a wide margin. (Profitability analysis was conducted by PwC Japan.)

Unit=percentage point

Return on Invested Capital (ROIC)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
18.4 %P	17.8 %P	23.6 %P	18.0 %P	13.3 %P	18.3 %P

Interquartile range (IQR) = 7.6 %P

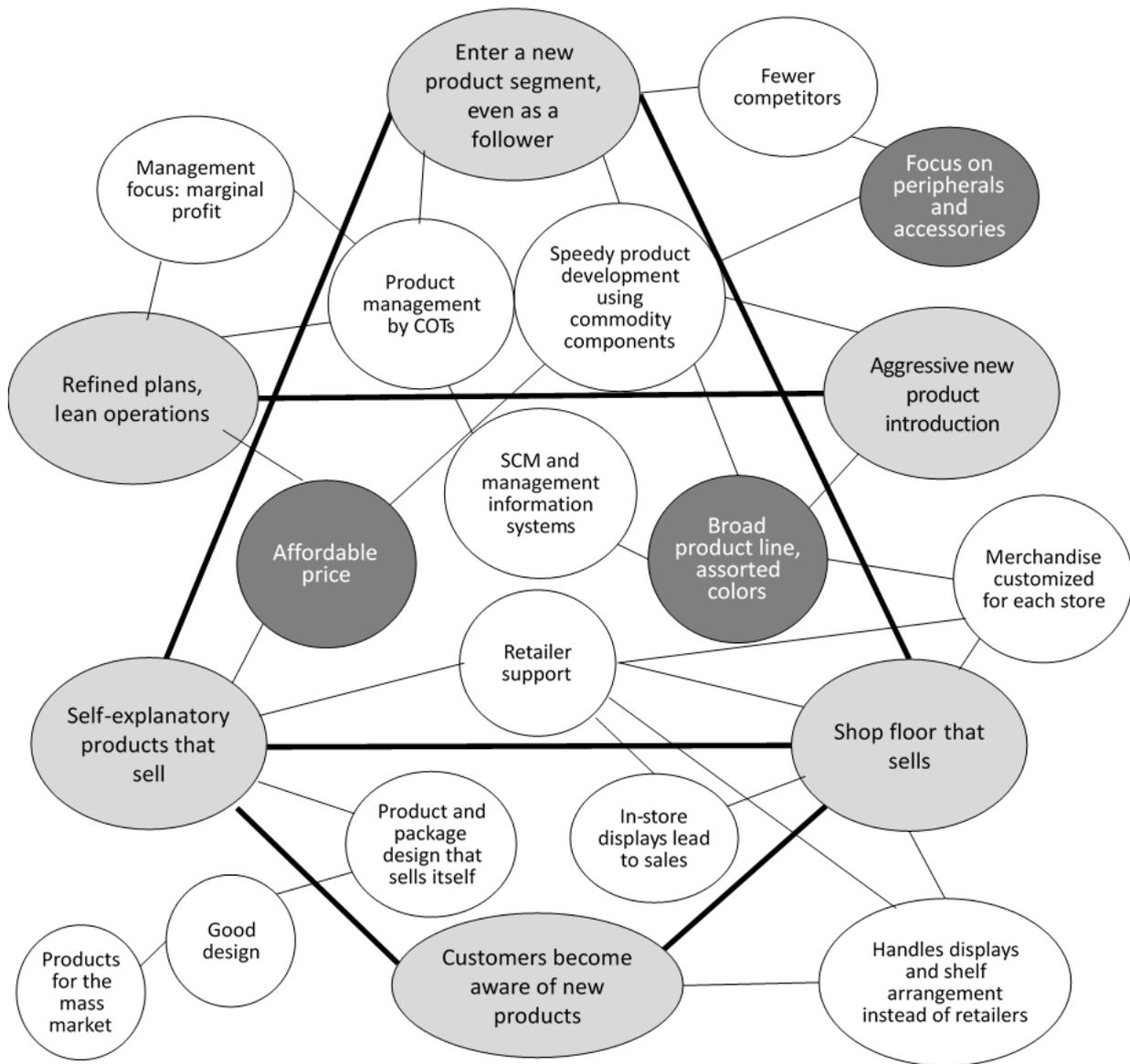
Return on Invested Capital = Operating income / Average invested capital

Return on Sales (ROS)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
4.8 %P	5.2 %P	5.5 %P	5.5 %P	3.3 %P	5.6 %P

Interquartile range (IQR) = 3.8 %P

Return on Sales = Operating income / Net sales



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en-japan inc., the Job Advertisement Department

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The company's primary income source is the advertising revenue generated by its job posting service website. However, en-japan's highest priority is not: (1) the selling of advertisements; (2) the number of applications; or (3) the number of new recruits. Rather, en-japan wants to help job seekers find satisfying jobs. Finding the right match increases the likelihood that the newly placed recruit will remain with the new employer for a long time.

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The company's goal is to arrange long-term employment for its job-seeking customers, mainly young, inexperienced workers. To achieve this goal, en-japan must avoid making any mismatches, which is not easy. en-japan conducts interviews with each hiring company, writes a report, and provides access to an online review site that carries both positive and negative comments. Even after the candidate has begun working at the new company, en-japan makes available to these customers a follow-up support program that is free for the first three years. Customers can choose from three optional follow-up services.

Background Information about the job advertisement market in Japan

The market for job placement services comprises: (1) job advertisement service (both online and print), (2) employee referral agency services, (3) temporary employee (temp-staff) placement services, and (4) contractors that provide outsourcing services.¹² Job advertisement services, by providing relevant information, help to match job seekers and hiring companies. Employee referral service providers offer job seekers the following support: career counseling services; an evaluation of skill levels; and the introduction of hiring companies. Temp-staff placement service providers dispatch their own temp-staff employees to the hiring companies. Usually, the temp-staff worker is dispatched for a fixed period of time, specified in advance by the client company. Some service providers hire temporary staff only for the period specified by the client company. Other service providers hire temp-staff workers under indefinite-term contracts, and dispatch them for a specified period of time. Temp-staff workers can be dispatched to various different clients, one after another. The client company manages the temp-staff workers. However, the contractor is responsible for employing and managing any workers that are dispatched to the client company. In such case, the dispatch worker is assigned to a specific job, one that requires a specialized skill set. Of all these services, the majority of job seekers use the job advertisement (online) services.

The size of the market for job advertisement services was 857 billion yen (US\$7.8 billion) in fiscal year 2017, up 7.2% from the previous year.¹³ Job advertisement service providers use media such as print

¹² According to the definition provided by the Japan Association of Human Resource Services Industry. <http://j-hr.or.jp/aboutmarket/market/> (in Japanese), accessed on November 25, 2019.

¹³ Association of Job Information of Japan, January 7, 2019, *Zenkyukyo News Release*, <https://www.zenkyukyo.or.jp/wp/wp->

advertisements, websites, and social network services. The adjacent job advertisement market, which includes content aggregators and social media recruitment, came to 105.5 billion yen (US\$964 million), marking an increase of 76.1% from the previous year.

Some job advertisement websites focus on a particular industry or specialty, while others aim for broader coverage. The former includes IT engineers, engineers for the manufacturing industries, the creative industries, the IT and web industries, and startups.

The price for an advertisement is about 100,000 yen (US\$900.00) per posting at the low end. At the high end, the price is about 600,000 yen (US\$5,475.00) per worker, with payment contingent on the successful placement of a candidate. The market in the middle price range is the largest, and covers a broad variety of industries and skill sets. The companies in this segment tend to depend on advertisement fees as their main source of income.

Unique Value Proposition

en-japan's Job Advertisement Department helps job seekers find jobs mainly through online job advertisement services. The company's value proposition is unusual because of its commitment to helping job seekers find satisfying jobs. The standard practice in the industry is to focus either on the number of applications or the number of new hires. By focusing on achieving job placements that result in high customer satisfaction, en-japan increases the likelihood that the newly placed recruits will remain at their new companies for a long time and play an active role. The difference is that en-japan views the job seeker as a primary stakeholder. If a newly hired recruit is not happy in the new job, that person will likely quit and look for the next job. Although this would result in higher advertisement revenue for the company, en-japan does not take advantage of such an opportunity.

Regarding the recruits, the company mainly targets individuals in their twenties. The job seekers are relatively inexperienced workers hoping to find employment in an unfamiliar industry or in a new job category. en-japan's other target customer is small and medium-sized companies (SMEs), which in this case are the hiring companies. The company has selected SMEs as its target customer because en-japan believes that it can add value for these companies. In Japan, about 30 % of newly hired graduates quit their first company within three years. So, the market size for job seekers in their twenties is not small. However, young job seekers usually do not have a clear vision when it comes to finding a new job. en-japan is able to add value by providing truthful and detailed information about the hiring companies and the jobs being offered. SMEs often do not have dedicated staff to handle the hiring process. As a result, these companies lack know-how about recruiting. en-japan is able to advise SMEs about hiring practices. Also, it is important that the newly hired recruits stay with the SME, and actively contribute to that company's operations. Because the SME's workforce is relatively small, the contribution made by each individual employee really counts.

Although the company's advertisement fee is more expensive than the fees charged by competitors, the company's job placement rate is also much higher.¹⁴

Unique Value Chain

The unique features of the Job Advertisement Department's value chain are: (1) the development of a job advertisement website; (2) sales of advertisements, (3) the creation and posting of job advertisements; and

content/uploads/2019/01/%E5%B8%82%E5%A0%B4%E8%A6%8F%E6%A8%A12017%E8%AA%BF%E6%9F%BB%E3%83%AA%E3%83%AA%E3%83%BC%E3%82%B9.pdf (in Japanese), accessed on November 25, 2019.

¹⁴ According to en-japan.

(4) follow-up services for job seekers for the first three years after gaining employment at one of en-japan's client companies.

