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A Note on Format Innovation in Japan

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INTRODUCTION

The last two decades saw the proliferation of new business formats, which contain new forms of collaboration in and across organizations. The new formats are clearly different from the traditional formats of collaboration. The new formats are built on two basic strategies, the JIT strategy and the bundling strategy.

JIT STRATEGY

JIT (just in time) is the logistics system developed in the Japanese automotive industry (Helpers, 2005) that delivers parts frequently in a small quantity to the designated workshop. This logistics system solves the dilemmas of various industrial sectors when coupled with a real-time information system. Examples of successful JIT strategies outside automotive industry are as follows (Kagono,1999).

1) Seven-Eleven Japan (SEJ)

The most prominent success among the new formats is Seven-Eleven Japan, which is organized as a franchised chain of convenience stores (CVS), while the traditional supermarket chain was organized with the stores directly owned by the principal organization. The concept of the convenience store originated in the US, where the target customers are drivers who frequently visit gas stations, and most franchisees were gas station owners. Although Seven-Eleven Japan was a licensee of the US franchiser, Southland, SEJ's target customers are the people working or living in the large city centers. SEJ organized the small shop owners, who suffered difficulty in competing against supermarkets.

The CVS targeted those customers who work or live near (walking distance from) the store. Thus the territory of each store is quite small, and the size of the stores must be smaller than that of the super markets. To provide convenience to the customers the store must have sufficient number of SKU (stock keeping unit)s. Providing a wide assortment within a limited space is the basic dilemma of convenience stores, but SEJ solved this dilemma with an information system using POS (point of sales) and JIT delivery of merchandise in small quantities. This solution enabled stores to have 3000 SKUs in a small space. The distinctive characteristic of SEJ is the profit-sharing scheme; franchisees pay a fee to SEJ that is a certain percentage of the gross profit margin of the store. The independent wholesalers, which are not merged into SEJ, are another key agent that provides JIT delivery jointly. In the SEJ format, key agents collaborate on the basis of long-term contracts, written or not.

2) Pharma

Pharma created a similar format in the drug store segment of the retail sector, where small stores had difficulty in competing against large drug store chains that sell drugs at a discount price. Pharma is a voluntary chain of small drug stores. To compete against large chains in price and assortment, small stores formed a voluntary chain so that they can achieve volume discount and the delivery of good sellers. The delivery in volume would increase the store inventory, which increases investment by the store and increases the risk of dead stock. Pharma solved this dilemma with an information system, unique financial device and JIT logistics, which was provided jointly by the wholesalers.

3) World

The apparel industry has a basic dilemma, i.e., stores must have a wide-range inventory in the store so that merchandise is suited to the tastes of

various customers, although the inventory increases the investment and the risk of dead stock at the end of season. Benneton solved the dilemma with a unique production system and JIT logistics. H&M and Zara solved the dilemma with the information system and JIT logistics. World created a similar format, in which it learns the change of taste of customers through proactive experimentation. Until building this format, World was an apparel wholesaler. It built its own retail stores and built a unique SPA format besides the wholesale business format. To make this format work, World developed a year-long weekly production and shipment plan. Before the peak weeks of each season World conducts experiments for a few weeks to learn customers' tastes for the year and adjust the weekly plan in terms of the style, color, material and so on. Based on the analysis of the data of experiments, World modifies the plan for peak weeks accordingly.

The first two JIT business formats are implemented through the collaboration based on long-term contracts while the last format of World is implemented through the vertically integrated retail stores.

BUNDLING STRATEGY

Another basic strategy in designing business formats is the bundling strategy, which bundles the principal business with subsidiary or complimentary businesses and services and thus increases customer value or improves operating efficiency of the bundled businesses. Examples of successful bundling strategies are as follows:

1) Sysmex

Sysmex is a manufacturer of automated blood analyzers. Its target customers are blood analysis centers and the blood analysis departments of large hospitals. It bundles the supply of reagents for analysis and related services with the sales of blood analyzers. The value it intends to deliver is to ensure correct analysis so that doctors reach the right diagnosis. It monitors all the machinery in use from its central research laboratory in Kobe and dispatches service personnel to adjust the analyzer if any deviation from the optimal state is detected. A major bottleneck is the availability of service personnel, and the delivery of the right reagents to solve the customer problems. The company educated the sales personnel to become sales engineers and acquired a manufacturer of reagent.

2) Komatsu

The principal product of Komatsu is construction machinery. Major customers of construction machinery on the global markets are mining companies, which suffer from high labor costs. Komatsu bundles the automated operating system to solve the problems of the customers. It also bundles parts supply and service so that machines are quickly fixed. To provide this service it has developed a global monitoring system.