Development of the job advertisement website

The company's design policy is to cater to job seekers, rather than to hiring companies, even though the hiring companies are paying for the advertisement. Websites that appeal to job seekers can attract more applicants. A higher number of applicants is very beneficial for the hiring companies. Accordingly, the company works to provide useful information for job seekers. en-japan provides reliable and detailed information about the hiring company. It includes negative feedback, the type of information that might make job seekers think twice about applying for such a position (i.e., claims about how tough the work is, details about the type of worker who is not suited for such a job, etc.). The website is linked to a rating site operated by en-japan. Here, current and former employees can post both positive and negative comments about the hiring company. Meanwhile, the hiring companies are invited to post their own comments, informing job seekers about the ways in which they are improving their operations, as well as their plans for future improvements. en-japan endeavors to provide honest and detailed information because it is committed to decreasing the gap between the job seekers' expectations and the reality of the work situation. If the gap is too large, chances are high that the worker will leave the company within a relatively short period of time.

en-japan offers only one advertising plan. The company offers a standard-size advertising space, which carries a uniform amount of information. This is a unique approach, because so many advertisement services will charge a higher fee for a larger space and make more information available. The reason behind this approach is en-japan's belief that companies with large advertising budgets or aggressive hiring practices are not necessarily the best companies for job seekers. en-japan posts the latest job openings at the top of its website. This allows job seekers to learn about unfamiliar companies. The website offers a search function that indicates the worthwhileness of a particular job (i.e., the benefits of a specific job, and the recipient of such benefits). In this way, job seekers are able find companies they would not have considered before conducting a job search.

Attracting job seekers

en-japan places advertisements on television, as well as on trains, buses and subways, and in train and subway stations. en-japan uses advertisements to attract more job seekers to its website. The company has used the same tagline since 2001: "Cherish your current job, and think hard before changing jobs."

Sales of advertisement space

The company holds seminars for SMEs on topics like job interviewing methods, ways to improve the recruitment process, and human resource management strategy for creating an organization imbued with a growth mindset. The company operates another website that provides support to the HR managers at SMEs. This website, which is called "en Jinji No Mikata" (lit. translation, "Your Ally for Human Resources"), focuses on mid-career recruitment. Members receive weekly online newsletters containing information about seminars, as well as Q&As addressing issues pertaining to HR practices.

The company's sales staff propose solutions that include education and evaluation services (not only the "en TENSHOKU" jobsite) because it believes that a well-integrated approach to employment, education and evaluation (the company's "3Es") is necessary for effective human resource management. The evaluation service includes aptitude tests that can be used for hiring, job assignments, and follow-up services. As for educational services, the company offers a flat-rate training program, known as "en College."

Creation and posting of job advertisement

en-japan does not outsource the interviews of hiring companies. The company's own employees conduct these interviews. Interviewers work with the HR managers of hiring companies, helping them to clarify job description details and improve the candidate selection process. en-japan also gives advice on ways to improve the procedures for orienting newly hired workers and integrating them into the hiring company's operations. In addition, the interviewers will create a short video clip, about 15 seconds long, introducing the

hiring company. Job seekers say that they find such videos to be informative.

The company's copywriters create advertisements, based on the information gathered by the interviewers. The company provides in-house training for all its copywriters.

Follow-up services

After an advertisement is posted, the sales staff contact the hiring company to find out how the application and selection processes are going. The sales staff will provide advice, as necessary.

After job seekers start working for a company, the hiring company can give the new employee a monthly survey, to determine his or her level of satisfaction with the new job and monitor for early signs of a possible departure. Surveys are conducted using en-japan's web-based tool, the "HR OnBoard" app. The company recommends that specific steps be taken to provide support to employees who indicate a high likelihood of leaving the new company in the near future. This service, which is free-of-charge, was launched in February 2019. So far, the average survey response rate has been about 80%.

Human resource management

The company hires those people who resonate with its mission of having new employees play an active role in their new companies. The company has created an in-house list of required qualifications for the consultants in charge of hiring. It offers more than 350 kinds of lectures, all aimed at helping en-japan employees to upgrade their skill-sets and gain a better understanding of their capabilities. The remuneration reflects the employee's abilities rather than the individual's job performance.

Fit among Activities

en-japan's Job Advertisement Department selects and implements activities that support the company's core choices: (1) Encourage job seekers to embrace the goal of becoming real contributors in their new companies; (2) provide high-quality services to customers; and (3) develop services that are designed specifically for job seekers. The Job Advertisement Department's activities include interviewing all the hiring companies; providing truthful and detailed information about the hiring company and the job being offered; training a team of copywriters; linking the online jobsite to the rating site; posting the latest advertisement on the top page; offering job seekers follow-up services after gaining employment; and undertaking direct sales. (Please refer to the activity system map for en-japan's Job Advertisement Department. The activity system map appears at the end of this report.)

Innovation that Enabled Strategy

- Defined the business goal as helping job seekers to cultivate the mindset of becoming a real contributor in their new company, rather than merely seeking to maximize the number of job seekers placed in client companies.
- Commitment to telling the truth about the hiring companies and the jobs being offered, making honesty a priority.
- Makes available to client companies free-of-charge a recruitment support tool (the "engage" app).
- Makes available to client companies free-of-charge the support tool "HR OnBoard," which assesses the employee's "risk of departure."

Trade-offs

- en-japan does not put a priority on sales. The company's primary goal is to have job seekers become real contributors in their new company, and remain at that company for a long time.

- Does not recommend impulsive job changes.
- Does not forward applications to large companies with large advertising budgets.
- Does not link the size of the advertisement to the size of the client company's advertising budget.
- Does not carry advertisements from clients that are not committed to the truthful disclosure of information.
- Only takes orders from client companies that allow their HR managers to be interviewed.
- Does not offer discounts except during special campaigns. At campaign time, discounts are available to all clients.
- Only hires people who agree with en-japan's corporate mission, and who possess the mindset to become a real contributor in their new companies.
- Does not adopt a remuneration system that provides significant incentives for increasing advertisement sales.

Consistency of Strategy over Time

The "en TENSHOKU" jobsite has its origin in Japan's very first job information site, the "en EMPLOYMENT NET," created by Nihon Brain Center in 1995. en-japan inc. was established after the Digital Media division was spun off from Nihon Brain Center in 2000. In those days, job advertisements appeared in print media, and the available space was limited. As expected, companies willing to pay more for their advertisements were allocated a larger space. Companies with smaller budgets could get only the smallest advertisement, measuring one-sixteenth of an A4-size sheet of paper. Small ads provided minimal information, namely the type of work contract, the occupational category, and details regarding employment benefits. Job seekers were hesitant to apply for such positions, given the limited information. The other concern was that they might apply, but not get hired, possibly due to a mismatch. Because en EMPLOYMENT NET was on the internet, it could enjoy limitless space. Since the beginning, en-japan has been interviewing HR managers at the hiring companies, and has been providing a uniform amount of detailed information. The company deviated from standard industry practices by developing copywriters internally and selling advertisements directly, rather than through agents.

Since its establishment in 2000, en-japan has been using the tagline, "Cherish your current job, and think hard before changing jobs." The company wants job seekers to find the right job, and play an active role in their new companies. This desire is what has spawned the company's mission: To arrange jobs for candidates who will become real contributors, even though they may be new employees.

In 2002, en-japan made a commitment to include "truthful" (in other words, negative) information about the hiring company, and mention drawbacks about the job being offered in order to ensure that the candidate's expectations about the job will be realistic. The aim is to avoid a mismatch in hiring. It really is important to minimize the gap between the information being made available to job seekers through job announcements and the reality of the position in question. en-japan has augmented the information it provides to job seekers by including the "worthwhileness of the job," and "challenges faced on the job." The company also provides (1) comments made by the staff who conduct the interviews (offering a view of the client company from an objective perspective), and (2) a short video clip to give job seekers a look at the actual work environment. These were both firsts in the industry.

When the job advertisement market contracted rapidly in the wake of the economic downturn in 2008, en-japan changed its strategy. Its new target customers became more experienced workers. Furthermore, the company introduced changes that made the client companies the primary stakeholder. Such changes included making its fees contingent on the successful placement of candidates. When the market started to recover, so did its competitors, but not en-japan.

In 2014, when the company reconstructed its jobsite, en-japan changed its strategy again, this time returning to its earlier approach of making job seekers its primary stakeholder. The company's target customers are (1) young job seekers, and (2) SMEs. Accordingly, en-japan has selectively developed the services necessary for enabling job seekers to become real contributors in their new companies. Specifically, en-japan has developed candidate screening criteria and selection criteria. Moreover, the company offers follow-up support, to ensure that the newly hired individual will stay in the new job and play an active role in the new company. The company has allocated resources to extensively train an in-house team of interviewers. The company makes sure that all client companies are interviewed by en-japan employees.

There was a slight deviation from this strategy when the market entered a prolonged economic contraction. However, the company has maintained its core strategy of having en-japan employees conduct the interviews of HR managers at client companies since the beginning. Another core consistency is to offer job seekers high-quality services, taking into account the job seekers' needs. Based on this foundation, the company went one step further to create its current unique strategy, by adding various supports after hiring, including follow-up support for individuals who have successfully gained employment, and helping them to fulfill their goal of becoming a real contributor in their new company. The other unique feature of en-japan's competitive strategy is the recent decision to focus on both young job seekers and SMEs as target customers.

Profitability

The five-year averages for the return on invested capital (ROIC) and the return on sales (ROS) of en-japan's Job Advertisement Department exceeded the industry average by a wide margin. (Profitability analysis was conducted by PwC Japan.)

Unit=percentage point

Return on Invested Capital (ROIC)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
16.5 %P	-4.3 %P	10.2 %P	9.5 %P	17.3 %P	24.4 %P

Interquartile range (IQR) = 14.2 %P

Return on Invested Capital = Operating income / Average invested capital

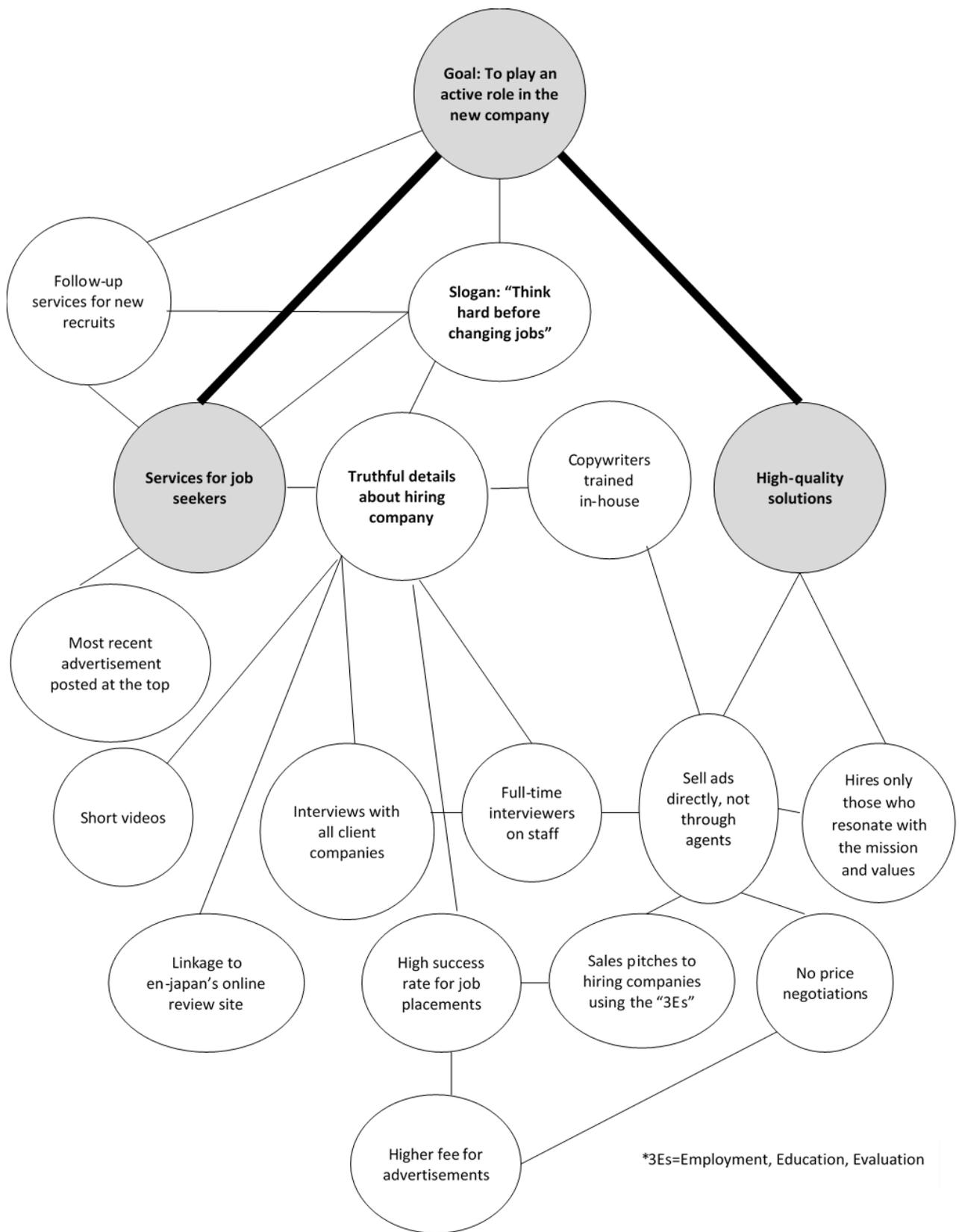
Return on Sales (ROS)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
22.1 %P	17.5 %P	5.7 %P	22.4 %P	21.6 %P	28.1 %P

Interquartile range (IQR) = 18.0 %P

Return on Sales = Operating income / Net sales

Activity System Map of en-japan inc., the Job Advertisement Department



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

UT Group Co., Ltd., Manufacturing Division (UT Aim Co., Ltd.)

This report has been written by Professor Emi Osono 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.

UT Aim provides a manufacturing outsourcing service and dispatches workers to factories. Contrary to the industry's standard practice, UT Aim hires temp-staff workers as permanent employees. The company offers these workers job security, training, and opportunities for career development. In addition, UT Aim employs an ability-based wage system, and has created a ranking of jobs, which consists of 25 levels, with the specific skills required for each level clearly indicated. Moreover, UT Aim provides educational opportunities to its employees through e-learning and instruction at the company's own facilities. UT Aim's Career Development Department provides these workers with career counseling. The available career opportunities include the option of being dispatched to factories in various different industries requiring diverse and specialized skills. UT Aim's dispatch workers frequently have the option of becoming site managers, career consultants, or dispatch engineers. Many dispatch workers have been hired by the client companies as full-time employees.

The company selects as client large companies that operate factories and require skilled workers who have achieved a level of proficiency. UT Aim dispatches its employees in teams of 30 or more members. The company assigns a site manager, who responds to the clients' complaints and requests. UT Aim's attrition rate is low, which contributes to reliable and high-quality manufacturing operations. Clients also highly value UT Aim's excellent site management program, and its comprehensive compliance program.

Background information about the worker dispatching industry in Japan

In Japan, dispatch business operators (i.e., temp staff agencies) send their regular employees to client companies as dispatch workers, thereby augmenting the client company's workforce. Client companies are responsible for managing those dispatch workers and preparing an appropriate work environment for them. The Worker Dispatch Law, enacted in 1986, allowed, for the first time, the dispatch of workers, but only in 13 industries. By 2019, nearly all industries had access to this service. The number of workers being dispatched to factories came to 420,000, accounting for 30% of the entire dispatch workforce in September 2019.¹⁵ The market size (which includes both workers dispatched to factories and outsourced manufacturing work) was 2.25 trillion yen (US\$20.5 billion) in fiscal year 2017, up 15.4% from the previous fiscal year.¹⁶

Although the barrier to entry for the worker dispatching business is not high, a business license must be obtained from the Minister of Health, Labor and Welfare.

Some dispatch business operators employ workers for a specified timeframe, in accordance with the employment arrangements contracted by the client company. This kind of arrangement is commonly used for office workers and factory workers. Large dispatch companies that dispatch office workers in metropolitan areas have an advantage, in that these businesses can benefit from economies of scale. Such dispatch companies can place advertisements to attract workers in metropolitan areas, and invest in an IT platform to improve the matching between job seekers and client companies. In contrast, small and medium-sized dispatch

¹⁵ Ministry of Health, Labor and Welfare, Labor Force Survey, https://www.e-stat.go.jp/stat-search/database?page=1&layout=datalist&toukei=00200531&tstat=000000110001&cycle=1&tclass1=000001040276&tclass2=000001040299&tclass3=000001040300&statdisp_id=0003074681
Accessed on November 25, 2019.

¹⁶ Yano Research Institute, *Human Resources Business 2018*.

companies adopting a geographic focus are popular among dispatch companies that provide workers to factories, because factories are located throughout Japan. Dispatch companies that temporarily employ workers in accordance with contractual arrangements with a client company have much lower fixed costs, and there is less risk involved. On the other hand, the workers can choose from among numerous service providers, there are no high switching costs, and, consequently, the retention rate is low. Given the high fluidity of the labor market, dispatch companies are not motivated to invest in career development for their workers.

Other dispatch companies employ workers with indefinite-term contracts. For example, companies that provide engineer dispatching services will opt for an indefinite term, leaving it open-ended, because they want to keep highly skilled workers on their staff as full-time employees.

Unique Value Proposition

UT Aim is the leader in the dispatch of production technicians. The company hires workers without specifying a fixed contractual term of employment; educates them; dispatches them to the client company's factory in teams of 30 or more members; and sends them to the factories owned by large companies that require the learning of company-specific knowledge and the continuous improvement of manufacturing efficiency and quality.¹⁷ UT Aim targets the factories of large companies because such factories are usually better work environments. Moreover, large companies can afford to pay higher wages as the dispatch workers upgrade their skills while working on the factory floor. At the end of June 2019, the average hourly wage increased by 4.9% compared with the same month in the previous year.

Firstly, the value UT Aim provides its workers is job security, by hiring them as full-time employees without limiting the term of employment. Secondly, UT Aim offers opportunities for upgrading skills and pursuing career development. The more-experienced workers serve as a coach to the less-experienced workers on the team, providing them with on-the-job training. There are opportunities for career development for both more- and less-experienced workers. To support the career development of its employees, UT Aim lets employees choose from among numerous jobs at hundreds of factories. UT Aim also gives its employees the option of moving to the UT Group subsidiary that handles the dispatch of engineers, who receive higher pay than factory workers. UT Aim encourages its employees to accept offers to work as full-time employees at the client companies. In addition, the career path for workers includes promotion to supervisor (i.e., team leader or general administrative duties), a management position, or even promotion to an executive position via the "Entry System," which allows candidates to apply for such positions at their own initiative. Dispatching workers as a team allows them to observe how team leaders execute their daily assignments and support the career development of their team members. Thirdly, the company helps workers develop a sense of belonging to a team and belonging to a company (in this case, UT Aim).

The value UT Aim brings to factories is the means for augmenting the factory's workforce, a reliable supply of workers who can help the client company meet increases in demand. The fact that workers can be returned to UT Aim enables the client company to swiftly reduce its workforce in the event of a contraction in demand. UT Aim also implements compliance programs that conform to global standards. In Japan, the working-age population peaked in 1995, and has been declining ever since. Meanwhile, the overall population peaked in 2008, and has similarly shown a downward trend.¹⁸ The job openings-to-applicants ratio in December 2018 was 1.63, which means that in many industries, employers were having difficulty finding enough workers to fill the available positions. Even in such a challenging environment, UT Aim received 11,137 applications a month, on average. The company hired 729 applicants in 2018.¹⁹ UT Aim was able to

¹⁷ As of May 2019, 11 factories accepted more than 200 workers from UT Aim. Of all the company's technical workers, 80.3% are dispatched to factories in teams with 30 or more members.

¹⁸ Ministry of Internal Affairs and Communications, the National Census.

¹⁹ The job openings-to-applicants ratio is calculated monthly by the Ministry of Health, Labor and Welfare using data provided by the Public Employment Security Offices (nicknamed "Hello Work").

dispatch to client companies the number of workers requested. If the client company so wishes, and the worker agrees, the client company can hire the dispatch worker as a full-time employee.²⁰ That said, the attrition rate at UT Aim is low. The workers are trained in teams, which contributes to the smooth execution of duties, enabling more stable operations; fewer mistakes and a lower defect rate; and improved productivity. After 2012, various regulations were introduced to enhance job security and improve work conditions for non-regular employees. This has led to a surge in demand among client companies for the services of dispatch companies with comprehensive compliance programs. UT Aim sends with each team a supervisor, who is in charge of labor management.