3) Keyence

Keyence, a fabless supplier of sensors and sensor systems, is one of the most profitable companies in Japan for the last 20 years. Its return on sales exceeds 40% for more than 20 years. Its target customers are manufacturers seeking cost reduction and automatization of production processes. Keyence sells various types of sensor systems including magnetic sensors, light sensors, and inertia sensors, which were developed by Keyence. It bundles the continuous supply of replacement sensors. Keyence concentrates in sales and development activity and outsources manufacturing activity. It develops unique products based on the customer feedback to sales personnel, A distinctive business format of Keyence is the integration of its sales activity, which is conducted by the independent sales agents of its major competitors, Omron and Panasonic Electric Works.

4) Culture convenience club (CCC)

CCC has developed a franchise of video rental stores. Its stores bundles book sales and video rental. Book sales is a low risk, low profitability business while video rental is a high risk, high return business. Its target customers are youth, who have unpredictable and changing interests and tastes. To detect their interests and tastes CCC issued member cards called T- cards, by which the holder earns points used for future payment at franchise stores. The cards carry the rental and purchase records of the holders, which are used for the order of videos for rental and books for sale. It found that the re-

Table 1 key design parameter of business formats

basic strategy	principal	agents	1) mode of collaboration	2) frequency of delivery	3) profit sharing witn agents	4) means of risk reduction	5) means of value creation	risk taking both agents
JIT	SEJ	convenience stores	franchise	JIT (four-times a day)	high	reduction of low turnover inventory	assortment of high turnover merchandise/ experimentation	high
JIT	Pharma	drug stores	franchise	twice a week	high	reduction of low turnover inventory	assortment of high turnover product	high
JIT	World	retail shops	vertical integration	weekly	moderate	reduction of low turnover inventory	assortment of high turnover merchandiser	none
Budling	Sysmex	sales agents	direct employment	when required	none	monitoring	sales of reagent/ monitoring of machinery	none
Budling	Komatsu	operational servicers	merger	when required	none	monitoring	supply of parts and automatied operations	none
Budling	Keyence	sales engineers	direct employment	outsourcing prodection and direct sales	moderate	customer information	consulting sales/quick delivery of key components	none
JIT	CCC(1)	rentalshops	franchise	various	high	reduction of inventory of low turnover merchandize	assortment of high turnover merchandise	high
Budling	CCC(2)	card issuers	lomg-term contracts	real time sharing	high	reduction of inventory of low turnover merchadise	sharing of customer information	high

cords could also be used for the sales promotion of general merchandise. CCC set up a card issue company called T- card, which invited affiliates in various industrial so that card holders exchange points and affiliates exchange purchase information of card holders at affiliate stores. This business format delivers value to the customers by increasing availability of wanted titles at low price.

The format that follows the bundling strategy uses organizational integration as the standard mode of collaboration except for CCC and Keyence, which uses both modes of collaboration.

KEY DESIGN PARAMETERS OF BUSINESS FORMATS

The variety of business formats described above is understood by the five dimensions shown in Table 1. These dimensions are the design parameters of the business formats.

1) The first and the most distinctive dimension is concerned with the **modes of collaboration** across organizations. In this dimension two modes exist: one is the long-term con-

tract like franchise contracts; the other is organizational integration. The former is employed by the JIT formats except for the new format of World. The latter is employed by the companies using the bundling strategy. The essential difference between the two modes is the degree of independence of agents. In the long-term contract agents have their own P/L account and behave as independent entities and are only constrained by the contract.

2) **Frequency of delivery:** Most frequent delivery is observed in the SEJ format, in which merchandise is delivered four times a day; the delivery of bundling formats is usually unpredictable and is made when it required, not periodically.
3) **Rules of profit-sharing:** Business formats create value through the collaboration of key players. To motivate the players profit sharing rules must be shared by the players
4) **Means of risk reduction and the risk takers:** Each business format faces business risk, and the reduction of this risk is an important means to add value to the business format. The player that acts to reduce risk must be rewarded accordingly.
5) **Means of value creation:** Each business format creates value through collaboration, and the value is the source of profits shared among the players.

CONCLUSION AND THEORETICAL IMPLICATIONS

A theoretical framework must be developed to design the rational business format that suits the business itself and its environment. The most promising candidate for the framework is transaction cost economics (Williamson, 1976; 1985). It, however, has a few limitations in analyzing the business formats.

First, TCE (transaction cost economics) considers the market and the organization as two basic alternatives for transaction management. Two basic alternatives for business format design are the organization and the long-term contract. It is not clear if the difference in alternatives of transaction management may require the revisions of theoretical framework or contents of the TCE.

Second, TCE assumes that transaction costs or governance costs are the keys to choose the best transaction format. It does not see the benefits of transactions that come from the risk reduction and value creation in the business formats (Sako, 1992; MacDuffie and Helper, 2006).

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