Unique Value Chain

The unique features of UT Aim's value chain are: (1) a recruitment process that can handle large numbers of applicants and new employees; (2) site management that contributes to high-quality performance in the factories, (3) career consulting and specialized training for the technical workers, and (4) human resources management.

Attracting applicants and hiring

UT Aim decided to concentrate all recruitment activities at its headquarters in 2015. In addition, it centralized the purchase of advertisements within the headquarters, enabling a significant reduction in marketing expenses. At the same time, the company customized advertisements by geographic region and job type.

UT Aim receives more than 10,000 applications a month, and promptly responds to numerous inquiries through its in-house call center. The company has established a network of interview venues throughout Japan. At these venues, well-trained interviewers identify suitable applicants, and encourage these individuals to accept job assignments as dispatch workers. Once the new recruits are hired, UT Aim handles the paperwork for about 1,000 incoming new employees each month.

Site management/labor management

The site supervisors understand the client companies' needs, and respond to complaints. They handle labor management, attendance management, and look after the physical and mental health of dispatch workers by communicating with them on a daily basis. UT Aim recruits supervisors from among the workers dispatched to the factories. The Worker Dispatching Law does not require that dispatch workers be accompanied by site supervisors. This is part of UT Aim's uniqueness. The company emphasizes the valuable contribution that site supervisors make. For this reason, UT Aim is strongly committed to developing site supervisors, and will continue to send them to the factory sites.

Career counseling

Many workers employed at UT Aim worked previously for other worker dispatch companies. Such workers tend to be less motivated about career development. UT Aim works to develop a workforce equipped with specialized knowledge about career development. The company has also created an internal specialization—the "Career Partner"—who provides career counseling and motivates workers to work on upgrading their skills.²¹ Each Career Partner is in charge of several workers. The Career Partner helps individual workers to formulate a "future vision," and think about the money they will need in the future to cover various life events. The Career Partner provides guidance, helping each individual to find meaning in his or her job and motivation for self-development. Workers dispatched to factories in various parts of Japan can take advantage of these career counseling services by chatting online with the Career Partner using the Online Mentor app. Through the company portal app "UT Appli," workers can access educational contents and information from the company, and also read about other workers, who can serve as role models.

²⁰ In fiscal year 2018, client companies had hired 391 of UT Aim's workers.

²¹ As of the end of June 2019, UT Aim had 573 Career Partners. They held career consulting meetings 1.5 times on average for each dispatch worker over a one-year period (as of March 31, 2019).

Education/Development

The company provides various on-site training programs, everything from classes on basic business skills for new employees to the “Super Manager School” (which trains the future executives of the UT Group) and the UT Advanced Career Center (UTACC) for engineers. The online education program, “UT-Learning,” which can be accessed through computers and smartphones, supports the skill development of workers regardless of the location of their job sites.²²

Human resource management

UT Aim selects as team leaders (site supervisors) individuals who are supportive and attentive to the needs of others. Their role is to provide on-site support to the other members of their team.

Even though the company develops the skills of these technical workers, wages cannot rise beyond a certain level for factory workers. UT Aim encourages its workers to move up to the next level. For this purpose, the company has introduced the Good Job Program. Through this program, workers can, on their initiative, apply to other factories that require higher skills and will pay higher wages. The One UT²³ Program supports workers by helping them to get the necessary training and acquire engineering skills. Afterward, they can transfer to another UT Group subsidiary that dispatches engineers. The Entry System encourages employees to apply for executive positions (i.e., managers and operations officers) regardless of their age, academic background, or length of employment at the UT Group. The Next UT Program encourages UT Aim workers to seek regular employment at a client company on a full-time basis.²⁴

UT Aim has an educational program and a human resources system that eliminates barriers between its technical staff (the dispatch workers) and regular full-time employees. For example, dispatch workers are able to apply for executive positions through the company’s “Entry System.”

The company introduced an employee stock ownership program when it became a listed company, to help its employees build financial assets.

UT Aim has also created a job ranking list that consists of 25 levels. This ranking, which serves as a measure for evaluating employees in terms of their ability to take responsibility for specific jobs, is used as a benchmark, to establish a common standard that can be shared with client companies. Each employee’s skill level is measured periodically. The dispatch fee charged to the client company and the dispatch worker’s wage level are determined taking into account the individual’s skill level.²⁵

R&D

The company’s R&D aims to support career development, which includes aptitude tests using motion capture technology and artificial intelligence; the development of a career platform that contains an individual’s job history and career consulting records. This information can be shared within the UT Group. The company has also developed a system that uses a proprietary smartphone app, UT Appli, which enables dispatch workers to stay in touch with UT Aim while working at the client company. As of July 2019, 83.9% of the dispatch workers had downloaded the app UT Appli.

The company provides a labor management platform to each client site that conforms to international standards, specifically the Responsible Business Alliance Code of Conduct (The RBA Code of Conduct). This code of conduct is very strict, to the extent that overtime is paid by the minute. This is even stricter than Japan’s labor

²² To date, there are 50 graduates of the Super Manager School. The UT Advanced Career Center (UTACC) has 14 lecturers, 605 students currently enrolled, and 599 graduates. The online educational program offers 116 courses.

²³ Workers can get transferred to the engineer dispatching company after finishing the UTACC training program and obtaining the necessary certifications. Engineers earn higher wages than factory workers.

²⁴ Among 210 site supervisors, 126 were dispatched to the site as workers before becoming site supervisors; 1,278 workers used the Good Job Program; 561 were transferred within the UT Group through the One UT Program; and 51 workers transferred to corporate departments (as of the end of March 2019). In addition, 11 operations officers were formerly dispatch workers (as of the end of June 2019).

²⁵ Introduced in 1997. Out of 300 sites, 64 had introduced the job ranking system. UT Aim would like to have all of its client companies introduce this system.

laws.

Management of company-rented houses

The company hires more than 1,000 workers each month. When necessary, UT Aim rents houses or apartments for its workers that are a short distance to the factory, and arranges transportation between the factory and the residence. The company manages more than 10,000 housing units. This arrangement makes possible the swift transfer of dispatch workers from one client factory to another.

General management

As key performance indicators, UT Aim focuses on the dispatch fee; the number of dispatch workers per factory; the attrition rate; the number of new recruits; and the number of workers that took advantage of the “One UT Project,” which enables them to pursue career development within the UT Group. These numbers are reported and monitored at the weekly management meetings.

Fit among Activities

UT Aim’s activities are selected and optimized to support its core choices: (1) create value for workers; (2) hire dispatch workers as full-time, permanent staff; (3) provide systematic support for career development; and (3) offer programs that create a sense of unity among the team and among employees company-wide. The core choices made to create value for client companies are: (1) provide labor to support high-quality, stable factory operations; (2) undertake the swift allocation of workers, responding flexibly to changes in demand; and (3) conduct site management duties in accordance with international compliance standards. Activities are selected to support these core choices. Activities that create value for workers also create value for client companies, by helping workers to stay motivated, upgrade their skills, and further their own growth and career development. (Please refer to UT Aim’s activity system map, which appears at the end of this report.)

Innovation that Enabled Strategy

- Since its foundation, UT Aim has been recruiting dispatch workers, hiring them as full-time, permanent employees, and providing social insurance.
- Provides both dispatch workers and corporate staff members the same opportunities for educational instruction and career development, and applies the same human resources management system.
- The human resource management system encourages dispatch workers that demonstrate a strong work performance to pursue more challenging work assignments as a means of furthering their own career development.
- Dispatches workers in teams of 30 or more members, and assigns to each team a site supervisor who serves as the team leader.

Trade-offs

- UT Aim does not employ dispatch workers on a temporary basis. The company employs dispatch workers as full-time, permanent (regular) employees. For UT Aim, the labor cost is a fixed cost. Because the number of dispatch workers required by the client companies change depending on their production volume at the time, this policy carries a certain amount of business risk. However, UT Aim employs the workers as regular employees. By continuously investing in these employees (i.e., providing training), UT Aim is able to reduce the attrition rate. As a result, the company is able to charge client companies a higher unit rate for its dispatch workers. Meanwhile, dispatch workers benefit from having a stable work environment, which reinforces their sense of unity with the team and with the company. These positive feelings help the workers to stay motivated about their own career development.

- Does not dispatch workers individually to the client company's factory. UT Aim wants to provide dispatch workers with a stable work environment. The company thinks it best that workers should be able to work in a large team, with the same members, for a significant length of time. UT Aim sends workers in teams of 30 or more workers. The term of the dispatch contract is one year, and this contract is automatically renewed unless otherwise notified. By dispatching workers in teams, the veteran workers can coach the less experienced ones.
- Does not diversify into other businesses. In general, dispatch business operators have a shorter accounts receivable period, of about 45 days. This usually creates a positive operating cashflow. UT Aim invests the cash in courses for training and career development for these dispatch workers, a work promotion system, and brand development.
- Does not dispatch workers to small factories owned by small and medium-sized companies. In order to dispatch workers in teams of 30 or more members, the factories need to be large. In order to charge higher rates for the dispatch workers, who have undergone specialized technical training to upgrade their skills, the client companies have to be above a certain size.
- Does not put a priority on increasing the number of client companies. Many dispatch business operators employ workers temporarily to spread out the business risk. Such companies also reduce the business risk by doing business with a larger number of clients. In contrast, UT Aim reduces business risk by increasing its share of dispatch workers within a client's factory. UT Aim seeks client companies that can accept large numbers of dispatch workers, offer long-term contracts, and are willing to pay more for well-trained workers with specialized skills. This approach also helps UT Aim to attract workers that are willing to continuously upgrade their skills through formal instruction.

Consistency of Strategy over Time

The company AIM CIC, UT Aim's predecessor, was founded in 1995 as provider of manufacturing outsourcing services. From the beginning, the company has been putting job seekers at the core of its operations and adopting the job seeker's perspective. The company has tried to create a work environment in which all workers can feel a sense of job security, make efforts to upgrade their skills, and pursue career development. The company is able to achieve these goals by: (1) hiring workers as full-time, permanent employees; (2) providing training; and (3) covering the cost of social insurance for all dispatch workers. The company is hired to carry out the work of an entire manufacturing process (start-to-finish outsourced production) within the client company's factory. UT Aim dispatches a team of workers to the factory, and these workers take full responsibility for the contracted manufacturing operations. Originally, the team included a team leader, who was in charge of managing the workers. This has led to the current system of dispatching workers in teams with 30 or more members.

In 2001, faced with a sluggish market, semiconductor manufacturers started to accept dispatch workers in their factories to reduce labor costs. UT Aim decided to focus on semiconductor manufacturers because these clients require on-site training, and can accept teams of workers. The company took the risk of focusing on one industry, determining that demand in the semiconductor industry would be large enough. The company developed a unique system for training workers, and convinced customers to pay more for superior service. This strategy worked well. UT Aim was listed on the over-the-counter market, JASDAQ, in 2003, becoming the first in the labor dispatch/contract service industry to do so.

In 2006, there were reports of illegal conduct by many contract service providers, including the industry leader at that time.²⁶ UT Aim employed workers as regular employees, and made investor relations a high

²⁶ Contract service providers manage workers who work at customers' facilities. However, many client companies give directions to the workers who work for contract service providers. This makes it unclear who has responsibility over the

priority since before its listing on JASDAQ. As a result, the company began attracting more orders. Workers who used to work for the company's competitors moved to UT Aim. In this way, UT Aim has been able to develop its business by leveraging its uniqueness.

Amid the global recession of 2009, there was a significant contraction in the demand for workers dispatched to manufacturing industries. The semiconductor industry was no exception. UT Aim started entering other industries where skills developed in the semiconductor industry would be appreciated. These other industries include the environment and energy-related industries (the manufacturing of batteries), and infrastructure-related industries. By analyzing the impact of the recession on its business operations, UT Aim realized that its business was less affected in cases where UT Aim's workers handled a larger share of outsourced manufacturing operations within a single factory. The company decided that it would be better to increase the scale of its operations within one client's factory rather than increase the number of factories.

In 2013, another subsidiary of the UT Group launched an engineer dispatching service. UT Aim has made it possible for its workers to be transferred to this company, thus expanding their career opportunities.

The dispatch workers (and other temporary workers) are frequently used as a buffer during fluctuations in the economy. The lack of job security for these workers also attracted much attention, especially after many dispatch workers lost their jobs during the economic downturn of 2009. The Amended Worker Dispatch Act, which was implemented in September 2015, requires dispatch service operators to support the career development of dispatch workers.²⁷ Companies in the manufacturing industry that saw an increase in orders for dispatch workers when the economy recovered began paying more attention to job security, work terms and conditions, and also the career development of dispatch workers. UT Aim, which had been making these issues a priority, saw even higher levels of growth.

Profitability

UT Aim Co., Ltd.'s five-year averages for the return on invested capital (ROIC) exceeded the industry average by a wide margin. The return on sales (ROS) stayed below the industry average. Most companies that provide engineer dispatch services can enjoy a much higher ROS. (Profitability analysis was conducted by PwC Japan.)

Unit=percentage point

Return on Invested Capital (ROIC)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
22.8 %P	-10.5 %P	4.7 %P	9.7 %P	22.5 %P	61.0 %P

Interquartile range (IQR) = 12.7 %P

Return on Invested Capital = Operating income / Average invested capital

Return on Sales (ROS)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
-3.6 %P	-6.2 %P	-5.5 %P	-3.9 %P	-3.0 %P	1.2 %P

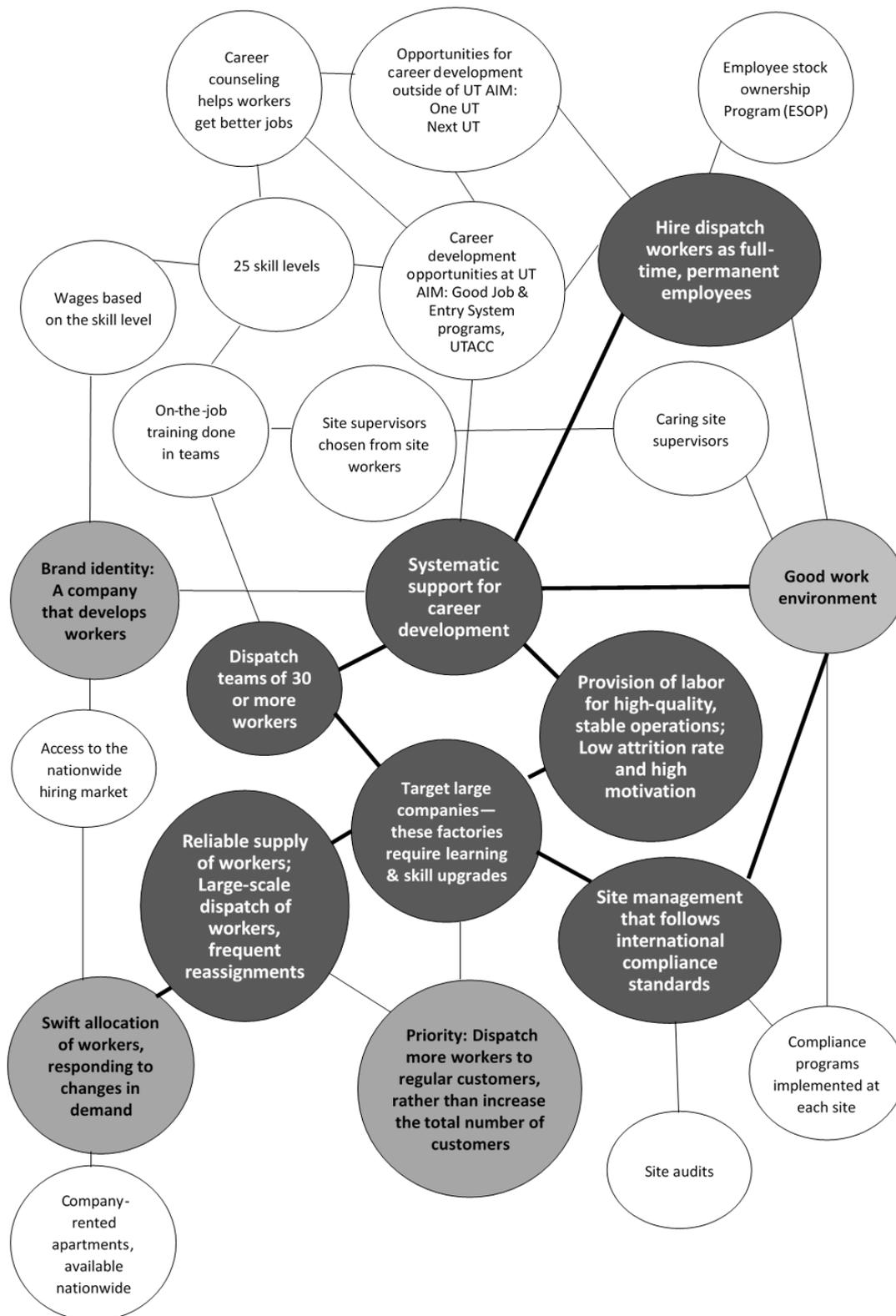
Interquartile range (IQR) = 6.7 %P

Return on Sales = Operating income / Net sales

workers. The result? Insufficient attention was paid to safety, work terms, and work conditions. Some service providers were issued a business suspension order.

²⁷ Ministry of Health, Labour and Welfare, Summary of Amended Worker Dispatch Act Heisei 27 (2015), <https://www.mhlw.go.jp/file/06-Seisakujouhou-11650000-Shokugyouanteikyokuhakenyukiroudoutaisakubu/0000098917.pdf>, (in Japanese), accessed on November 25, 2019.

Activity System Map of UT Group Co., Ltd., Manufacturing Division (UT Aim Co., Ltd.)



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

Workman Co., Ltd.

This report has been written by Professor Emi Osono 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.

Workman's specialty retail franchise consists of both WORKMAN and WORKMAN Plus stores, which carry clothing and work-related items required by construction workers and other blue-collar workers.

Workman is clearly the leading retailer of workwear clothing and gear, with 837 shops nationwide (at the end of March 2019), operating in 45 out of Japan's 47 prefectures. The company sells more than 1,700 items, with 9,000 SKUs. The workwear items, which offer professional-level protection against water, wind and cold temperatures, sell at extremely low prices. Workman's merchandise has a long product life, and the company does not practice discounting for the purpose of selling out its inventory completely. The company has maximized operational efficiency by standardizing product merchandising and store layouts nationwide. The company responds to diverse customer needs, which vary by geographic region. Workman also meets the specific needs of individual stores by frequently replenishing the merchandise, with deliveries made to retailers 6 days a week. The company will even arrange for the delivery of one unit of a single product, if necessary. Franchisees also enjoy high profitability, because only two people are required to operate a WORKMAN store. In recent years, WORKMAN stores have been increasingly attracting more general consumers. The company has redesigned its product lines, incorporating the taste of outdoor wear and sports apparel. Since the debut of these new products, WORKMAN stores have seen steady growth in sales to general consumers, like bikers, individuals who enjoy outdoor activities and have a need for clothing that offers a professional level of protection against the elements, and people looking for athleisure wear.

Background Information about the Workwear Clothing Market in Japan

The market size for uniforms in Japan was 525.4 billion yen (US\$4.8 billion) in 2018 (on a value of shipments basis), according to Yano Research Institute.²⁸ In the past five years, the market has shown a slight year-on-year increase, growing by 1% to 2% a year, from 494.9 billion yen (US\$4.5 billion) in 2014. The work uniform segment (Workman's target segment) accounted for 54.4% of the total uniform market. The work uniform segment includes workwear for factory workers and construction workers, but excludes the uniforms worn by workers at food processing plants.

Some companies have stopped supplying work uniforms, citing the sluggish economy and reduced investment in construction work during the world financial crisis that followed the "Lehman Shock" in September 2008. Workers at such companies now must buy their own uniforms. According to Workman, 70% of the work uniform market was BtoB (selling to companies and government offices), while the remaining 30% was BtoC (sales to individuals and small businesses). Companies that buy work uniforms prefer a simple and basic design. In contrast, individuals look for more stylish uniforms. (Individuals tend to want bold colors and the design elements of outdoor wear, sportswear and athleisure wear). The shortage of young blue-collar workers has been exacerbated by the growth in construction work projects ahead of the 2020 Tokyo Olympics, in addition to a protracted decline in construction workers and an increasingly aging workforce in Japan. As a

²⁸ Uniforms comprise four categories: 1) School uniforms (both school and gym uniforms); 2) work uniforms for factory workers (excluding food processing plants) and construction workers; 3) office uniforms; and 4) service uniforms (restaurant services, cleaning services, white hospital lab coats, and food processing plants). Yano Research Institute, https://www.yanoresearch.com/en/press-release/show/press_id/2194. Accessed on Nov. 1, 2019.

result, the management at construction sites and in companies are showing a willingness to accommodate young workers' needs and preferences by accepting workwear in a variety of designs. In response, the market has begun to show more variety in the work uniforms being offered.²⁹

Unique Value Proposition

Workman focuses on the retail business for work uniforms, and does not operate in the BtoB market segment, even though this segment accounts for 70% of the total market. As of March 31, 2019, the company had a total of 837 stores operating in 45 of Japan's 47 prefectures, and the majority of these were franchise stores. The company's sales in fiscal year 2018 (ended March 2019) came to 67 billion yen (US\$609 million). Sales of workwear comprised 30% of this total, with sales of work shoes, work tools, rainwear, and outdoor wear accounting for the remainder. Assuming a market size of 85.7 billion yen (US\$779 million) for the BtoC workwear segment, Workman held more than a 20% share of this market in fiscal year 2018. Over 2,000 retail shops sell workwear in Japan.³⁰ Among chain stores, Workman has the largest number of stores, followed by Muhoumatsu, the second largest with 50 stores, and Prono, the third largest with 43 stores (as of October 31, 2019).³¹

Workman's target customer is blue-collar workers, mainly individuals who work at construction sites. The company calls such customers its "pro customers." Workman's second target customer is general consumers. Bikers, campers, and people who enjoy outdoor activities are attracted by the high functionality of Workman's products, which are flame-resistant, water-resistant, and provide protection against wind and cold temperatures. Moreover, these products are offered at prices that are far lower than those of national brand products. In September 2018, the company demonstrated its commitment to general consumers by opening a WORKMAN Plus store in an easily accessible shopping center. The new WORKMAN Plus stores will help Workman to heighten brand awareness among general consumers.

Workman's first value proposition is a low price. Specifically, high-performance products that sell for a low price. Since its establishment, the company has been working to realize low-cost operations under its management policy: "Be profitable, despite the low price." In 1992, the company was able to negotiate the supply of merchandise at a lower price by promising manufacturers that Workman would not return any unsold merchandise. Until then, Workman had been following the industry's standard practice of returning unsold goods to suppliers. Suppliers would normally agree to accept any unsold goods because costs associated with returns was incorporated in the wholesale price from the beginning. Next, Workman developed a line of private-brand merchandise to replace the strongest-selling national brand products. In the process of switching over to a private brand, Workman improved functionality, product design, and price competitiveness. Private brand products now account for 40% of the company's total sales revenue. Workman sells at regular prices, and does not offer discounts. The only exception is the discount on irregular sizes, such as "Small" and "5L

²⁹ The number of construction workers, which peaked at 4.6 million in 1997, has since declined to 3.3 million in 2018 (according to the "Labor Force Survey" conducted by the Statistics Bureau of the Ministry of Internal Affairs and Communications, as analyzed by the Ministry of Land, Infrastructure, Transport and Tourism; on a calendar-year basis). Construction workers are the manual laborers employed at construction sites, specifically those individuals who possess the necessary skills. In the Labor Force Survey, the total number of construction workers comprised: (1) individuals directly involved in building operations in the construction industry; (2) workers at construction and excavation sites; and (3) operators of transportation services and industrial machinery. In contrast, engineers manage construction projects, and they do not undertake manual labor. (Source: The Ministry of Land, Infrastructure, Transport and Tourism report released on March 20, 2018, entitled: "Gino rodosha no ichizuke ni tsuite, (lit. "The Positioning of Construction Workers")" <http://www.mlit.go.jp/common/001227160.pdf>. Accessed on November 1, 2019.

³⁰ According to Workman.

³¹ Muhoumatsu stores are operated by Hosoi Corporation (mainly in Kyushu and Yamaguchi Prefecture). The number of stores is based on information taken from Muhoumatsu's website, http://www.muhoumatsu.jp/007_shoplist.php?tdf=all, accessed on November 1, 2019. Prono stores are operated by Hamure Co., Ltd. (mainly in Hokkaido and the Tohoku region). The number of stores is based on the information from Prono's website, <https://www.hamure.co.jp/prono/search/>, accessed on November 1, 2019.

(Plus Size),” when the company discontinues a product line. Workman monitors the number of SKUs (stock keeping units) on discount, and keeps the SKUs of merchandise on discount below 2%.

The second value proposition is ensuring a time-efficient shopping experience for pro customers, by enabling them to find the products they want in a short time. Depending on the type of worksite to which they have been assigned, pro customers may be required to work at various worksites around the country. Consequently, they end up having to shop at many different WORKMAN stores. Pro customers tend to buy the same products that worked for them in the past, and they know what they want to buy. They do their shopping on the way to work, or else after work, and spend only 5 minutes inside the store, on average. Therefore, it is important for them to be able to easily find the products they want. It is for this reason that Workman has opened a large number of stores, standardized its merchandising, and adopted the same store layout in every store nationwide.

Workman commenced online sales at its own website in 2013. When online sales first started, corporate clients were the main customers shopping online. In recent years, there has been a steady rise in the number of individuals placing orders online. Sixty-six percent of purchases are picked up at Workman stores, which are ubiquitous throughout the nation. By ordering online and picking up merchandise at the store, customers can avoid paying a delivery fee.

The third value proposition is a broad product line. WORKMAN stores carry more than 1,700 items (9,000 SKUs). For items that sell less frequently, Workman carries on the shelf only one unit of a single item, and such items account for seventy percent of SKUs. At the same time, the company tries to avoid running out of stock for those items that pro customers use on a daily basis. Pro customers expect that the products they use most regularly will be readily available to them. From experience, they know which clothing items and tools are easy to use, and which afford adequate protection. Moreover, they know well the extent to which workman’s clothing and gear impact their productivity, quality of work, and personal safety on the job. Workman delivers merchandise to its stores 6 days a week (once a day, during the over-night hours). The company will deliver even one unit of a single item to ensure that a product can be back on the shelf within 48 hours.

Workman’s primary customers are pro customers, and 90% of pro customers are regular customers who visit Workman stores once a month. In terms of actual numbers, about 2 million customers purchase work supplies once a month and work apparel four times a year.³² Supplies include work gloves, towels, and work footwear. Such items are strategically important for getting regular customers to visit a WORKMAN store more frequently. For this reason, Workman makes it a top priority to raise the competitiveness of such products to an exceedingly high level.

Unique Value Chain

The unique features of Workman’s value chain are product development, supply chain management, and data-driven management.

Product development

Product development teams are organized for each product category. The team is made up of company employees hailing from the design, data analytics, and production control departments. The company has increased the number of employees working on product development by 2.5 times over the last three years (fiscal years 2016–2018).

Workman requires that its private-brand products demonstrate the ability to maintain a competitive advantage over several years. This requirement is the necessary result of the company’s policy to maintain product prices at a fixed level (i.e., refrain from offering discounts) and guarantee the supply of those private

³² According to company data.

brand products for several years. Consequently, the goal of product development is to: (1) make only those products that have a “wow” effect on customers (hereafter “WOW” products); (2) sell products that represent “a new standard in terms of functionality and price”⁶; (3) carry products that offer superior functionality, meaning that followers would not be able to catch up for several years; and (4) include only those products that can compete against those items selling on e-Commerce sites at fixed prices (without any discounts). Such products will attract customers to WORKMAN stores, and help the company to build a base of repeat customers. The goal is to have repeat customers and regular customers comprise the majority of customers visiting WORKMAN stores.

Workman is able to develop products that offer both outstanding functionality and a low price because the company collaborates with overseas fabric suppliers from materials procurement stage. In addition, large product volumes are possible because of the company’s ability to guarantee the availability of its products for several years. For example, Workman has sold more than 4 million units of its G-Next series workwear, which is often adopted as the uniform at small companies. Workman guarantees the availability of this workwear for 10 years. As a result, the company is able to sell this two-piece set, consisting of a jacket and pants, for the low price of 3,000 yen (US\$27.00). Competitors have already withdrawn from this price range.

Workman invites social media marketing influencers with many followers on their social networking site (SNS) to join the company’s Product Development Advisory Board and take part in product development. Workman’s outdoor clothes are more price-competitive than the outdoor gear sold by national brands. Large production volumes (i.e., 100,000 sets of outdoor wear, which consist of a jacket and pants) is what makes this price competitiveness possible. Naturally, demand for this product is strong among pro customers. However, the company’s products with a taste of outdoor wear or sportswear are now attracting general consumers. Sales to general consumers accounted for 15% of the company’s total sales at the end of March 2019.

Supply chain management

Workman has pursued thorough standardization, as evidenced by the fact that 97% of Workman’s merchandise is the same nationwide. This merchandise is supervised by the analytics team within the merchandising division. The remaining 3% is managed by region. This is handled by an analytics team within the sales division, which manages merchandising by dividing up stores into regional clusters. In order to avoid running out of merchandise on the shelves, which might happen given the high degree of standardization of its merchandising operations, Workman makes deliveries to stores 6 days a week from two distribution centers, and the company will make a delivery for even just one unit of a given product. Considering that Workman sells and replaces its stock of goods four times a year (this is otherwise known as the inventory turnover rate), it could be thought that making deliveries 6 days a week might be too frequent. However, Workman believes that such frequent deliveries make possible the high degree of standardization in its merchandising while enabling the company to effectively meet the diverse needs of its customers.³³ Workman owns the distribution centers and equipment, but outsources the actual operations. Deliveries are handled by a charter trucking service.

The company has developed its own Demand Projection System. The data analytics teams within the supervisory department, the logistics department, the online sales department and the merchandising department decide on: (1) the optimal product selection and quantities to be put on display racks; (2) the order volumes for private brand products; (3) the optimal assortment of colors and sizes; and (4) the optimal amounts to be shipped to distribution centers, based on the company’s demand projections. Workman’s Demand Projection System has achieved a high level of accuracy, attributable to the fact that the sales data is free of “noise” (because the company does not give any discounts). A team of five designated data analysts monitor the accuracy of projections, and adjust the algorithms weekly. The team simultaneously works on the development of the next-generation demand projection system that will eventually replace the current one.

³³ If the company were to make deliveries only twice a week, it would be able to save hundreds of millions of yen a year, according to Workman.

Workman has a buy-outright type of VMI (vender managed inventory) arrangement with its domestic suppliers. Under this arrangement, suppliers decide the quantity of the products to be delivered to Workman's distribution centers. Workman commits to buying all the inventory that is delivered. Workman helps suppliers determine the appropriate quantities by sharing the company's own: (1) demand projections; (2) data on incoming and out-going quantities at its distribution centers; (3) the inventory and sales data of each store and each region, as well as the nationwide sales and inventory figures. The 31 participating suppliers account for 87% of the merchandise purchased domestically. Workman does not complain about short-term increases in inventory or stock-outs at distribution centers. Actually, because of their access to sales trend information via other channels, the vendors are able to determine the amount of merchandise to be ordered with a high degree of accuracy. Since the introduction of the buy-outright type of VMI, Workman has reduced the out-of-stock ratio and improved the inventory turnover rate at its distribution centers. This arrangement also eliminates the company's need for an order placement process, and greatly simplifies Workman's business operations.

Workman has been using the same domestic suppliers for the past twenty years. Workman has continually shown respect to these manufacturers, which have complied with Workman's request for direct sales since the company's early days. This practice, which marked a departure from the industry's standard practice, has made possible a stable, long-term business relationship that benefits both parties. The suppliers take on risk, by having to trust that Workman will buy outright all the merchandise that is supplied. However, through VMI, suppliers can level off their production volumes, and thereby improve efficiency. They level off production volumes by generating their own estimates, taking into account the amounts that Workman ordered in the past. With regard to its overseas suppliers, Workman has been dealing with the same suppliers for the past 10 years, as the relationship has proven beneficial for both parties. Workman believes that the switching costs for changing suppliers would be larger than the cost savings it would enjoy by switching to less expensive suppliers.

Sales promotion

Workman's sales promotion relies on SNS (social network services). For the past three years, the company has been using a product launch event, targeting the mass media and social media influencers, to introduce its new products. The product launch event for the 2019 fall and winter products was a recreation of extreme weather conditions that included heavy rain, snow and wind on the fashion show runway. News of this event was widely reported by the media. The product launch event being planned for the 2020 fall and winter products will focus exclusively on products developed in collaboration with the influencers.

Workman makes little use of traditional sales promotion methods. The company distributes fliers four times a year to introduce its seasonal products. The fliers do not offer any price discounts.

Store development/Franchise operation

Workman launched its very first store under a franchise agreement. When recruiting franchisees, the company used to look for individuals who had strong ties with the local community. Now, Workman opens new stores as company-owned stores. When a store reaches a certain level of sales, the company subcontracts its operation to a local business person. When the store achieves a sufficient level of sales—generating enough profit for franchisees to take on inventory risk—the company will turn over the store to the local business person through a franchise agreement. Franchisees have the option of returning to a subcontracting arrangement, in which case they would not be required to take on inventory risk. To date, hardly any franchisees have chosen to return to a subcontracting arrangement. There is a 100% correlation between the franchisee's income and the store's sales. Franchisees are extremely satisfied, and almost all of Workman's franchisees have been renewing their contracts every six years, except in the case when a franchisee chooses to retire. More than 50% of franchisees want their children to take over the store, and there are some third-generation franchisees.

Workman opens a store in locations with a population of 100,000. Store locations do not require a high level of visibility because the store's customers tend to be repeat customers, but more likely regular customers. The company has standardized the layout of its retail space—all stores have a floor space measuring 330 square meters, although the shape of the store may vary, with some stores long and narrow, and other stores wider.

Workman has introduced an automatic order placement system. Franchisees can decide for themselves whether they would like to accept the “Recommended Order List” that is automatically generated by the in-house developed automatic order placement system, and is based on the company’s Demand Projection System. The new system was introduced in 2017. By the end of March 2019, 265 out of 837 stores had introduced the system. Franchisees who had introduced the automatic order placement system were able to reduce the work involved in the placement of orders. Moreover, they report that sales had grown by 3-5%, compared with the stores that did not introduce the system.

Operation of a WORKMAN store is a very simple process. Workman provides the store layout, following a standardized format. There is no need to change price tags and price displays because there are no discounts. Pro customers rarely require product explanations because they are so knowledgeable about Workman store merchandise. Also, the automatic order placement system is now available. Franchisees try to stock the shelves after the morning influx of pro customers and before the general consumers show up, which is sometime after 10:00 a.m. Shelf stocking is usually finished by 10:00 a.m. Cashiers are asked to close up the cash register once at 2:00 p.m., to reduce the amount of tasks to be completed after the store’s closure. It is possible for franchisees to open the store 5 minutes after they arrive, and to leave the store 5 minutes after the store closes. The store’s business hours are 7:00 a.m. to 8:00 p.m. Therefore, two workers assigned to two different shifts are needed to operate one store. A WORKMAN store usually can be operated by just two workers.

Human resource management

Workman has new employees commence training by working first at a company-owned store. The aim is to give new employees the chance to develop their communication skills. In addition, all employees are given data analysis training. Afterward, each employee can choose whether to focus on developing data analysis skills or design skills.

Workman recognizes that data-driven management is the key to success for the new WORKMAN Plus stores, which attract general consumers as well as pro customers. Two years prior to the introduction of BI (business intelligence) software, Workman began having employees undergo data analysis training, starting with the supervisory department. The general managers and higher-up executives are required to demonstrate a willingness to: (1) transform the company’s operations; and (2) incorporate data analysis in their managerial activities, to motivate other employees to develop their own capabilities. Following the introduction of BI software, the company monitored how many times each employee accesses the software in a single day. Infrequent users are given some coaching to help them increase their use of the software. Finally, “data analysis teams” have been created in the supervisory department, the logistics department, the online sales department, and the merchandising department. (Data analysis team activities are to be undertaken concurrently with regular work assignments.) The team members receive training about how to create new analytical tools, and are required to present the results of their efforts in an internal competition.

Personnel evaluations include providing employees with 360 degrees appraisals (i.e., evaluations conducted by one’s immediate superior, five or six colleagues from other divisions, and subordinates).

General management

One of Workman’s most important management principles is to cultivate good and stable relationships with stakeholders. The company aims to create relationships with customers, shareholders, suppliers, franchisees, and employees, so that all stakeholders will feel happy to be doing business with Workman.

The company has selected operating profit per employee as its most important key performance indicator, with the aim of becoming No.1 in the retail industry. Workman is able to maximize operating profit per employee by standardizing operations and making business operations extremely efficient. Workman pays much attention to the number of customers, and believes the cultivation of repeat customers to be of greater importance than the achievement of sales volume targets.

Workman takes a hands-on approach. Most executives and employees do not come to the headquarters,

except on Mondays. Most decisions are made on a Monday.

The company's practice of data-driven management is what enables it to make decisions only on Mondays and to realize improved efficiency in decision making. BI software is used extensively in all operational areas, specifically for: (1) making sales comparisons by region and by individual store; (2) identifying potential products; (3) determining the smallest amount of items that can be put on display; (4) developing a product lineup for groups of stores that experience similar weather conditions; (5) deciding on production volumes for private brand products; (6) maintaining appropriate inventory levels at distribution centers; and (7) devising delivery plans.

In its "Medium-Term Management Plan for Business Reform (2014-2018)," the company has identified two growth strategies, one focusing on WORKMAN Plus stores, and the other targeting online sales. Workman made a commitment to ensuring low prices for customers, a higher dividend payout for shareholders, and a 1 million yen (US\$9,190.00) increase in each employee's salary, to be achieved in the fifth year of the Medium-Term Management Plan (in addition to the regular pay raise).

At the same time, the company declared its commitment to work-style reform. Workman reduced the total work load, improved employees' efficiency, and helped them to upgrade their skills. On top of that, the executive team told employees that they could extend their deadlines or delivery dates if doing so would reduce overtime and would not pose a problem for customers or franchisees. For example, by delaying the announcement of its financial results by a week, Workman halved the amount of overtime worked by the accounting department. It sent a clear signal to employees about how serious the leadership team is about achieving comprehensive work-style reform. This goes against the nationwide trend to push for earlier announcements of financial results, a move aimed at improving communication with shareholders. Workman's leaders believe that if they want to make changes, they must be ready to face head-on the tough decisions that go along with making trade-offs. Again, the leaders thought that it was more important to reduce overtime than to realize the company's Medium-Term Management Plan in five years. Of course, the leaders are still committed to achieving their goals even if the deadline for the project's completion is extended. The individuals in charge of each project are required to stay in their current position until their goals have been achieved. This persistence and tenacity have become part of Workman's corporate culture. In fiscal year 2018, the company's number of regular holidays was increased by five days over the preceding fiscal year. The average amount of overtime worked decreased by 84 hours a year, and the attrition rate fell by 2.6%.

Fit among Activities

Workman has made four core strategic choices that are central to its competitive strategy: (1) develop only "WOW" products; (2) undertake thorough standardization and streamlining; (3) cultivate long, stable relationships with stakeholders; and (4) implement full-fledged initiatives for work-style reform. (Please refer to the Workman's activity system map, which appears at the end of this report.)

The policy to focus product development exclusively on "WOW" products is supported by: (1) collaboration with overseas fabric manufacturers; (2) the involvement of influencers in the product development process; (3) the company's discontinuation of the practice of selling products at a discount several years ago; (4) large sales volumes, supported by a strong base of regular customers; and (5) the contribution of both pro customers and general consumers to these large sales volumes.

The pursuit of thorough standardization and the streamlining of operations is what enables the low cost, which is underpinned by the exclusive focus on "WOW" products in new product development. This is accompanied by the company's commitment to a thorough standardization and streamlining policy, which entails the standardization of merchandising and the store layout nationwide; a 6-day-a-week delivery schedule that enables stores to receive even just a single unit of a product; discontinuation of the practice of selling merchandise at a discount; and the implementation of "data-driven management," which involves the

introduction of an automatic order placement system.

Long-term, stable relationships with stakeholders enable on-going collaboration with fabric manufacturers, which makes possible the company's commitment to focusing exclusively on the development of "WOW" products for its private brand. This long-term, stable relationship with stakeholders is what allows the company to practice the buy-outright type of VMI (vendor managed inventory), another practice that contributes to thorough standardization and the streamlining of operations.

"The implementation of full-fledged initiatives for work-style reform" has been supported by the management's policy of prioritizing (1) the reduction of overtime work, and (2) the thorough standardization and streamlining of operations, even if it means that deadlines will have to be extended. As indicated above, the four strategic choices and the activities that support those choices are well matched, and a mutual strengthening can be seen.

Innovation that Enabled Strategy

- Created Japan's first vendor managed inventory (VMI) program, in which the inventory is purchased outright. Participating domestic vendors (the "suppliers") make decisions regarding the products to be delivered to Workman's distribution centers, and the quantities of those items. Workman buys outright all the merchandise that is delivered to its distribution centers. Workman shares with suppliers its demand projections, as well as inventory and sales data, to help suppliers determine which products, and the quantities to be delivered.
- Developed a hybrid retail outlet, WORKMAN Plus, which caters to the needs of both pro customers and general consumers. No product has been developed only for WORKMAN Plus stores. WORKMAN Plus, functioning as a "hybrid" retail outlet for these two target segments, has achieved more than double the sales volume of traditional WORKMAN stores. This was done by catering to pro customers in the early morning hours and evenings on weekdays, and general consumers during the daytime hours on weekdays, and all day long on the weekends.
- Created a new market segment that features high-performance products, and makes these available at a low price in the outdoor wear market. Workman's outdoor wear benefits from a cost advantage, in that the company's outdoor wear can also be sold to pro customers as workwear. The company produces at least 100,000 units of a single product, and such large production volumes significantly reduce manufacturing costs. This balance between price and performance has never been seen in the outdoor wear and sportswear market before.

Trade-offs

- Workman does not sell to the BtoB market segment, which accounts for 70% of the total workwear market. Although selling to corporate customers would generate larger sales, the sales process is more complicated, as it entails bidding, estimates, and accounts receivable. Also, supply chain management would become more complex, too, because corporate customers require frequent deliveries in small batches. The entrance barrier to the BtoB market segment is high, with leading wholesalers enjoying an oligopoly. Workman makes active efforts to sell its products to small companies with less than 20 employees. Workman accepts only those companies that are willing to make their purchases at a WORKMAN store, and can make immediate payment.
- Does not form franchisee agreements with corporations. Does not have a multiple store franchise arrangement. The company believes that individuals are better franchisees because the success of a store directly leads to the success of the individual. In this way, Workman and franchisees prosper together.
- Does not seek higher profitability from private brand products. Workman has set its cost of sales ratio at

63% for all products across the board. Of course, the company is in a position to set a higher price and a higher margin for its low-cost, high-performance private brand products because of their competitiveness. However, Workman has decided to keep the prices of its private brand items on par with those of national brand products. The company uniformly applies a mark-up rate (gross profit margin) of 37% on all of its private brand products. Knowing that pro customers often do not even check the price tag when making a purchase, Workman does not want to risk losing the trust of pro customers over discrepancies in pricing. Furthermore, by uniformly applying the same mark-up for all products, the company can minimize the time and energy spent on product pricing.

- Does not sell expensive tools. Selling expensive tools would involve providing customers with detailed explanations. Franchisees would be required to have an in-depth understanding of the product. Furthermore, such items sell less frequently, and franchisees would be required to pay higher inventory costs. Workman limits its merchandising to the apparel worn by pro customers and other frequently selling items, so as to minimize the inventory risk for franchisees.
- Does not sell at a discount. The company's private brand products are developed to meet high standards. These products are setting a new standard in terms of both performance and price. As a result, these products are highly competitive in the market, and will sell out only on their SNS reputation. The company also carefully controls production volumes, starting out with small production volumes in the first year of the product's launch. In subsequent years, production volumes are determined using the company's quite accurate Demand Projection System, which has a margin of error of only 10%. Even when the company has to carry over the inventory of seasonal products to the next year, Workman does not sell the left over items at a discount. The company believes that discounting will damage pro customers' trust in the company's pricing, and increase the workload of franchisees (by necessitating the changing of price tags, etc.).
- Does not become an apparel company that follows fashion trends. All of its private brand products are developed for use by both pro customers and general consumers, with the assumption of a five-year product life, on average. Although pro customers want the same old products in the same store layout, general consumers, in contrast, want stimuli, such as "new products" and variations in the store layout. The company responds to general consumers' needs by changing up a product's colors and patterns. However, Workman will not change the product's design, to keep added costs at a minimum.
- Does not employ outdoor specialists, despite this being a new field for the company. Instead, the company invites influencers, who know how the products are to be used at camp sites and other outdoor settings, to join the Product Development Advisory Board. The company then incorporates their input in product development.
- Does not open stores outside of Japan. The company serves customers outside of Japan through online sales.
- Does not endeavor to create a perfect information system. It starts out with a minimum of functions, and will later add only those functions that are recognized as being indispensable. The company can reduce its costs by refraining from developing any unnecessary functions.
- Does not set work quotas for employees. Employees have their own performance targets, but they do not have workload quotas. By standardizing the work and developing a work manual based on data analysis, the company has sought to create a work situation in which anyone can complete the workload.
- Does not promote individuals to senior positions if they are unable to reconsider their views regarding a specific matter. Workman is trying to strengthen the company's data-driven management approach, and defines "a good boss" as someone who can change his or her mind after data analysis has been completed. Under Workman's personnel evaluation system, subordinates are given the opportunity to evaluate their superiors.

- Does not hold companywide events. The company develops employees' communication skills and fosters a network of employees through job training, rather than through the hosting of corporate events. For example, the evaluation criteria for newly hired employees include: "shows kindness to others," "possesses the desire to improve oneself through learning," and "demonstrates flexibility." Job training focuses on developing employees' communication skills and instilling in them a "service" mindset, by having them work at a company-owned store for the first two years of their career. Workman wants employees to be able to complete all their work assignments during the regular business hours. Finishing on time would enable them to spend more time with family and friends, or make time for themselves, so that they may come back to work feeling refreshed.

Consistency of Strategy over Time

Workman's competitive strategy was developed to meet the needs of pro customers, primarily construction workers who must frequently change their job sites, depending on their work assignment. The company has selected its value proposition to meet the pro customers' need for: (1) highly competitive products (in terms of both price and quality) with overwhelming product appeal; and (2) accessible stores that are easy to navigate and offer a large selection of the kinds of products they use regularly. In order to realize this value proposition, the company has undertaken the thorough standardization and streamlining of its operations. In addition, Workman commits to stocking the same product for several years without any discounting, and pursues collaborations with its long-term suppliers. The following is an explanation of how these activities came about.

Workman opened its first store on September 30, 1980. Since the beginning, the company has emphasized low-cost operations, with the goal of "being profitable, despite the low price." The company started buying directly from manufacturers, which goes against the industry's standard practice of procuring merchandise through wholesalers and agents. In 1992, Workman stopped returning unsold inventory to suppliers (another standard practice in the industry), and started purchasing outright the full load of merchandise delivered. Workman was able to reduce its procurement costs by assuming the risk of unsold stock. In 2000, Workman committed to offering "everyday low prices," while simultaneously launching a new initiative to reduce its costs and prices. In 2010, the company began developing private brand products for items that sold in the largest volumes. The introduction of private brand products resulted in both higher profitability and improved price competitiveness.

Workman is noteworthy for its ability to maintain the consistency of its competitive strategy even when it began serving a new customer segment (i.e., general consumers). The company did this successfully, without hurting its ability to cater to its core clientele, the "pro customers" (i.e., construction workers). Rather, by leveraging its strength, Workman was able to meet the needs of an entirely new customer segment. Workman's specific competitive strategy: (1) take advantage of economies of scale in the selling of workwear, to reduce inventory procurement costs; (2) sell out the entire stock at a fixed price, while maintaining a policy of "no discounts"; and (3) offer a standardized product line and store layout, while simultaneously simplifying store operations. Meanwhile, the company introduced a "unit control system" as its inventory control system, and implemented data-driven management. In addition, Workman has developed a new store chain (WORKMAN Plus), which caters to both pro customers and general consumers. In summary, the company developed the organizational capabilities required for serving this new customer segment.

In 2014, Workman introduced its Medium-Term Management Plan for Business Reform, which was originally envisioned to be completed in 2018. In this plan, the company specified two key growth strategies: (1) the addition of a new customer segment (general consumers); and (2) the development of a new sales channel (online sales). In preparation, the company began providing data analysis training for its employees in 2012. Workman then launched its unit control system project in 2013. Next, Workman introduced BI software, and started analyzing the data obtained by the unit control system in 2014. The company launched a

new product brand with a taste of the “outdoors” in 2016, by grouping together private brand products that are competitive in terms of functionality, design and price. In September 2018, the company opened a new store, WORKMAN Plus, in a shopping center that only sells products appealing to general consumers. WORKMAN Plus stores carry only 320 items, while the company’s total product line consists of 1,700 items. The new store has successfully attracted general consumers by enhancing the shopping experience. (For example, the company has begun using mannequins and spotlights, which have not been used in WORKMAN stores.) In November 2018, the company opened a hybrid type of WORKMAN Plus store, which sells to both pro customers and consumers and carries a much broader product line than the WORKMAN Plus stores in shopping centers. Since then, all subsequent newly opened stores have been hybrid WORKMAN Plus stores.

Profitability

Workman’s five-year averages for the return on invested capital (ROIC) and the return on sales (ROS) exceeded the industry average by a wide margin. (Profitability analysis was conducted by PwC Japan.)

Unit=percentage point

Return on Invested Capital (ROIC)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
12.6 %P	12.5 %P	11.6 %P	13.7 %P	13.3 %P	13.7 %P

Interquartile range (IQR) = 8.3 %P

Return on Invested Capital = Operating income / Average invested capital

Return on Sales (ROS)

Difference from industry average					
5years average	2014	2015	2016	2017	2018
14.5 %P	9.7 %P	9.8 %P	13.3 %P	15.3 %P	14.5 %P

Interquartile range (IQR) = 8.6 %P

Return on Sales = Operating income / Net sales

Activity System Map of Workman Co., Ltd.

